

PRIVILEGED
CHARACTERS



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CHAPTER ONE

Hail! Hail! The Gang's All Here

WHEN Warren G. Harding succeeded Woodrow Wilson as President of the United States, the American people publicly proclaimed that there was no God. The World War had been a religious conversion by force in the course of which everyone had been compelled to sacrifice his life, his freedom and his money, and the Treaty of Versailles, which ended that war, had made manifest that there was no possibility of heaven on earth. The reaction among the American people was one of eager desire for the pleasures of this world. Those whose idealism had received rude shocks from the obscenities of the War, followed closely by the selfish tactics of the Peace, no longer dared to care; those whose conversion had come about through shame, fear or expectation of gain were anxious to get all four feet into the trough again.

In 1920 the American people, impatient to repudiate the rigid morality of Woodrow Wilson, turned instinctively to the Republican Party as the historic vehicle for the satisfaction of their predatory desires. A convention of that party was to meet in June of that year at the Coliseum in Chicago. The two leading presidential candidates were General Leonard Wood, whose backers were counting on the theory that a military man was a popular candidate following a war, and Governor Frank O. Lowden, of Illinois, who was very rich, and who had the

political support of his important state. For many months the representatives of these two candidates had been lining up delegates to vote for them, but the eager friends of both men had made the social blunder of spending scandalous sums of money in their behalf. The result was that before the Republican National Convention met at Chicago the representatives of all candidates of both parties were called before an investigating committee of the United States Senate. They were asked to explain their expenditures, and many of them had a very difficult time, indeed, doing so, except Harry M. Daugherty, the political manager of an obscure candidate, Senator Warren G. Harding, of Ohio. Mr. Daugherty was suave in the presence of the Senators and insisted that the funds received for his candidate's campaign were collected in small denominations from the great common people of the land.

In the book which he wrote in collaboration with Thomas Dixon, author of *The Birth of a Nation*, Harry M. Daugherty tells of a six-hour conversation which he had with his life-long friend, Senator Harding, some time before the meeting of the Republican convention at Chicago. The Senator was reluctant to give up his sure, comfortable seat in the United States Senate for the uncertainty of a presidential nomination. In the Senate Harding had been safe, amiable and untroubled for some years. He had followed the course of his party religiously and had left it to more restless men to quarrel over its policies and their ambitions. Mrs. Harding, too, was against the move. She was known in the circle of their pleasant friends as "The Duchess," and she always poured the drinks whenever the Senator and his colleagues and friends were enjoying a genial game of poker at night. They all thought it would be nice for Harding to be President, but none except Harry Daugherty seemed to realize how important and how possible it might be.

Daugherty tells us in *The Inside Story of the Harding Tragedy* that in the effort to persuade his friend to take the chance, he mentioned one by one the political disadvantages of the other Republican candidates. Then Harding asked his friend a significant question: "Am I a big enough man for the race?"

"Don't make me laugh!" Daugherty recorded that he answered. "The day of giants in the presidential chair is past. Our so-called Great Presidents were all made by the conditions of war under which they

administered the office. Greatness in the presidential chair is largely an illusion of the people. . . . In spite of everything I still believe that our everyday garden variety of man is the best citizen of any republic of the world today. And that his love for his country, for his neighbors and government is the prime force that makes our nation great."

Harding was apparently comforted by this heart-to-heart talk. He realized fully that he was "our everyday garden variety of man," and no one could ever have accused Warren Harding of lacking a sentimental attraction for his country, his government and his lifelong neighbor, Harry Daugherty. Daugherty had transformed Harding from an amiable small-town newspaper proprietor into a figure of prominence. From newspaper work Harding had turned naturally to an interest in politics. He had first met Harry Daugherty in 1898 when they both were campaigning, and they took a great liking to each other. In 1900 Harding was elected to the State Senate of Ohio, and in 1904 he became Lieutenant Governor of Ohio. He had run for governor of that state but was defeated. In 1914 Daugherty had forced Harding to try for the Republican nomination for the United States Senate. Daugherty is reported to have said: "When it came to running for the Senate, I found him sunning himself in Florida like a turtle on a log, and I had to push him into the water and make him swim."

In the end Senator Harding yielded to Daugherty's persuasion and decided to make a try for the presidential nomination in 1920. Daugherty tells us that he assured Harding: "When General Wood and Lowden and Johnson have worn each other to a frazzle in the convention, we'll swing the delegates to you at the right moment. . . . We'll take no chances. Our organization will be a perfect machine. It will begin to function from the day you make your decision." Harding decided to enter the race, and Daugherty began to function.

Harry M. Daugherty was a lawyer, a member of the law firm of Daugherty, Todd and Rarey, of Columbus, Ohio, but his real business was politics. He had been a pupil of George B. Cox, who taught Cincinnati how to outdo Tammany Hall, according to Representative Thomas, of Kentucky, who said so on the floor of the House in 1923. Daugherty gradually became a power in state politics in Ohio and had taken part in national campaigns in that state. He was thoroughly experienced in

political manipulation and political methods. When the primary elections were held in Ohio in 1920, Harry Daugherty made a startling statement. "At the proper time after the Republican National Convention meets," he said, "some fifteen men, bleary eyed with loss of sleep and perspiring profusely with the excessive heat, will sit down in seclusion around a big table. I will be with them and will present the name of Senator Harding to them, and before we get through they will put him over." This frank prophecy, which turned out to be all too accurate, caused Daugherty himself to be defeated for the position of delegate-at-large from Ohio to the Republican convention.

The convention began its sessions at the Chicago Coliseum in awful heat. Steaming, listless crowds filled the hotels, committee rooms and convention hall. To make matters worse there was at the moment a strike of hotel waiters. Delegates and spectators were restless and irritable from lack of sleep and lack of comfort. The *New York Times* correspondent began his first dispatch with the words: "The Republican National Convention opened today with an impressive lack of enthusiasm." The correspondent noted a feeling of painful duty among the bored delegates. They listened listlessly to one hour and twenty-one minutes of Henry Cabot Lodge. But they had all heard Henry Cabot Lodge's opinions on Woodrow Wilson and the League of Nations many times before.

In the newspaper reports of the first days of the convention Harding's name is conspicuously absent. On June 7th, the day before the convention met, the Wall Street odds on Harding were 8 to 1; even Hoover at that time was 4 to 1, and Coolidge was even with Harding, 8 to 1. The *World* correspondent found Senator Harding's suite in the Florentine Room of the Congress Hotel "a vast vacancy into which has been thrown a mass of decorations." "When a *World* reporter dropped in this afternoon," he added, "the conspicuous features were three young couples, apparently here on their honeymoon, holding hands and apparently thinking of other things than the high cost of living. As a spoon room it is a success, however it may work as a political headquarters."

But the real work of the convention, as at other conventions, was not being done at the official headquarters of the candidates or on the floor of the Coliseum. Manipulation was going on day and night in

private hotel rooms throughout the hot city. Samuel M. Vauclain, president of the Baldwin Locomotive Works, had arrived, according to Clarence W. Barron, of the *Wall Street Journal*, "with a carload of politicians looking for the presidential nomination." Harry F. Sinclair was there with Archie Roosevelt, one of the officials of Sinclair's oil company. Barron met them, and they discussed with him the bribery prevalent in Latin-American countries. Barron recorded Sinclair as remarking: "Our title in Costa Rica is just as good as the title to your farm. But of course in Latin-American countries they always want a little grease."

One of the most important delegates to the Chicago convention was Jake Hamon, of Oklahoma. He was an oil man too, and he had managed to get himself into control of Republican politics in Oklahoma. Al Jennings, who had been a cowboy, land boomer, train robber and lawyer in Oklahoma, gave the Senate committee investigating the Teapot Dome deal a picturesque account of Jake Hamon and his activities. Al Jennings had once been sentenced to life imprisonment for robbing the United States mails, and he had been pardoned at the solicitation of Mark Hanna. Jennings then returned to Oklahoma, gave up robbery, always admitted his past and ran for prosecuting attorney of Oklahoma City, fighting the political machines of both the Republican and the Democratic Parties. He told Senator Thomas J. Walsh and the Senate Committee on Public Lands an amazing story in 1924:

"Did you know one Jake Hamon of the State [Oklahoma] during his lifetime?" Senator Walsh asked.

"Yes, sir."

"How long had you known him?"

"Since 1902."

"What degree of intimacy was there between you and Mr. Hamon?"

"Well, a very close degree of intimacy. We were what would be termed, ordinarily, friends."

"Did you attend the Republican convention at Chicago during the summer of 1920?"

"Yes, sir."

"And were you with Mr. Hamon?"

"Yes, sir."

"Prior to the assembling of that convention was there something of a contest out in the State of Oklahoma in which Mr. Hamon was involved—a political contest?"

"He was trying to carry it for the Republicans."

"He became the Republican committeeman for that State, did he not?"

"Yes, sir."

"Now, Mr. Jennings, did you have any conversation with him prior to his going to the Republican convention in which the subject of his plans and purposes were discussed?"

"Yes; we had a conversation."

"I wish you would tell the committee about that, Mr. Jennings."

"That goes back to 1917, in the city of Ardmore, Oklahoma."

"Mr. Jennings," Senator Spencer, Republican of Missouri, interrupted, "Mr. Hamon, I think is now dead, is he not?"

"Yes, sir," Jennings answered.

Jake Hamon was shot to death at Ardmore, Oklahoma, in November, 1920. Clara Smith Hamon, the wife of Jake Hamon's nephew, who had been Jake Hamon's secretary and was alleged to have been his mistress for many years, was accused of the murder, but after a sensational trial at Ardmore, Oklahoma, a jury found her not guilty. Jake Hamon's was the first of many tragedies among the friends and associates of President Harding.

"Jake Hamon is now dead?" Senator Selden Spencer insisted.

"Yes; I heard he was," Al Jennings answered.

"And this is a conversation that you had with Mr. Hamon back in 1917?" Senator Spencer asked.

"Yes, sir."

"Proceed, Mr. Jennings," said Senator Walsh.

"In his room at the hotel," Al Jennings continued, "I lodged with him that night. I had arrived at Ardmore at his solicitation. I couldn't get a room. I inquired of the night clerk if Hamon was in. He says, 'Yes.' I said, 'Well, I will go up and sleep with Jake.' He said he had strict orders not to let anybody disturb him. It didn't daunt me a great deal, so I went up and kicked the door pretty loudly, and told him to open up in the name of the Lord—just in a kidding way. He threw the door open, and used an expression that was just a compliment out in the West,

of calling names. He told me to come in and spend the night with him. I spent the night with him, and we sat on the bed all night and talked, and we had a few drinks of Four Roses that he had just brought back from New York with him. In that conversation he had said that he wanted me to come back and make the race again for governor. He said, 'You were elected, and I even had helped to count you out.'

"Referring to what?" Senator Walsh asked.

"To a campaign I made for governor of the State. . . . That was in 1914. He said, 'You can come back and be elected, and I will get behind you.' He said, 'You acted the blank fool, and you got everybody afraid of you, and they had to count you out.' And that is history down there. I said, 'What have you got up your sleeve, Jake? What really is behind all this?' He said, 'I am going to be the biggest man in the United States before I close my career.' He said, 'If you will get back of me as governor, I will put a couple of hundred thousand dollars behind you.' He said, 'We have an association together here of the oil men,' and he named Mr. Condon and Harry Sinclair and many others that I knew.

"I said, 'What would you want me to do for you, Jake? What is all the money for? What do you want me to do for this?' 'Well,' he said, 'I want to see you enforce the law.' 'Well,' I said, 'you would be about my first victim.' We were just speaking as we always talked to one another, joshing a great deal on facts.

"Finally we spoke of the 2-cent tax on oil there, and he wanted that removed. I said, 'There is something else, Jake.' He said, 'I will tell you this. You will disrupt the Democratic Party to such an extent that I can carry it for the national ticket.' If you will pardon me, I had already done that in the 1914 campaign—not the Democratic Party, but the machinery in power. Then he told me of his plans. He said, 'I can really be the biggest man in the United States, and I can make enough money—which speaks for everything.'

"He had already been saying he had talked to a Senator from Pennsylvania—Boies Penrose. He said he would have Penrose's support, and he would name the President of the United States. I was naturally anxious to know who would be the next President and who he would name, and I asked him if it was Wood."

"Mr. Jennings," Senator Spencer interrupted, "you knew that Senator Penrose also was dead? You know that is a fact?"

"I believe I had read it," Al Jennings answered, "but I was not sure. Perhaps it is best for the country."

"At any rate," Jennings continued, "he said that Harding would be the nominee of the Republican convention; that he was going to put up the money. He said, 'Money talks. There is not any doubt about it.' I was talking with him along certain lines, and I thought it was all a wild dream."

"Mr. Jennings," Senator Spencer asked, "you also knew that President Harding was dead, did you not?"

"Well, now, let me see, Senator," Al Jennings answered. "I have been informed through the public press that he was dead. I had the pleasure of speaking and being a memorial speaker in Texas when he was buried, at the request of the Texans. There has nobody in Missouri died lately, has there?"

"Our longevity is very good in Missouri," Senator Spencer replied.*

Al Jennings testified further that he turned down Jake Hamon's proposition that he run for Governor of Oklahoma and split the Democratic Party in the state wide open. Then when the time came for the Republican National Convention to meet at Chicago in 1920, Al Jennings told the Senate committee, he received a telegram from Jake Hamon asking him to meet him in Chicago, which he did. "Really and truly," Al Jennings explained, "I wanted to see the manipulation. I did not take any part in it, did not even stay with him, but we went to a room in one of the hotels. He told me that Harding would be nominated the next day, and it had cost him a million dollars. He said he had put up \$250,000 to Boies Penrose, and in the conversation that was brought out in some way—I will not be perfectly clear about that—that it had been agreed upon by Mr. Daugherty, Will Hays, and he named somebody else from Ohio, that he was to be Secretary of the Interior. He said it had all been settled; that Mr. Daugherty at first was in favor of Senator Fall occupying that position, and they had a fight, but he put it all over them, and it cost him a lot of money to do it. That was about all I knew of it." On cross-examination Jennings said that Jake Hamon told him he had also given

* Jennings's testimony is taken from "Leases Upon Naval Oil Reserves," Hearings before the Committee on Public Lands and Surveys, U. S. Senate, 68th Congress, 1st Session, pp. 2993-2999. This document will hereafter be referred to as *Teapot Dome Investigation*.

Daugherty \$25,000 and Will Hays \$25,000, and that he himself expected to become President of the United States following Harding, after he had made enough money.

"Well, Hamon started in for General Wood, didn't he, for President?" Senator Bursum asked.

"No, sir," Al Jennings answered. "No; he didn't like Wood. He said Wood was too much impregnated with the damn fool honesty of Theodore Roosevelt."

Al Jennings's fantastic tale was corroborated in part by the testimony of other friends and associates of Jake Hamon. Hamon had told his friend and business associate, J. B. French, that he had put up \$25,000 to pay the hotel bill of the Harding delegation, but another friend, J. E. Dyche, testified that "Jake was not in the habit of giving up his own money." Still another friend told of meeting Jake Hamon on the street and of his boasting: "I signed the check that nominated Warren G. Harding to run for President." The story was also told to the Senate committee that the oil interests were putting up money for the election of a Republican President on condition that they would be permitted to name his Secretary of the Interior, who would lease them the naval oil reserves at Teapot Dome and in California. But that story was never proved. Whatever the fact or the fiction in the tales of Jake Hamon's activities in Oklahoma and Chicago in the interest of the Republican Party, we do know that this boastful oil man and politician did exercise some weight at Chicago in June, 1920. Harry Daugherty himself, in his book on Harding, wrote: "And we kept our eyes on Jake Hamon. He had more influence among the delegates than any other one man in the convention."

Harry Daugherty was keeping his eyes wide open at Chicago, and it is doubtful if he got much opportunity to close them in sleep during the four long days and nights of the convention. Harding was only one of many possible compromise candidates, but because of his amiably negative character, there was little against him from the politician's point of view, however little there might be in his favor from the public's point of view. After General Wood and Governor Lowden, Senator Hiram

Johnson, of California, was the leading candidate. Boies Penrose was reported to have sent the following message to Johnson: "Tell Johnson that the ideal ticket is Philander Knox for President and Hiram Johnson for Vice-President. Tell Johnson, too, that Knox is a very sick man." Johnson firmly refused all offers to be a Vice-President of the United States.

The first ballots taken by the convention showed General Wood as the strongest candidate, Governor Lowden next, Hiram Johnson, third, Sproul next, and Nicholas Murray Butler next; then came Harding and then Hoover. Daugherty had made an alliance with the Lowden men to beat General Wood first by lending Lowden men Harding votes. Then, after Wood was defeated, the fight was to be between Lowden and Harding. Four ballots were taken on Friday, June 11th, but the convention was hopelessly deadlocked. The heat was great, hotel bills were mounting, tempers were getting ragged, and the delegates were eager to go home. That night, Friday, some selected men met in the smoke-filled room of Colonel George Harvey at the Blackstone Hotel.

Those present in Colonel Harvey's room were Senator Henry Cabot Lodge, of Massachusetts, Senator Medill McCormick, of Illinois, Senator James E. Watson, of Indiana, Senator Reed Smoot, of Utah, Senator James W. Wadsworth, of New York, Senator William M. Calder, of New York, Senator Frank B. Brandegee, of Connecticut, and Joseph R. Grundy, campaign collector and lobbyist, of Pennsylvania, who represented Senator Boies Penrose, the boss of that state, who lay seriously ill at his home in Philadelphia. There was a private telephone wire and a private telegraph wire between Senator Penrose's house and Chicago. In Chicago John T. King, Republican politician, carried the messages which came from Penrose's sickbed. It was later said by a witness at the Teapot Dome investigation that a telephone message came from Senator Penrose's bed to General Leonard Wood that Friday night at about 9:30. "Will you ask General Wood if he were nominated tomorrow would he give us three Cabinet members," the message is alleged to have been. Wood's campaign worker, Mr. Himrod, was said to have delivered this message to the General. General Glenn, one of Wood's managers, is reported to have remarked: "Now, General, one word will make you President of the United States." Wood is said to have turned to Mr. Himrod and said:

"Tell Senator Penrose that I have made no promises, and am making none." *

Joseph R. Grundy was questioned in 1929 about the conference in the "smoke-filled" hotel room of Colonel Harvey when the Senators were investigating Mr. Grundy's activities as a lobbyist.

Senator Walsh, of Montana, asked Grundy concerning his presence in Colonel Harvey's room: "Could you tell us why you were thus honored?"

"I can't," Mr. Grundy answered, "only I suppose Pennsylvania had a large number of delegates at the convention, and they probably asked for some one to come from Pennsylvania and they asked me. I certainly appreciated the compliment that they paid me."

"And that had reference to the fact that you had been accustomed to collecting funds for the campaign?"

"They didn't mention it on that occasion."

The senatorial junta assembled in Colonel Harvey's room were not men who mentioned money, whatever may have been their respect for it. None of them could have been elected President of the United States himself without a desperate and uncertain fight, however much some of them may have wanted to make the attempt, but by combining their influence all felt that they could name the next President, which, politically and financially, would be just as valuable.

"What was the business of that meeting?" Senator Walsh asked Mr. Grundy.

"Why, Senator Lodge opened the proceedings," Mr. Grundy answered, "and stated that he as the presiding officer of that convention had watched the proceedings with great interest; . . . that he had come there in the interest of Leonard Wood, and the developments in the convention during that week were such as to convince him that the nomination of Leonard Wood would be ill advised; that the nomination of Governor Lowden for like reasons was ill advised."

"Those reasons were that they had put up too much money?" Senator Caraway asked.

* *Teapot Dome Investigation*, pp. 3202ff., 3211-12.

"Their friends had, apparently," Mr. Grundy replied. "It was then Friday evening. It had been a tremendously hot week, the hottest week I had ever spent anywhere. . . . The delegates were pretty well tired out. Their money, in many instances, had run out; and he doubted if he could hold that convention there over Sunday, and he believed there should be an effort made that evening, between then and the convening of the convention next day, to agree on a candidate, and that in looking the picture over he was satisfied that the most available man was Senator Harding. Whether the Senator's friends would or would not have spent a large amount of money such as had been spent by the others was not open for discussion, but they apparently had not spent it. But, moreover, the Republican Party had never elected a President without the vote of the State of Ohio, and it looked as if Governor Cox, who had carried the State twice for governor, would be the Democratic nominee for President, and therefore he deemed it especially important that the vote of Ohio should be secure, and for this and divers other reasons he believed it was our business to go out and do what we could to bring about the nomination of Warren G. Harding early Saturday morning."

Roxy Stinson, former wife of Jess Smith, Daugherty's closest friend, told a Senate committee that she had frequently heard Daugherty, Jess Smith and their fellow campaign workers discuss this conference in Colonel Harvey's room. Their version of the incident was that Daugherty had gone into the conference room of the Senators at two o'clock in the morning and had made the deal that nominated Harding for President. John B. Alcorn, a telegraph operator who was working for one of the newspapermen, told the Teapot Dome investigating committee that in the early hours of Saturday morning he distinctly heard the word "Harding" being ticked over the private telegraph wire from Senator Penrose's headquarters in Chicago to Senator Penrose's sickbed in Philadelphia. Colonel Harvey's conference broke up around three o'clock Saturday morning, and the newspapers in Chicago came out at four o'clock in the morning with the news that Harding would be nominated for President when the convention met that day.

There is a story that before they adjourned Colonel Harvey and the Senators called Senator Harding into their presence. A malicious rumor had been going about the country that Mr. Harding had negro blood.

The Senators are reported to have asked Senator Harding solemnly if he knew of any reason why he could not be President of the United States. "Gentlemen, I should like to be alone for a little while," Harding is supposed to have replied. He retired from the room into another, where, it was alleged that he prayed and questioned his soul. Returning into the "smoke-filled" room of Colonel Harvey, he is reported to have said: "Gentlemen, there is no reason in the sight of God, why I cannot be President of the United States."

Ray Tucker and Frederick R. Barkley, in their book *Sons of the Wild Jackass*, report the following scene as Senator Hiram Johnson, of California, lay in his bed that morning towards dawn:

There came a timid knock at his door, and there entered a timid man—Harding. Over his arm the latter carried his blue coat, and a wilted collar gave evidence that the immaculate Ohioan had been subjected to more terrifying elements than Chicago heat. He had, in fact, just emerged from that famous "midnight conference in a smoke-filled room" at which, in accord with Harry M. Daugherty's earlier prediction, a President was to be chosen.

"Hiram," began Harding, "the boys have just agreed to give me my run to-morrow, and I am going to be nominated. I want you for my vice-presidential candidate."

"I don't care to consider it," replied the Senator as he pulled the sheets over his leonine head and rolled toward the flowered wallpaper—and comparative obscurity.

Next day, Walter F. Brown, one of Harding's Ohio managers, sought him out with word that Harding had been nominated, and that second place was still open for him.

"Remember, Hiram," pleaded Brown, "only a thin thread of life stands between the Vice-President and the Presidency."

"Walter," replied Hiram, "go sing your siren songs to somebody else."

When the convention took its first ballot on Saturday morning, June 12th, Harding received 78 votes, more than he had had on any previous ballots. On the next ballot Harding received 89 votes, and on the following, the eighth ballot, he received 133½. Then the convention recessed for lunch until four o'clock in the afternoon, and there was a conference

between Harding and Lowden, who had led on all ballots that day. When the convention reassembled that afternoon, Lowden withdrew his name from the race. On the ninth ballot Harding received 374 votes, and General Wood was the next highest candidate. As the convention started to take its tenth ballot, Harry Daugherty stood beside Mrs. Harding in a box in the spectators' gallery. When it was announced that Harding had received 692 $\frac{1}{2}$ votes and was nominated, Daugherty tells us that his shoe was full of perspiration, and that Mrs. Harding in her excitement had jammed her hatpin into his side.

The *New York Times* on Sunday, June 13, 1920, printed the following editorial on its front page:

"Upon a platform that has produced general dissatisfaction, the Chicago convention presents a candidate whose nomination will be received with astonishment and dismay by the party whose suffrages he invites. Warren G. Harding is a very respectable Ohio politician of the second class. He has never been a leader of men or a director of policies. For years a protégé of Foraker, he rose to a subordinate office by favor of 'Boss' Cox of Cincinnati. . . . Senator Harding's record at Washington has been faint and colorless. He was an undistinguished and indistinguishable unit in the ruck of Republican Senators who obediently followed Mr. Lodge in the twistings and turnings of that statesman's foray upon the Treaty and the Covenant.

"The nomination of Harding, for whose counterpart we must go back to Franklin Pierce if we would seek a President who measures down to his political stature, is the fine and perfect flower of the cowardice and imbecility of the Senatorial cabal that charged itself with the management of the Republican Convention, against whose control Governor Beeckman so vehemently protested."

"And for principles," the *Times* remarked, "they have only hatred of Mr. Wilson and a ravening hunger for the offices."

Warren Harding's own comment on his nomination was: "We drew to a pair of deuces and filled."

IN THE election campaign of 1920 the Republicans felt that they could elect a yellow dog. There was confidence in the Republican camp that Warren Harding could be elected President of the United States without half trying. While the Democratic candidate, Governor James M. Cox, toured the country in a hopeless effort to make the American people feel that the issue was a "solemn referendum" on the League of Nations, Harding remained most of the time on the front porch of his home in Marion, Ohio, and aped William McKinley. He greeted visiting delegations as William McKinley had done, wore a McKinley carnation, and made speeches in which he was very careful to say nothing. In answer to Governor Cox, he denounced the Treaty of Versailles with the sentiments of Senator Lodge and spoke vaguely of American participation in an "association of nations," so that he might capture some votes among those who still believed in the possibilities of peace. "Bluff the People" was the slogan of his managers, and Harding was noted for doing what he was told to do by sharper men. In spite of their confidence, these men were taking no long chances; Will H. Hays and his associates raised a large campaign fund from the leaders of American industry and finance; and, later in the campaign, when it looked as if Governor Cox might be making a little progress, Harding was hurriedly shoved on a train and sent to a few key places in the country to make speeches and let the people see his well-groomed, regular features.

Harding was elected by a huge majority, but less than half the voters of the country bothered to vote. Harding received 16,152,000 votes as against 9,147,000 for Cox, and he won 404 electoral votes and carried every state except Kentucky and those of the Solid South. The voters also sent a large majority of Republicans to both the Senate and the House of Representatives, so that it looked like easy sailing so far as legislation and legislative support were concerned. After the 1920 election there were in the Sixty-seventh Congress 59 Republican Senators and 37 Democrats, and in the House 300 Republicans and 132 Democrats. The repudiation of Woodrow Wilson and all his works seemed complete.

President-elect Harding announced that his Cabinet would consist of a

group of "best minds." And apparently Harry Daugherty had a great deal to do with the selection of these best minds. He tells us in his book of a conversation with Harding on his prospective Cabinet:

"What do you think of Hughes as Secretary of State?" Harding asked.

"The best selection you could possibly make," Daugherty said he answered, and then added: "You and Hughes are men of the same breed. The religion you both profess is the most democratic of all denominations. You're a Trustee of the Trinity Baptist Church of Marion. Hughes is a Trustee of the Park Avenue Baptist Church of New York. Your temperaments are sympathetic. He'll like you and you will like him." One is inclined to be skeptical as to whether Harding and Daugherty ever bothered to discuss religion.

Then Harding, Daugherty tells us, suggested Dawes as Secretary of the Treasury, but Daugherty thought General Dawes too valuable in other fields "to lock him up in the United States Treasury." He tells us that he suggested Andrew W. Mellon, of Pittsburgh. Harding did not seem to know the name.

"I've met him," Daugherty wrote he said to President-elect Harding, "and in my opinion he is the ablest financier in America. He would doubtlessly deny it, but I believe he is the richest man in this country, richer than either Ford or Rockefeller. And he is the only man that the big interests, the Rockefellers and Morgans will not bluff."

"And you think his great wealth a recommendation?" he broke in.

"I certainly do. A man who can quietly make the millions this modest-looking man has gathered is little short of a magician. If there is one thing he knows it's money. He will make for you the greatest Secretary of the Treasury since Alexander Hamilton and render the Nation an immense service if you can get him." And if there was one thing the Harding administration was to need it was a magician.

It must be remembered that Harry Daugherty wrote his book in an attempt to justify himself and preserve the reputation of his friend twelve years after the events he describes, and that he wrote it in collaboration with Thomas Dixon, author of *The Clansman* and other novels. The language employed in conversations was hardly such as old friends would use when sitting around in their shirtsleeves.

Other men besides Harry Daugherty were interested in the appointment

of Andrew W. Mellon as Secretary of the Treasury. The two leaders of Pennsylvania, Boies Penrose and Philander C. Knox, were trying to get all they could in the way of appointments for men they could trust with the industrial interests of the important state of Pennsylvania. James J. Davis, who was appointed Secretary of Labor by Harding, also came from Pennsylvania, as did James M. Beck who was made Solicitor General of the United States. These facts, perhaps, lend some color to the story that Boies Penrose threw his great influence to Harding at the Chicago convention in return for definite promises of Cabinet posts and other favors. Daugherty wrote that both Penrose and Knox were bitterly opposed to the appointment of Herbert Hoover as Secretary of Commerce, which Harding wished to make, and that their approval of the appointment was given only after Daugherty had threatened that Mellon would not be appointed to the Treasury if Hoover was not confirmed by the Senate. Penrose, according to Daugherty, was apoplectic but finally capitulated.

The next most important appointment was that of Secretary of the Interior, who would have charge of the vast public lands interests of the United States. There were *ex post facto* rumors that the oil interests and others had made a deal at the Chicago convention to contribute to Harding's campaign fund and to support Harding for President on the express condition that Senator Albert B. Fall, of New Mexico, should be appointed Secretary of the Interior in the Harding Cabinet. No proof of this rumor was ever secured, though Senator Walsh and his investigators during the Teapot Dome investigation made efforts to ferret out any evidence of it. We only know that some leading oil men, including Harry F. Sinclair, were present at the Chicago convention, that leading oil men contributed heavily to the Harding campaign fund, and that Fall was appointed Secretary of the Interior.

Daugherty wrote that Harding and Fall were thrown into intimate contact by the chance that their seats in the United States Senate had been next to each other for six years, and that Harding came to respect the older man's great knowledge of law and public lands. "I made no effort to break their friendship," he wrote. "I could see at the time no possible harm to Harding." "Fall and I," he added, "could never have been chums in any political enterprise. And we never were. He had fol-

lowed the sheep into the desert with Roosevelt, and I could never forget it."

In any case, President-elect Harding, who was in Florida fishing and selecting his Cabinet, announced the appointment of Secretary Fall on February 4, 1921, the last day on which Fall could resign from the United States Senate. Senator Nye, chairman of the second oil investigation of 1928, made the statement that immediately after the announcement of Fall's appointment, "Mr. Doheny and Mr. Fall came to Washington on what was declared to be a secret mission at that time." Mr. Edward L. Doheny was president of the Pan-American Petroleum Company and a lifelong friend of Albert B. Fall.

When the time came for the Senate to confirm Harding's Cabinet appointments, the name of Fall was greeted by the Senators with great applause. He had been a member of their body since 1912. Senator Henry Cabot Lodge moved that Fall be confirmed unanimously without reference of his name to a committee, and the motion was carried amid applause. All the other Cabinet nominations were referred to a committee and then confirmed.

Daugherty tells us that he himself was persistent in his efforts to retire from politics and re-enter the private practice of law after he had elected his best friend President of the United States. But Harding, he wrote, made it a matter of personal loyalty and friendship, and begged him not to desert him. "I've never needed you in my life as I do today," he quoted Harding as saying to him. Daugherty claimed that he was in favor of the appointment of Senator George Sutherland, of Utah, as Attorney General of the United States, but that Harding wanted to make Senator Sutherland a justice of the Supreme Court. "So," Daugherty wrote, "in a moment of mental aberration I accepted the post of Attorney General in the Harding Cabinet and made the tragic blunder of my life."

There were others who felt that the appointment of Harry Daugherty was a mental aberration on the part of President Harding. Harding announced Daugherty's appointment as Attorney General on February 22, 1921. When it had been rumored that he was to have the office, there had been consternation even in the ranks of the Republican Party. After the public attacks on the appointment when it was announced, Harding told the newspapermen: "I may say that this opposition served only to

strengthen my purpose to appoint Mr. Daugherty. I believe in Harry Daugherty. I think he will make a great Attorney General. You can put that in your valued papers in black type and box it if you wish." The *New York Times* commented editorially in its issue of February 22, 1921: "If a best mind is needed anywhere, it is in the Department of Justice. Instead, Mr. Harding has been content to choose merely a best friend." Daugherty had held only one public office, many years before, when he was a member of the Ohio State Legislature, and while a member of that body he had been charged by a Columbus newspaper with having been paid to vote for Senator John Sherman. He had also been charged with being a lobbyist for many years before the Ohio Legislature. He had been defeated five times for public office in Ohio, and once by Myron T. Herrick, when Daugherty had been a candidate for the office of United States Senator. As a lawyer Daugherty was known in Ohio for his influential political connections and his ability to command large fees rather than for any great knowledge of the law. All of Daugherty's partners were made judges in Ohio, and that was offered as evidence of his great political prowess.

The appointment of Postmaster General in Harding's Cabinet was given to Will H. Hays, who had been chairman of the Republican National Committee. Mr. Hays had been a lawyer in Sullivan, Indiana, where he showed ability at the game of politics, and he had done a great deal to organize the easy success of the Republican Party in 1920. John W. Weeks, of Boston, Massachusetts, became Secretary of War. Mr. Weeks had been a banker and a broker, a member of the firm of Hornblower & Weeks, and he had also been Senator from Massachusetts and a prominent Republican politician of that state. The post of Secretary of the Navy was accepted by Edwin Denby, of Michigan, who had practiced law in Detroit, had been a member of the House of Representatives from 1905 until 1911, and was active in Republican politics in Michigan. Henry C. Wallace, of Iowa, who had a wide knowledge of agricultural affairs, was Harding's Secretary of Agriculture.

In his inaugural address on March 4, 1921, which he delivered after he rode to the Capitol with Woodrow Wilson, whose body was shattered and his prestige broken, President Harding said:

"The earth is thirsting for the cup of good will; understanding is its

fountain source. I would like to acclaim an era of good feeling amid dependable prosperity and all the blessings which attend."

There were similar sentiments among President Harding's friends and associates. They, too, looked forward to an era of good feeling and the blessings of prosperity, but they applied the words with a more personal touch. Their idea, as we shall see, can be aptly expressed in the words of that popular American convention song: "Hail! Hail! The Gang's All Here," which is followed immediately by the ribald slogan: "What the Hell Do We Care Now!"

3

WHILE President Harding and Mrs. Harding were getting settled in the White House, other interesting characters were taking up their residence in Washington. Harry Daugherty brought with him from Washington Court House, Ohio, his jovial, rotund, combination confidant and valet, Jess Smith. Smith had been delighted to sell his small department store in Washington Court House to come to Washington to help Harry out and to have his picture taken standing next to President Harding as often as he could manage it. Jess Smith took over a desk in the anteroom of the Attorney General's private office, and he and Daugherty moved into a small house at 1509 H Street, which their friend "Ned" McLean had turned over to them.

Edward B. McLean and his wife had known the Hardings and Daugherty for many years in Ohio, where McLean's father, John R. McLean, had established the Cincinnati *Enquirer* as one of the leading newspapers of the state; Daugherty had worked for McLean's father, first as a reporter, and later as an attorney. When he was a young man, "Ned" McLean had inherited his father's houses and his father's newspapers, the Cincinnati *Enquirer* and the Washington *Post*, and he also received a huge income from his father's investments in natural gas, traction companies, Washington banks and Washington real estate. In addi-

tion to his large town house in Washington, McLean owned his father's estate, "Friendship," on the heights above Georgetown, where he soon began to entertain the Harding administration lavishly. McLean was chairman of the Harding Inaugural Committee and Jess Smith was his assistant.

A less conspicuous group of men from Ohio also began to establish themselves quietly in Washington after the inauguration. Howard Mannington, a local politician and lawyer from Columbus, moved into the little green house at 1625 K Street. Mannington had been Harry Daugherty's assistant at the Republican convention in Chicago, where his particular job had been to secure southern delegates for Harding. After Harding's nomination Mannington went along with the President-elect to Marion, where, according to the man he lived with at the Little Green House in K Street, M. P. Kraffmiller, "he seemed to be manager of the front-porch campaign." Mannington had also busied himself collecting funds for the Harding campaign. His headquarters at Marion were adjoining the Harding home there, in the house which had formerly belonged to George B. Christian's father. George B. Christian had been Harding's secretary when he was Senator Harding, and he, too, came to Washington as secretary to President Harding.

Soon after the inauguration Mannington and Kraffmiller were joined at the Little Green House in K Street by a Mr. Caskey, of Marietta, Ohio, who quickly became a specialist in getting permits from the government, which permitted the withdrawal of whisky from distilleries during Prohibition. William A. Orr, who had been secretary to Governor Whitman of New York and had Republican political influence in that state, began to arrive regularly at the Little Green House in K Street with suitcases full of liquor and to depart with permits for the withdrawal of liquor, which he had purchased for interested parties in New York. "Bill" Orr was credited with having raised \$35,000 for Harding's "front-porch" campaign, and he was consulted by Attorney General Daugherty on appointments to federal offices in New York. He obtained the appointment of Colonel William Hayward as United States District Attorney for the southern district of New York. One of Mannington's functions in Washington, Orr testified later at the investigation of Daugherty, was to help the Attorney General make up his mind on appointments in the federal

service. Alfred R. Urion, a lawyer from Columbus, Ohio, whom Daugherty later recommended to a prospective client, "Jap" Muma, as "one of the greatest little men you have ever met in your life," opened offices in the Munsey Building in Washington soon after the inauguration of Harding, and we shall hear of his activities later. Urion and Daugherty had been close friends in Ohio for many years. Samuel Ungerleider, also of Columbus, came to Washington and opened a stock brokerage office.

There was a select contingent from Marion, Harding's home town. Dr. Charles E. Sawyer, who had operated a sanatorium in Marion, became physician to the President with the rank of brigadier general in the Army, and chairman of the Federal Hospitalization Board. In his office General Sawyer had a framed card which authorized him to enter any public building in Washington at any time. Mrs. Carolyn Harding Votaw, sister of President Harding, also arrived in Washington with her husband, Heber H. Votaw. Mrs. Votaw received an appointment with the Public Health Service of the federal government, and Mr. Votaw became Superintendent of Federal Prisons under Daugherty.

Another early arrival in Washington was Colonel Charles R. Forbes. Forbes and Harding had met at a social function in Honolulu several years before Harding was nominated for President, and the Colonel's geniality had made a great impression on the Senator and Mrs. Harding. Forbes had been a commissioner of public works in Hawaii, a harbor commissioner there, and had held other important posts in the federal service on that island for five years. He had made the stay of Senator and Mrs. Harding in Honolulu very pleasant. When he heard that his friend the Senator was a candidate for the presidency, Colonel Forbes hurried to Marion, Ohio. During the Harding campaign he spent a lot of time and energy swinging his own state, Washington, for Harding. After the election Forbes tried very hard to get himself appointed chairman of the United States Shipping Board, which would have charge of disposing to private interests the vast shipping resources which the United States government had developed during the war. But Harding refused to give him this post and made him director of the Veterans' Bureau instead. That bureau, too, was to have authority over the expenditure of huge sums of money, for the care of those disabled in the late war. Colonel Forbes took the job.

Colonel Thomas W. Miller, who had been in the Army during the war, and had been one of the incorporators of the American Legion afterwards, also came to Washington, to become Alien Property Custodian, and as such he was to have absolute control of enormous sums of money and other property sequestered during the war, when it had been taken from enemy aliens of the United States who were doing business in this country and its possessions. Colonel Miller had been eastern director of the Republican National Campaign Committee during Harding's campaign.

A little later Walter F. Brown, of Toledo, Ohio, who was one of Harding's campaign managers, came on to Washington to head a committee entrusted with the reorganization and co-ordination of all the federal government's departments. Albert D. Lasker, a Chicago advertising man, arrived to become chairman of the United States Shipping Board. He, too, had been a staunch supporter of President Harding during the election campaign. And last, but not least, there was William J. Burns. Mr. Burns had had a long and erratic career as a detective, and was at the moment head of the William J. Burns International Detective Agency. He had known Harry Daugherty for forty years in Columbus, Ohio, where Burns's family also lived. Burns was made chief of the Bureau of Investigation of the Department of Justice, and he soon brought with him the bulky, jovial Gaston B. Means, who was eager to investigate anyone at any time on the request of anyone, and for money.

The Harding official family must have felt very secure and very confident as its various members started to take up their respective tasks. There was the President, an affable, accessible, good fellow, who never bothered his head with details. An inhabitant of Marion said of him: "The best fellow in the world to play poker with all Saturday night." There was the quiet, keen, enormously wealthy Andrew Mellon, of Pittsburgh, in charge of the finances of the United States. He had divested himself of his manifold directorships in banks, the Aluminum Company, railroads and other corporations by turning them over to other members of his family and associates, for the Secretary of the Treasury was not permitted by law to engage in any business activity. He was now ready to devote himself unstintingly to the monumental task of reducing the taxes of rich men throughout the United States. Charles Evans Hughes,

who exuded prestige, who had resigned from the Supreme Court of the United States to be barely defeated for the Presidency by Woodrow Wilson four years before, was in charge of foreign affairs. He was determined that the United States should have nothing whatever to do with what he regarded as an international monstrosity, the Union of Socialist Soviet Republics, and he was at the same time anxious that the United States should make every effort to bring peace on earth by limiting her own navy and those of her rivals, England and Japan. There was the suave, thin Will H. Hays, who was attending to the mails and to such patronage as Attorney General Daugherty had no taste for. Business welfare was in the hands of the engineer, Herbert Hoover, who had a reputation for getting things done. Labor was in charge of James J. Davis, who had been an iron puddler himself, and who enjoyed fraternity. The Army was in charge of a portly, solid banker and stockbroker, who had been in the Navy as a young man, John W. Weeks; and the Navy was in charge of Edwin Denby, a lawyer who had served in the Marine Corps during the war. Justice was in the hands of a cynical, astute political manipulator, Harry Daugherty, who enjoyed pleasing his friends and outwitting his enemies. And the public lands with all their unexploited wealth, in spite of a protest filed by the Indians, had been turned over to Albert B. Fall, who was described in the following words by Clinton W. Gilbert: "With a long drooping mustache, he looks like a stage sheriff of the Far West in the movies. His voice is always loud and angry. He has the frontiersman's impatience. From his kind lynch law springs."

And in the background was the Vice-President of the United States, a taciturn Yankee, Calvin Coolidge, who said literally nothing as he waited for Fate.

CHAPTER TWO

Teapot Dome

I_N 1921 the price of oil was the highest it had been in twenty years. In the spring of that year Colonel A. E. Humphreys had struck oil at Mexia, Texas, and it was expected that the fields he had opened up there would produce at least 100,000,000 barrels. There was keen competition for crude oil among the refining and selling organizations, and various large corporations were eager to get Colonel Humphreys's oil. Colonel Robert W. Stewart, chairman of the board of the Standard Oil Company of Indiana, one of the most enterprising of all the Standard Oil units, was anxious to buy Colonel Humphreys's oil; they were introduced to each other in the first days of the summer of 1921 by H. M. Blackmer, president of the Midwest Refining Company, which was a wholly owned subsidiary of the Standard Oil Company of Indiana.

Colonel Humphreys wished to sell his oil to the Standard Oil Company of Indiana, but in return for it he wanted stock in that valuable company. Colonel Stewart, however, did not want to sell stock in his company, and he would consider a contract for the oil only on a "when, as and if produced" basis. During the summer of 1921 both men maintained their attitudes. James E. O'Neil, president of the Prairie Oil & Gas Company, another Rockefeller company closely affiliated with the Standard of Indiana, was a friend of Colonel Humphreys. Stewart brought O'Neil into

the negotiations in the early fall of 1921 in the effort to persuade Humphreys to sell his oil for cash instead of stock. During the fall Stewart, Blackmer and O'Neil were writing each other letters concerning the prospect that Colonel Humphreys might yield.

In October, 1921, Colonel Humphreys, tired of playing a form of bluff with Colonel Stewart, started negotiations for the sale of his oil to the Pure Oil Company, of which Beaman G. Dawes, brother of General Dawes, was president. This news made H. M. Blackmer very anxious, and he telegraphed to Stewart and O'Neil and suggested that they all meet Colonel Humphreys in New York City on October 17, 1921. O'Neil doubted the wisdom of this move, for he felt certain that Colonel Humphreys would not be able to make a good deal with the Pure Oil Company, and he felt equally certain that Humphreys would soon need money in order to develop his oil property. But O'Neil's tactics were wrong, for Colonel Humphreys made a contract with the Pure Oil Company in October, 1921, to sell that company one-half his crude oil production and a one-quarter interest in the entire Mexia property. In fact, he had already sold the Pure Oil Company one million barrels of his crude oil in July.

Towards the end of October, H. M. Blackmer met Colonel Humphreys's son at French Lick; he asked whether Humphreys was interested in selling some of his oil outright and requested A. E. Humphreys, Jr. to telegraph his father. Colonel Humphreys agreed to come to New York to negotiate for the sale of a large quantity of oil.

On November 15, 1921, Colonel Humphreys and H. M. Blackmer met at 60 Broadway and agreed tentatively on the number of barrels of oil Blackmer and his associates would purchase and the price they would pay. The price fixed was \$1.50 a barrel for 30,000,000 barrels of oil. Colonel Humphreys then telegraphed to his attorney in Washington, Charles S. Thomas, former Governor of Colorado and former United States Senator from that state, asking him to come to New York at once to represent him in this colossal deal. The next day Governor Thomas arrived, and there was a luncheon at 60 Broadway, which was attended by H. M. Blackmer, James O'Neil, Harry F. Sinclair, Colonel Humphreys and Governor Thomas. The men discussed the details of their contract, and as they were about to part, Colonel Humphreys remarked that he would

like the contract to be for 33,333,333 $\frac{1}{3}$ barrels of oil instead of thirty million, "because that will make the consideration \$50,000,000, and I have some pride in wanting to be a party to a contract of these dimensions." Governor Thomas later testified that Blackmer, O'Neil and Sinclair readily agreed to this whim of Colonel Humphreys's.

Governor Thomas suggested that since he was to draw the contract, he should meet with the lawyer for the other oil men that afternoon, so that the document might be ready in the morning. One of the oil men replied that that would not be necessary, that, though the contract was large, it was simple, and they would be perfectly willing to trust Governor Thomas to draw it up himself. Probably whoever made this suggestion wanted the contract to be seen by as few eyes as possible, for there was to be good reason for secrecy.

Governor Thomas went back to the Waldorf-Astoria Hotel and drew up a memorandum of agreement for the sale of 33,333,333 $\frac{1}{3}$ barrels of oil at \$1.50 a barrel. He also drew up an additional memorandum of agreement for the sale of one-half of all the oil which Colonel Humphreys's companies might thereafter produce, at the market price prevailing at the time of delivery. In his contracts Governor Thomas designated the names of the purchasers of the oil as the Prairie Oil & Gas Company, of which James O'Neil was president, and the Sinclair Crude Oil Purchasing Company, of which Harry Sinclair, H. M. Blackmer and Colonel Robert W. Stewart were in control, by virtue of interlocking stock ownership in the various companies of which they were officers.

On the morning of November 17, 1921, there was an historic meeting in the suite of H. M. Blackmer at the Vanderbilt Hotel in New York. Besides Mr. Blackmer, there were present Colonel Robert W. Stewart, Harry F. Sinclair, James E. O'Neil, Colonel A. E. Humphreys, A. E. Humphreys, Jr., Beaman G. Dawes and Charles S. Thomas. On the day before—the day when the oil men and Governor Thomas had taken lunch together to discuss their proposition—H. S. Osler, barrister-at-law of the firm of Osler, Hoskin & Harcourt, of Toronto, Canada, had made application in Toronto for the incorporation of a company to be known as the Continental Trading Company, Ltd. In the articles of incorporation H. S. Osler was designated president of the new company, another barrister and three students at law of Toronto, Mr. Osler's clerks, were named as

its other officers, and its chief place of business was given as the village of Port Perry in the Province of Ontario. Its capital was to be not less than \$500,000, and its designated officers each held one share of its stock.

At the Vanderbilt Hotel on the morning of November 17th the oil men discussed the details of their contract, and in the afternoon they had come to all the necessary agreements; Governor Thomas rose and suggested that he go into the next room and dictate the revised contract to a stenographer; one of the men present—he believed later that it was Mr. Blackmer—said to him: “In this contract, the vendee in the contract will be the Continental Trading Company of Canada.”

“Well,” Governor Thomas testified that he replied, “that is the introduction of a new factor in the situation.” He wanted to know more about the Continental Trading Company, Ltd. Someone—Governor Thomas thought later it might have been either Blackmer or Sinclair—then spoke up and said that was all right, both the Sinclair Crude Oil Purchasing Company and the Prairie Oil & Gas Company would guarantee the contract made in the name of the Continental Trading Company, Ltd., and no further explanation was offered of the identity of the Continental company. Governor Thomas turned to his client, Colonel Humphreys, and the Colonel agreed that so long as the contract was guaranteed by those two responsible parties, the Sinclair and Prairie companies, he was satisfied. Governor Thomas then asked who would sign and execute the contract on behalf of the mysterious Continental Trading Company, Ltd., and Mr. Blackmer told him that the president of that company would be in New York in the morning to do so.

Next morning at ten o'clock the same men met again at Blackmer's suite in the Vanderbilt; but this time a new member of the party was present, a Mr. H. S. Osler, barrister-at-law of Toronto, Canada, and president of the brand-new Continental Trading Company, Ltd., of that country. He had the entire property of the company in his pocket, a silver-plated seal and papers of incorporation. “Osler reached in his side pocket after signing the contract,” Governor Thomas testified, “and brought out a small silver-plated seal and attached it to the contract, and I remarked in substance that that was a very simple way of executing a tremendously big contract, and he said that it was necessary to do them that way sometimes.”

After the contracts had been signed and guaranteed by O'Neil, Sinclair and Stewart, Colonel Humphreys, his son, Beaman Dawes, his partner in the deal, and Governor Thomas, his lawyer, left the room with a copy of their contract for \$50,000,000. The four men left in the room, Sinclair, Stewart, Blackmer and O'Neil, made a contract that same day by which the Continental Trading Company, Ltd. of Canada, which had just purchased 33,333,333 $\frac{1}{3}$ barrels of oil from Humphreys for \$1.50 per barrel resold the same amount of oil to the Sinclair Crude Oil Purchasing Company and the Prairie Oil & Gas Company for \$1.75 a barrel, a profit of \$8,333,333.33 $\frac{1}{3}$.

The deal with Colonel Humphreys for his oil was one of the largest contracts for oil ever made.

In 1928 Senator Walsh questioned Colonel Robert W. Stewart about that part of this enormous oil deal which concerned the mysterious Continental Trading Company, Ltd. of Canada. When Colonel Stewart first took the witness stand he was truculent in his insistence on his innocence of the purposes and results of the formation of the Continental Trading Company, Ltd. He had first heard of it, he said, when he arrived in New York for the conference with the other oil men, though, he admitted, he had known Mr. H. S. Osler for a good many years. Mr. Osler had, in fact, as Senator Walsh brought out, acted as the agent for the purchase of the Midwest Oil Company stock by the Standard Oil Company of Indiana. It was only at the meeting in New York, Colonel Stewart insisted, that he first heard that the Continental Trading Company was going to purchase Colonel Humphreys's oil and resell it to the Sinclair and Prairie companies, with which Stewart's company was affiliated.

"It did not take me long to see somebody was going to make some money out of this thing," Colonel Stewart testified, "and I am here to tell you I did not care what they made out of it. I knew that we were getting that oil for \$1.75 when the posted prices for that oil were \$2, and I knew that premiums were being paid down there for that oil from 25 cents up as high as 50 cents a barrel, and I wasn't thinking for one second of what the Continental Trading Co. was making out of this or what anybody else was making out of it, except what these companies were going to make out of it. Those companies got that oil cheap and I was thinking more of the \$16,000,000 that these companies would make

at 50 cents per barrel on that oil than what somebody else was getting on a brokerage.

"We wanted that oil and the men who were in the oil business at that time knew how important it was to get that oil."

Senator Walsh, however, persisted in wanting to know if Colonel Stewart had not inquired whether he could not buy the oil for \$1.50 as the mysterious Continental Trading Company, Ltd. was able to do, for in that case the stockholders whose interest Colonel Stewart and his associates were supposed to be protecting could have made over \$8,000,000 more on the deal. Colonel Stewart stuck to his previous answer, that he was told—he thought it may have been Mr. Blackmer who told him so—that he would have to pay \$1.75 and he did not mind doing so.

"It looks as if you had some good reason for signing that guaranty," Senator Walsh commented, concerning the guaranty by the Sinclair company and the Prairie company that if the Continental company did not pay Humphreys for his oil, the other two companies would.

"No, sir," Colonel Stewart replied, "except what appears upon the face of it. If you are intimating by that that I ever made a dollar out of that personally you are absolutely mistaken."

"No, Colonel —"

"I never made a dollar personally out of that transaction in any way, shape, or manner," Colonel Stewart interrupted heatedly. It is noteworthy that he did not say that he had never received a dollar personally. Colonel Stewart was also a lawyer.

"We will not have any quarrel about that," Senator Walsh said. "I have not intimated anything of the kind."

"I have a lot of respect for you, Senator," Colonel Stewart said, soothed for the moment, "maybe I am shooting off a little too fast here."

"But you knew that somebody made—" Senator Walsh began, when the Colonel interrupted again exuberantly:

"Absolutely, that is a cinch."

"Or stood to make," Senator Walsh continued relentlessly, "\$8,000,000 out of the contract."

"That is a cinch," Colonel Stewart repeated. "Of course, obviously, they got 25 cents a barrel."

Colonel Stewart insisted that Mr. Blackmer, though he had taken an active part in all the preliminary negotiations to buy Colonel Humphreys's oil in behalf of the Standard Oil Company of Indiana and its subsidiaries, might have been acting as much for Colonel Humphreys as he was for Colonel Stewart. Mr. Blackmer was in France at the moment, a fugitive from subpœnas, and he remained there steadfastly for many years; it was easy to attribute anything to him without danger of refutation.

"If a man had written to me such letters as that," Senator Walsh commented, "and then had held out 25 cents commission on me our relations after that time would not be quite as cordial as they had been theretofore."

"I don't know that Blackmer held out 25 cents," Colonel Stewart answered blandly.

"I don't, either," Senator Walsh retorted, "and I don't believe he did."

Senator Walsh was referring to the letters and telegrams Blackmer had sent Stewart when the preliminary negotiations were going on for the oil. As we shall see presently, Mr. Blackmer did not hold out a personal commission of \$8,000,000 on the deal, and it was absurd to expect that anyone would believe that he would have been permitted to do so by such sharp business men as his colleagues.

When Senator Bratton asked Colonel Stewart the obvious question, why he had not asked Colonel Humphreys to sell his oil direct at \$1.50 instead of in the roundabout fashion to the Continental Trading Company, Ltd., the Colonel, trapped, grew angry:

"Maybe I made a mistake," he answered. "Maybe you should have been chairman of the Standard Oil Co. in making that deal. I figure that a man is 50 per cent right, you can not be right all the time, but if you are right half of the time a man has got a pretty good average. It may be that I made a mistake there. Maybe we could have gotten that for 25 cents a barrel less but my stockholders certainly did not complain if the contracts have been fairly profitable to them, and if the situation did develop along the lines so that the board of directors of the company got this crude and we were able to run our refineries."

"And you got it as cheaply as you could?" Senator Walsh asked.

"Well, I don't know," Colonel Stewart answered, "but I don't think a man should be indicted if sometimes he pays more than he might for a certain thing. Maybe I am not a good trader."

In answer to a question by Senator Walsh in 1928, John D. Rockefeller, Jr., whose interests owned about 15 per cent of the stock of the Standard Oil Company of Indiana, said: "It certainly is not characteristic of the Colonel to pay more than he has to in any trade, Senator."

Senator Cutting wanted to know something about the guaranty which Colonel Stewart, Harry Sinclair and James O'Neil signed that the Continental would pay for the oil:

"Is that sort of guaranty usual in business—guaranteeing a competitor in order that he may get a contract for 25 cents cheaper?" he asked.

"I don't know," Colonel Stewart answered.

"You are unquestionably a very able business man," Senator Cutting said. "We have heard that testimony repeatedly and naturally you would not be where you are if you were not a very able business man. You did something which you say is unparalleled according to your present recollection in all your business experience."

"I have said nothing of the sort. . . . I have not said it was unparalleled, and I would not be at all surprised if it is done every day. . . . If you are putting this up to me for specific cases now, I can not remember any specific case." . . .

"It did not occur to you," Senator Cutting asked, "whether Mr. Blackmer was doing anything odd or Colonel Humphreys was doing anything odd or you yourself were doing anything odd?"

"I am always doing odd things, Senator," Colonel Stewart replied.

Colonel Stewart testified that after he arrived back in Chicago, with copies of the signed contracts in his pocket, he called together the board of directors of the Standard Oil Company of Indiana and presented the contracts to them for their approval. There was no discussion about them, for the board of directors "had implicit confidence in Colonel Stewart," as Edward G. Seubert, president of the company, testified. Then the contracts were presented for their approval to the board of directors of the

Sinclair Crude Oil Purchasing Company, who met in Chicago especially for that purpose, for their usual place of meeting was the home office at Tulsa, Oklahoma. The contracts were approved automatically by this board without the directors even having seen them. "We have every confidence in Mr. Stewart and Mr. Sinclair, and that what they did was for the best interests of the company," H. L. Phillips, president of the Sinclair company, testified. It was the same old refrain to become so familiar later when boards of directors were questioned by lawyers concerning the smash of the Bank of United States, the Insull dictatorship and the Kreuger empire.

The only avowed activity of the Continental Trading Company, Ltd. was to receive on the 10th of each month \$1.75 a barrel from the Sinclair and Prairie companies and to pay \$1.50 a barrel on the 15th of each month to the Humphreys companies. The difference of 25 cents a barrel was invested for the account of the Continental Trading Company, Ltd. in 3½ per cent United States Liberty bonds, which were purchased by H. S. Osler through the New York office of the Dominion Bank of Canada, of which he was a director. Mr. Osler admitted that the entire business of the Continental Trading Company, of which he was the president, only occupied him for about half an hour each month, and that he was the only officer of the company who did any work at all. Mr. Osler went personally to the office of the Dominion Bank of Canada in New York to receive the Liberty bonds. Clifford Scott Howard, chief agent of that bank in New York, testified that Mr. Osler always instructed the bank to have the bonds wrapped in four packages of equal amounts, and that each time he came to collect them he took them away under his arm. "But at one time," Mr. Howard testified, "I suggested sending a messenger with him, but he laughed about it. He said, 'No'; that he was not afraid of gunmen." Mr. Osler then delivered one bulky package to Harry F. Sinclair, one to H. M. Blackmer, one to James O'Neil and one to Colonel Robert W. Stewart. A few of the bonds he kept for himself as his commission, and on the entire deal these amounted to \$60,000.

After he had no further legal excuse for not revealing the circumstances, Colonel Stewart told the Senate committee on April 24, 1928, that on November 26, 1921, Mr. Osler visited him in Chicago. Colonel Stewart was getting ready to leave that day for Mexia, Texas, to attend a barbecue

which Colonel Humphreys was giving for him and the other oil men to celebrate their colossal deal. Mr. Osler handed Colonel Stewart a bulky package of 3½ per cent Liberty bonds and told him that it was his personal share of the profits of the Continental Trading Company, Ltd. Colonel Stewart insisted before the Senate committee that he had not known until that moment that he was to have any personal share in its profits, and that he told Mr. Osler at the time that he did not think he was entitled to the bonds. Mr. Osler answered, Colonel Stewart testified, that he could do what he pleased with them.

When it was impossible for him to evade questions any longer, Colonel Stewart testified that he then called in Mr. Roy J. Barnett, the tax official of the Standard Oil Company of Indiana, and explained to him "in a general way, the circumstances of my participation in these profits which were to be handed to me; that I did not think I had any right to them; that they belonged to the companies, one or the other of them, and asked him if he would act as trustee." Mr. Barnett agreed to do so, and Colonel Stewart wrote out a trust agreement in his own handwriting. Before he became an oil executive, Colonel Stewart had been a lawyer and was general counsel for the first Standard Oil Company before its dissolution into its component parts by order of the Supreme Court. This trust agreement provided that in case of the death of Colonel Stewart his share of the Liberty bonds was to be turned over in equal shares to the Standard Oil Company of Indiana and to the Sinclair Crude Oil Purchasing Company.

Mr. Roy J. Barnett was called before the Senate committee to testify to his part in this curious transaction. He testified that Colonel Stewart, his employer, sent for him one day:

"I remember he asked about how long I had been with the company and what my training had been and then he said, he asked me, if I would accept a trust, and I said, 'What is it?' And he said that he didn't exactly know yet, so I said, 'Sure'; so then he proceeded to draw up a document and after he got it drawn he presented it to me and had me read it and asked me to sign it and I signed it. That is the substance of it. . . . Well, I remember this, he said, 'This is a matter of secrecy and I don't want you to talk about it until I talk to you.'"

Mr. Barnett recalled that once later he asked Colonel Stewart where the trust agreement was and suggested that he ought to have a copy of it. Instead, it was agreed between him and his employer that Colonel Stewart should seal the agreement in an envelope and put it in his safe deposit box.

In the early part of 1922, Mr. Osler met Colonel Stewart at the Belmont Hotel in New York and handed him another package. Colonel Stewart testified that he did not open it but took it with him to Chicago and then called Mr. Barnett into his office; they opened the package together and found that it contained 3½ per cent Liberty bonds.

After each package of mysterious bonds was received, Barnett testified, he and Colonel Stewart counted them together, and then put them into a safe in Colonel Stewart's office. Barnett kept a memorandum of the totals, but he claimed when he was a witness that he tore up these memoranda after each installment of bonds arrived, adding the new ones to the last total; he had torn up his final memorandum when he had finally disposed of the bonds as Colonel Stewart later directed. The sum total of the value of the bonds that Colonel Stewart received was \$759,500.

"Did you not wonder where those bonds were coming from?" Senator Bratton asked Colonel Stewart.

"No, sir," he answered. "I assumed they were profit out of these contracts. I did not know anything about it. I did not inquire and did not want to inquire."

"That is all," Senator Bratton said.

"Was there any reason for Mr. Osler giving you any moneys?" Senator Wagner asked.

"You will have to ask Mr. Osler about that," Colonel Stewart replied.

But Mr. Osler at the moment was hunting lions in South Africa and could not be persuaded by the Canadian or the United States government to return to the North American continent.

When Senator Cutting asked him what right and title he had thought he had to these Liberty bonds, Colonel Stewart became heated, insolent and reluctant to answer. But in the face of all his truculence Senator Cutting persisted in wanting to know why any part of the profits of the Continental Trading Company should have been turned over to Colonel Stewart. "There is no reason on earth why they should have, I am very

glad to tell you," the Colonel said. "I know no reason." Senator Cutting then inquired why, when he received these \$759,500 worth of bonds, Colonel Stewart had not inquired the reason they were being given to him. Colonel Stewart then became very angry indeed and refused to discuss the matter further with Senator Cutting. He was in a tight corner, tried to bluster his way out, and ended up with the angry admission: "I cannot give any explanation." George Whelan, of the United Cigar Stores Company, told Clarence W. Barron, of the *Wall Street Journal*, when they were discussing Colonel Robert W. Stewart one day: "He is the big fellow of Standard Oil and does as he pleases. He is a great big strapping fellow, and when I crossed the ocean with him I found him in the smoking room with two other fellows, and they had twenty-seven rounds of cocktails. Think of that. I don't know who drank them."

Colonel Stewart was very sensitive about the word "share" as applied to his part of the profits of the Continental Trading Company:

"In all cases, however, in his delivery of bonds as your share—" Senator Nye began a question.

"Don't say that as my share," Colonel Stewart interrupted.

"Of the profits —"

"I didn't have any share."

"He told you it was your share?"

"No; he told me nothing of the sort. He said I was to have a participation in the profit."

"All right, then, your participation, your share of the participation, the delivery was made to you."

When Colonel Stewart had first testified before the Senate committee a couple of months before, he was less willing to talk at all about the Continental transaction and did not reveal that he had received any bonds. Senator Walsh had asked him:

"Were you consulted in any wise, either directly or indirectly, concerning any purchase of bonds by the Continental Trading Co.?"

"No, sir."

"Did you know anything about the purchase of the bonds?"

"With great deference, Senator, I again reiterate what I said before,

that I never personally profited one dollar by this deal and with all due respect to your committee I shall refuse to answer."

"Were you ever consulted about the purchase of the bonds?" Senator Walsh persisted.

"No, sir."

"Why did you hesitate about that?"

"That is my business, Senator, why I hesitated and why I wait here a little while to consider what my answer should be, and with all respect to you, I do not think that that is a proper question from you or for this committee."

As the Colonel's grilling drew to a close, the chairman, Senator Nye, said:

"With the Federal Trade Commission report and the testimony of Mr. Bain at hand, it strikes me, Colonel, that early in 1920 the Standard Oil Co. of Indiana had a better claim to Teapot Dome than any other oil company did, a better right to expect leases in there."

"The Standard Oil Co. of Indiana had a claim to Teapot Dome?" Colonel Stewart said. "Why, you are crazy."

"Very well," Senator Nye remarked, "I have been accused of that before."

After lunch Colonel Stewart thought better of his remark to Senator Nye, and during the afternoon session, he said:

"Senator, now that I see that you are getting pretty close to the end of this thing, or I imagine you are, I want to apologize for something I accidentally did this morning. I was speaking to you as I would have to any dear friend of mine when I said you must be crazy about this thing. I assure you I did not have any ulterior motive."

"That is not the first time, Colonel, I have been accused of being crazy," the Chairman remarked.

"I do not want you to get the idea I was trying to be smart," Colonel Stewart said.

Senator Nye persisted in believing that if he himself had entered into such an arrangement as the Continental deal, had known Mr. Osler for as long as Colonel Stewart had known him and had guaranteed the

Continental company's contract with Humphreys, "I would have known more about the Continental Trading Co. than you have told this committee." "That does not prove anything else than that you have a bigger bump of curiosity than I have," Colonel Stewart remarked. "If we had not had a material bump of curiosity on this committee, we never would have gotten much information," Chairman Nye said.

Senator Cutting asked Colonel Stewart:

"Colonel Stewart, we had testimony before the committee that Mr. O'Neil received, roughly speaking, one-quarter of the share of the profits of this transaction, and that he felt he was not entitled to them, and handed them over for the benefit of his corporation under rather dramatic circumstances. We had testimony that Mr. Blackmer, who had, roughly speaking, about one-quarter of the profits, was in very grave doubt as to the status of his participation in them, and that he instructed his agent to hold them and not cash them. We have had testimony from you to-day that you did not think you were entitled to any share or participation, and that you put them in a trust company for the benefit of these two corporations that you mentioned. Apparently the only one of the men who received, roughly speaking, one-quarter of the shares who felt that he had some right to them was Mr. Sinclair. Can you give us any explanation of that?"

"Those facts," Colonel Stewart replied, "those observations you have just made are matters that I know nothing about. . . . I do not know if Mr. Sinclair got one of those bonds. I do not know whether he got any of the bonds at all."

But we do know now as a matter of fact that Harry Sinclair did receive one-quarter of the Continental Company profits in 3½ per cent Liberty bonds, and if Mr. Sinclair had not been so reckless as to give some of his share of these identical Liberty bonds to public officials and politicians for value received, no one in the world except Mr. Osler, Mr. Blackmer, Mr. O'Neil, Colonel Stewart and Colonel Humphreys, his son, his partner and his attorney, ever would have known of the existence of the Continental Trading Company; the four executives could then have cashed their coupons and lived happily ever afterwards. But Mr. Sinclair was a rash man. "I have always considered that Liberty bonds were practically

cash," Mr. Sinclair told the Senate committee later. And he forgot that Liberty bonds have registered numbers.

2

WHETHER Colonel Stewart, Harry Sinclair and H. M. Blackmer discussed anything more interesting than the quality of Colonel Humphreys's roasted meat at the barbecue in Mexia, Texas, during the winter of 1921, we shall never know. But one witness, Leo Stack, who was an oil promoter himself, told the Teapot Dome investigating committee that he had heard a rumor in the "oil fraternity" that Sinclair, Stewart and Blackmer had met at Mexia in December, 1921, and had agreed among them that Sinclair should get the lease to the naval reserve at Teapot Dome from the government, and build a pipe line which would be used by both the Standard Oil Company of Indiana, of which Stewart was chairman, and its subsidiary the Midwest Refining Company, of which Blackmer was president. Since the Standard Oil Company of Indiana owned a large interest in the Sinclair Crude Oil Purchasing Company and the Sinclair Pipe Line Company, it would have profited along with Sinclair in the Teapot Dome deal; and since the Midwest Refining Company, wholly owned subsidiary of the Standard Oil Company of Indiana, had almost a monopoly of the Wyoming oil product, it would have profited by having the lease in the family and a pipe line to boot.

Between Christmas and New Year's Eve, 1921, soon after the barbecue at Mexia, Texas, Harry F. Sinclair arrived in his private railroad car at Three Rivers, New Mexico, where Albert B. Fall, Secretary of the Interior, was spending the holidays on his ranch.

In the meantime, just before leaving Washington for his ranch, Secretary Fall had had a large financial transaction with Edward L. Doheny, millionaire oil operator, who was the head of the Pan-American Petroleum & Transport Company, of California. Fall and Doheny had known each other ever since the early days when they had prospected for metals and

oil together and studied law together in the Southwest. Doheny, too, was very much interested in the naval oil reserves in both California and Wyoming.

On November 28, 1921, Mr. Doheny wrote to the Hon. Albert B. Fall, Secretary of the Interior, offering to construct storage tanks for the Navy at Pearl Harbor, Hawaii, in exchange for oil to be taken out of the Navy's reserves in California. The next day Secretary Fall telephoned to Mr. Doheny, who was in New York, and said that "he was prepared now to receive that loan, to make that loan," if Mr. Doheny was willing. Mr. Doheny was willing; he sent his son, Edward L. Doheny, Jr. to the bank for \$100,000 in bills, which were drawn by two checks on the son's account; he instructed his son to wrap the bills in paper and put them in a hand satchel and personally take them to Secretary Fall in Washington. Edward L. Doheny, Jr. carried the satchel to Washington, gave the \$100,000 in bills to Secretary Fall and received from him a note, made out to Edward L. Doheny, Sr., without endorsers or other security. No record of the transaction was kept in Mr. Doheny's books or those of his son. When he went on his vacation over the Christmas holidays to his ranch in New Mexico, Secretary Fall took the \$100,000 in bills with him.

Admiral John Keeler Robison, chief of the Bureau of Engineering of the Navy Department at the time of the Harding administration, told the Senate committee investigating the naval oil leases a strange tale concerning Edward L. Doheny's first interest in the Navy's oil reserves:

"What I would like to know from you now, Admiral," Senator Walsh asked, "how did you get your own actual information which you have concerning the condition of those three reserves?"

"From various sources," Admiral Robison replied. "In the first place that I got information from was very queer, and I would like to tell you about it. It happened some several years before I was made engineer in chief, in 1917, in the harbor of Pensacola, while I was captain of the ship *Huntington*. And I had in my command a young lieutenant in the Navy, named Doheny, and his father came down to see the boy, and while the boy was busy he came down to see me, and we sat and talked, and the father, while the boy was busy, sat with me and talked for an hour or two. I knew who he was. He was one of the

successful oil magnates, so-called. And in the course of the conversation I asked him—I feeling sure that our handling of the naval reserves was excellent—we always do, until we know something about it, feel sure that what we are doing is right—I asked him what he thought about the way the naval reserves in California were being handled. He said:

“Well, it is being handled very well for the people you have for neighbors, but you are not going to have any property there in a very few years. One of them is gone already, at all events, and the other soon will be, or just as soon as the Southern Pacific wants to destroy it.”

“I was astounded. The information is the sort of information that I believe. It had come to me—I was not engineer in chief and did not have any expectations of being one, and I certainly did not think I would ever have anything to do with that claim. It came casually and incidentally in the course of a social call from a man—he was not getting \$2,500 for the job, but he was a man who made millions knowing how. That is the kind of information I believe. I remembered it later, and that, as much as any of the official information that I got from anybody, made me to believe that our California reserves needed protection to a much greater extent than they were getting it, and I acted. I got official information from another source. Our own inspector out there reported that the fields were being drained; a commander on the retired list, Commander Landis . . .”

“Mr. Doheny is the president of the company that now has leases on the whole of Reserve No. 1?” Senator Walsh asked.

“Yes; if he has leases on the whole of Reserve No. 1, he is the man,” Admiral Robison replied.

It never seemed to occur to the Admiral as he sat talking with “a man who made millions knowing how” that this same man, being in the oil business himself, in which he had made his millions, might have a personal interest in getting his hands on the naval oil reserves in California. Perhaps Admiral Robison’s intelligence was not so naïve as his testimony would imply; nevertheless, Mr. Doheny, as we shall see, did get his hands on the naval oil reserve in California for a time, and he was the same man who gave Secretary Fall, who leased those reserves, \$100,000 in cash.

"Now, outside of that, that is all the information you had about the matter, and maybe from the Bureau of Mines?" Senator Walsh asked.

"Well," Admiral Robison answered, "I gave a good deal of weight to some first-hand information from a man who evidently knew something about it, as I told you."

"Excuse me; Mr. Doheny?" Senator Walsh asked.

"I really think his remark," Admiral Robison said, "you know, that became a fact to me. I have to learn from other people, and when I can get advice of that sort—information of that sort—I consider his information given to me in that little casual conversation much more valuable than any report from any one hired man."

"Yes," Senator Walsh said, "I can assert it is a good thing for any man to talk to Mr. Doheny; he is a well-informed man."

"Yes; especially when he is talking about oil, he is," the Admiral remarked.

"On anything," Senator Walsh said.

"He was talking oil to me," said the Admiral.

It was one of the minor ironies of the Teapot Dome investigation that Senator Walsh, its steadfast, honest and able prosecutor had been a life-long friend of Edward L. Doheny's. When Senator Walsh's wife had died and he was in great distress, Mr. Doheny had taken care of him and brought him back to an interest in life. This, however, did not prevent the Senator from mercilessly getting out of the oil man the entire truth concerning his transactions with the government which Senator Walsh was representing, though it took great effort and persistence to pin Mr. Doheny down, as we shall see.

That "little casual conversation" with Admiral Robison turned out to be an excellent day's work for Mr. Doheny. Admiral Robison was not at the time in charge of the naval oil reserves, but four years later, in 1921, when Harding became President and Denby Secretary of the Navy, Admiral Robison was made head of the Bureau of Engineering, which had charge of the naval oil reserves. One wonders whether pressure had been brought to bear on anyone to have Admiral Robison transferred to that post, but no evidence of that effort ever came out before the Senate committee. We do know, however, that when Denby became Secretary of the Navy, on March 4, 1921, Robison became aide to the Secretary

and that in October of that year he was made head of the Bureau of Engineering. On October 6, 1921, Admiral Robison wrote a letter to Mr. Doheny telling him of his delight at his good fortune in getting the post which would place him in supervision of the naval oil reserves. Be that as it may, the seed which Mr. Doheny had planted in 1917 came to flower in 1921. Admiral Robison, when he was placed in charge of the naval oil reserves, remembered that pleasant little chat in his cabin on the *Huntington*, lying in the harbor of Pensacola, with the millionaire oil magnate for whose millions and his ability to acquire them Admiral Robison had such an exalted respect. The Admiral's whole attitude towards the naval reserves changed, and he became an impatient advocate of immediate leases of the reserves to private oil interests in return for oil tanks and oil for the Navy. His own advisers in the Navy Department urged strongly against such a policy, and they were men who had studied the problem for many years, but Admiral Robison put their attitude down to jealousy, and thought the Navy just wanted to keep its oil because the Navy liked to keep anything it got hold of, he testified. Even those who reported that some oil was being drained from the California reserves were not in favor of leases of the naval reserves to private interests as the remedy, but in favor of the drilling of offset wells by the government to protect the drainage, or at most, they advocated leases to private companies to drill offset wells.

The naval oil reserves in Wyoming and California were created in September, 1909, when President Taft signed an executive order withdrawing oil lands in those two states from the public domain and reserving them for the use of the government. That order was confirmed by Congress in the following year when it passed the Pickett Act. The lands finally reserved were three areas: Naval Petroleum Reserve No. 1, consisting of 38,969 acres at Elk Hills, Kern County, California; Naval Petroleum Reserve No. 2, consisting of 29,341 acres at Buena Vista Hills, Kern County, California; and Naval Petroleum Reserve No. 3, consisting of 9,481 acres at Teapot Dome, Natrona County, Wyoming. The purpose of the government in setting aside these oil reserves was to keep the oil in the ground for future use by the United States Navy in case of emergency, if the time should come when commercial oil resources were depleted and the Navy could not purchase sufficient oil for its needs. In

1916, Josephus Daniels, Secretary of the Navy in President Wilson's Cabinet, established the Naval Fuel Oil Board, with Commander H. A. Stuart in charge, to care for the Navy's oil reserves. In its report of December 22, 1916, the Naval Fuel Oil Board, which had been investigating the efforts of private interests to gain leases to the naval oil reserves, declared:

In the four years that have passed since the creation of the first naval petroleum reserves there has been a continuous attack on the Navy's tenure of these lands by private interests and corporations. The strength of this attack is sufficient to threaten a change of existing law in order to wrest control of these lands from the Navy. Legislation now pending intends to destroy the Navy's title to the bulk of its oil in the naval reserves. Action of the Congress in this matter will indicate whether it is possible to retain these or similar reserves after they have become commercially attractive. It will determine whether in such a contest between private interests and those of the Government the latter can survive.

One of those enlisted by oil promoters in the effort to get leases to the Navy's oil reserves was George Creel, secretary of propaganda and official censor during the war. After he had completed his war work, George Creel wrote articles on the Mexican situation which attracted the attention of Mr. Doheny, whose oil companies had extensive interests in Mexico, and who was active in the effort to get American protection for those of his interests at all costs. Mr. Doheny hired Mr. Creel as "a publicity consultant." "I was not to write, but to advise," Mr. Creel told the Senate committee investigating Teapot Dome. "He [Doheny] protested very vehemently that he was sick and tired of being called an interventionist, when all that he desired was peace and love and justice. . . . Now, he had the clearest blue eyes I ever saw," Mr. Creel went on, "and the most child-like candor, and he fascinated me to a point where I really wanted to write his life as a textbook, as an inspiration for young Americans. My employment was indefinite, and it was at \$10,000 a year. I resigned at the end of three months."

Mr. Doheny's clear blue eyes could get dark with rage when he was crossed in the least way. "I have no charges at all to make against Mr.

Doheny," George Creel continued, "except that we were not only not seeing eye to eye, but we were not seeing in the same general direction. He was a man who seemed utterly unable to view anything except in the light of his own desires. Whatever he wanted was right; whatever was opposed to him was the work of enemies and devils." Mr. Creel and Mr. Doheny had one conference on Mexico at which Mr. Doheny "flew into one of his famous brain storms and denounced me as an upstart who was intruding himself into matters of which I knew nothing and which I had no concern with." Then Creel added: "Well, his Napoleonic dementia was carrying him on to the point of apoplexy, and I left the room."

After the war Mr. Doheny's ideas about the dangers of radicalism and Bolshevism in the United States were just as definite as his ideas on the need for American intervention in Mexico. Sitting in his suite on board the *S. S. Aquitania* on Friday evening, February 1, 1919, Mr. Doheny told his old friend, Clarence W. Barron, and Mr. Barron made a note of it:

"If you believe in democracy you cannot believe in Socialism. Socialism is the poison that destroys democracy. Democracy means opportunity for all. Socialism holds out the hope that a man can quit work and be better off. Bolshevism is the true fruit of socialism and if you will read the interesting testimony before the Senate Committee about the middle of January that showed up all these pacifists and peace-makers as German sympathizers, Socialists, and Bolsheviks, you will see that a majority of the college professors in the United States are teaching socialism and Bolshevism and that fifty-two college professors were on so-called peace committees in 1914. President Eliot of Harvard is teaching Bolshevism. The worst Bolshevists in the United States are not only college professors, of whom President Wilson is one, but capitalists and the wives of capitalists and neither seem to know what they are talking about. William Boyce Thompson is teaching Bolshevism and he may yet convert Lamont of J. P. Morgan & Company. Vanderlip is a Bolshevist, so is Charles R. Crane. Many women are joining the movement and neither they, nor their husbands, know what it is, or what it leads to. Henry Ford is another and so are most of those one hundred historians Wilson took abroad with him in the foolish idea that history can teach youth proper demarcations of races, peoples, and nations geographically."

In 1919, Mr. Doheny must have had the discouraging feeling that everybody was out of step except himself. But he was sure of himself; he had even named his private railroad car, "The Patriot."

"Democracy," Doheny had told Barron, "means opportunity for all," and "Socialism holds out the hope that a man can quit work and be better off." When that "Bolshevik" college professor, Woodrow Wilson, was nearing the end of his term of office as President of the United States, Mr. Doheny was already an old man, but he had no hope of quitting work and intended to make the most of his opportunities under a democracy. As early as the fall of 1920, Mr. Doheny had accepted the proposition made to him by Leo Stack, an oil prospector of Denver, to get Doheny a lease from the government to Teapot Dome. On January 7, 1921, Mr. Doheny and Mr. Stack signed an agreement, whereby Doheny guaranteed to give Stack \$400 a month during the period of his efforts to get a lease to Teapot Dome; he also agreed to pay all of Stack's expenses and in the event of the success of the scheme, Doheny was to pay Stack 10 per cent of the total net profits accruing from said lease.

Stack had meanwhile been busy in Washington. Immediately after the election of Harding in November, 1920, Stack visited his old friend George Creel in Washington. Stack proposed that Creel help him to get a lease to Teapot Dome, and, Creel testified later, he showed Creel figures which were very convincing to him that the oil reserve was losing its oil by drainage into neighboring private wells. Stack also told Creel that he was certain that the incoming Republican administration would lease Teapot Dome to someone, and that he was very anxious to get the lease from the Democrats before the Republicans could grant it. He wanted Creel to see Secretary of the Navy Daniels about the matter. Creel testified that he told Stack: "Leo, you might as well try to change a Missouri mule as try to change Secretary Daniels on this question of naval reserves." Nevertheless, Stack paid Creel \$5,000 on November 8, 1920, five days after Harding was elected President, and Creel took Stack to see Secretary Daniels, who refused to listen to any proposition for a lease to Teapot Dome or any other naval reserves. Creel testified that Secretary Daniels said to Mr. Stack, when Stack assured him that the Republicans would give someone the lease: "I have no doubt in the world that this thing will be attempted to be done, but I don't think that public opinion will countenance it."

Secretary Daniels wrote later to Senator La Follette that private oil interests had tried to get their hands on the naval oil reserves as soon as he became Secretary of the Navy in 1913 and had continued their efforts from time to time during the entire eight years of his administration. He also wrote to Senator La Follette in this letter of April 18, 1922:

I remember one night toward the end of a session that Mr. Roosevelt [Franklin D. Roosevelt, then Assistant Secretary of the Navy] and I remained at the Capitol all night long, watching the legislation of closing hours, fearing that some act might be passed that would turn over these invaluable oil reserves to parties who laid claim to them without even decent shadow of title.*

After they had been turned down by Secretary Daniels, Creel and Stack went to see the Navy officers in charge of the oil reserves, Commander Stuart and Lieutenant Shafroth. Creel testified later that they "spent weeks trying to get them to listen to some proposition," but the naval officers refused even to consider any schemes for leases or exchange of crude oil from the naval reserves for fuel oil.

"Do you practice before the departments generally?" Senator Walsh asked Mr. Creel.

"Why, I never took a cent in my life for any purpose other than writing, except that one time," Creel answered, "and here was my friend who came from Denver, that I had known, who said, 'We will go into the oil business together, George, and we will make a fortune.' Now, that may sound perfectly idiotic, Senator, but it did not seem so to me. Every writer in the world has a dream of getting into a business where he is going to become a magnate."

Creel testified that while he was working with Stack he ran into Mr. Doheny in the lobby of the Shoreham Hotel in Washington. They had not met since Doheny had denounced Creel angrily when they were working on Mexico together. Creel testified that he did not know whether they were on speaking terms or not, but that Doheny "came up very genial and grinned like a Cheshire cat and informed me that I was on his pay

* *Congressional Record*, vol. 62, p. 5792.

roll, and for a second time I resigned." Creel said that after this chat with Doheny, he went to see his friend Stack, learned for the first time that it was Doheny's money which Stack had given Creel, and that he then got out of the deal at once. He did not, however, return the \$5,000. Stack testified that Creel knew from the first that Doheny was behind the scheme to get a lease to Teapot Dome, for he had told Creel so when they had first discussed the matter.

In the meantime, other people were after a lease to Teapot Dome, and some of them were eager to keep Edward L. Doheny from invading the Wyoming oil territory after his great success in California and Mexico. The Pioneer Oil & Refining Company, which was then owned by the Midwest Oil Company, which in turn was owned by the Standard Oil Company of Indiana, and the Société Belgo-Américaine des Pétroles du Wyoming, which was also owned then by the Midwest Oil Company, claimed that they had bona fide leases to lands within the Teapot Dome naval reserve. The Pioneer Oil & Refining Company laid claim to lands in the northern part of Teapot Dome and the Société Belgo-Américaine des Pétroles du Wyoming laid claim to the southern part. The companies claimed that they owned lands within Teapot Dome before President Taft had set them aside as naval oil reserves; the claims had been declared invalid by the Department of the Interior, and it was these same claims which Secretary Daniels referred to as worthless in his letter to Senator La Follette. But those who were interested in keeping Doheny out of Wyoming used these oil claims to discourage and to tire him, and after a year of fruitless effort, he declared that he would be willing to give up all attempts to get a lease to Teapot Dome, if he could only get back the money he had paid out to Leo Stack for his expenses. L. L. Aitken, president of the Mountain States Oil Company, also a subsidiary of the Midwest Oil Company, which in turn was a subsidiary of the Standard Oil Company of Indiana, gave Leo Stack a check for \$14,944.25, which Stack handed to Doheny in repayment of what had been expended on behalf of Doheny up to December 31, 1921. Then Stack entered into a contract with the Pioneer Oil & Refining Company and the Société Belgo-Américaine des Pétroles du Wyoming to get them a lease to the whole of Teapot Dome. By this contract Stack was to receive \$1,000 a month and 5 per cent interest in the profits of Teapot Dome. This agreement was dated Decem-

ber 31, 1921. It was at that time that Harry Sinclair's private railroad car drew up to the small way-station of Three Rivers, New Mexico, where Mr. Sinclair had business with Secretary Fall.

"Is it not a fact," Senator Adams, of Colorado, asked Mr. Doheny, "that the Sinclair people came in there and rode rather roughshod over you in that matter?" Mr. Doheny answered: "I do not know about that. All I know is I was out of it the time Sinclair bid." Senator Adams hinted that Doheny did not try to get a lease to Teapot Dome because he was assured of compensation in another form, but Doheny refused to admit this. He insisted that he did not try to get Teapot Dome because Wyoming was too far from his California properties. But, as Senator Adams pointed out to him, he had not considered Wyoming too far from California when he had hired Leo Stack to get a lease to Teapot Dome for him. Doheny was then asked whether, as a matter of fact, he had not come to an understanding with the Sinclair people and the Standard of Indiana people, with whom Sinclair was affiliated, that if Doheny did not interfere in the effort of Sinclair to get Teapot Dome, they would not interfere with Doheny's efforts to get leases to the naval oil reserves in California. He refused to admit any such gentleman's agreement.

3

ALBERT B. FALL was no conservationist; whenever there was a question of government control or private profit in connection with the public domain, Secretary Fall was all for private profit. Early in his career as a Cabinet officer Mr. Fall began to talk oil with Congressmen, and a bevy of oil men began to frequent Washington. But before he could do anything about oil, the Secretary of the Interior had to get the naval oil reserves out of the jurisdiction of the Navy Department, where they had been lodged by President Taft and Congress, and into his own hands at the Department of the Interior. At the same time Mr. Fall coveted other authority; he was very eager to have the administration of the

Forestry Service transferred from the Department of Agriculture to the Department of the Interior, but Henry C. Wallace, Harding's Secretary of Agriculture, strenuously resisted Fall's efforts; Fall wanted control of the rich natural resources of Alaska, but he was also unsuccessful in accomplishing that purpose. He had more luck when he came to deal with the complacent Edwin Denby, Secretary of the Navy.

Rear Admiral R. S. Griffin, who was in charge of the naval oil reserves as head of the Bureau of Engineering from March 4, 1921, until the following October, when Mr. Doheny's acquaintance, Admiral Robison, was appointed to that post, had a conversation with Secretary Denby about the naval oil reserves less than a month after Denby took office. Denby told Admiral Griffin that he intended to transfer the administration of the naval reserves to the Interior Department. Admiral Griffin told him that he "was very sorry to hear it and hoped that he would reconsider the matter." The Navy, he pointed out to Secretary Denby, had been fighting to retain its oil for ten years, and in all controversies about it, the Interior Department had been opposed to the Navy, "and that if he turned the administration over to the Interior Department we might just as well say goodbye to our oil." Denby replied that President Harding was in favor of turning all public lands over to the Interior Department, and that he himself was also in favor of such centralization. Admiral Griffin pointed out that as soon as the naval reserves had been withdrawn from the public domain, they were no longer public lands, but "they were as much naval property as were the navy yards."

Other officers of the Navy who were interested in its oil problems were dismayed at the news that the reserves were about to be turned over to Fall, and particularly those who had had anything to do with the reserves. Commander H. A. Stuart testified that he knew of no naval officers who did approve the transfer, and that there was no occasion for it whatsoever.

The order placing control of the valuable naval oil reserves in the hands of Secretary Fall had to be an executive order of President Harding. On May 10, 1921, about two months after the new administration had come into power, Secretary Fall and Secretary Denby had a brief conversation with the President about the transfer. The next day Secretary Fall submitted to Secretary Denby a memorandum of the facts and the

law concerning the naval reserves and a draft letter to be sent to the President with Denby's signature. Fall also drew up the draft of an executive order for President Harding's signature.

Admiral Griffin, anxious to save what he could of the Navy's oil from Secretary Fall's grasp, suggested that a clause be inserted in Fall's draft executive order, requiring that before any leases to lands within the naval oil reserves could be let by the Department of the Interior, such leases must be referred to the Secretary of the Navy for his approval. Theodore Roosevelt, Jr., then Assistant Secretary of the Navy under Denby, took Admiral Griffin's clause over to Secretary Fall's office, and he told Admiral Griffin that he was going to do the best he could to get the clause inserted in the executive order.

Theodore Roosevelt, Jr. had been one of the original directors of the Sinclair oil companies when they were formed; he was a stockholder in the Sinclair companies until he became Assistant Secretary of the Navy; and at the time when he was Assistant Secretary of the Navy, his brother, Archibald Roosevelt, was a vice-president of one of the Sinclair companies; Theodore Roosevelt, Jr. admitted on the witness stand that he had obtained this position for his brother by speaking to Harry F. Sinclair in the spring of 1919.

Theodore Roosevelt, Jr. took the draft of the executive order and Admiral Griffin's suggested clause over to Secretary Fall's office. The suggested modification of Secretary Fall's original draft read: "But no grant, lease, patent, license or permit pertaining to any lands, or the contents thereof, in the naval petroleum reserves or naval shale reserves shall be made without the approval of the Secretary or Acting Secretary of the Navy." When Mr. Roosevelt came back from Secretary Fall's office, this clause read: "But no general policy as to drilling or reserving lands in a naval reserve shall be changed or adopted except after consultation and in co-operation with the Secretary or Acting Secretary of the Navy." This modification gave Secretary Fall full authority to lease the entire naval reserves after a chat with Edwin Denby or Theodore Roosevelt, Jr.

Theodore Roosevelt, Jr. then took Fall's draft executive order over to the White House, and President Harding signed it. The order was issued May 31, 1921. On June 8th, Secretary Fall wrote to his old friend Edward L. Doheny:

There will be no possibility of any future conflict with Navy officials and this department, as I have notified Secretary Denby that I shall conduct the matter of naval leases, under the direction of the President, without calling any of his force in consultation unless I conferred with himself personally upon a matter of policy. He understands the situation and that I shall handle matters exactly as I think best and will not consult with any officials of any bureau in his department, but only with himself, and such consultation will be confined strictly and entirely to matters of general policy.

Very sincerely yours,

ALBERT B. FALL.

On May 31, 1921, Secretary Fall was in control of the Navy's oil reserves, and it had taken him only a little more than two months to accomplish his aim. It was to be some time, however, before he granted leases to the reserves; there were many negotiations necessary, both official and personal. And there were also those pesky naval officers, who were always meddling in affairs which Secretary Fall felt did not concern them. They wished to conserve the Navy's oil in the ground for an emergency, and Fall wished to sell it as fast as possible to his friends, and he grew more irritable and more impatient with them every day. According to various witnesses, Secretary Fall had a mean temper. The Naval Fuel Oil Board, which had been established by Secretary Daniels to conserve the Navy's oil, was composed of naval officers who were particularly troublesome, and so in October, 1921, Fall's associate, Denby, obligingly abolished the Fuel Oil Board and placed entire supervision of the reserves in the hands of Admiral Robison, who had had such an enlightening conversation in the harbor of Pensacola four years before with Edward L. Doheny, "the man who made millions knowing how." But there were still two Navy officers whom Secretary Fall could not abide, for, in spite of the acquiescence of their superiors, Denby and Robison, they persisted in expressing opposition to any leases being granted to the Navy's oil lands. They were Commander H. A. Stuart and Lieutenant Commander Shafroth; Captain John Halligan, Jr. was another naval oil expert who opposed the leasing of the reserves. Just at the time when Secretary Fall finally leased Teapot Dome to Harry Sinclair, Captain Halligan was

sent from Washington on service at sea and the other two officers were detached from service at Washington to service in other cities.

At a general council of the Navy Department's high command which was held on October 18, 1921, Secretary Denby had informed the officers that he intended to turn over the leasing of the Navy's oil lands to the Interior Department, saying, "that matter of leasing is most difficult and dangerous thing to be done. It is full of dynamite. I don't want to have anything to do with it."

The private oil men who were after the Navy's oil were not worried about the dynamite in the oil leases; it appeared rather to them that the matter was full of dollars. Edward Buckley, a former waiter at the Bankers' Club in New York, told the Senate investigating committee in 1928 of a conversation he had heard while waiting on Harry Sinclair, James O'Neil and two of their friends some time in the spring of 1922, he believed:

"Mr. Sinclair said," Mr. Buckley testified, "that the Secretary of the Navy was objecting to the leasing of the Teapot Dome, and they had to overcome that, so they were to make another appointment with Mr. Hall—Fall—later on, a week or 10 days later; and he spoke about from \$80,000 to \$125,000 bonds at that time that he had, and one of those men said—he said, 'I wish I was Secretary of the Navy for about two years.' Harry Sinclair said, 'Well, you would have a better job than the President.'"

"Mr. Sinclair said, 'Well, you would have a better job than the President?'" Senator Nye asked.

"Yes. He said, 'I would clean up some millions,' and Harry Sinclair said, 'You all have to be careful after this, and each one will have to look out for himself,' and one man spoke up and said, he said, 'Supposing there was some future trouble to come up afterwards, who would take care of it?' Harry Sinclair said, 'The Sinclair Oil Co. is big enough to take care of that,' and James O'Neil said, 'If the Sinclair Oil Co. is not big enough to take care of it the Standard Oil Co. is big enough to take care of it.' . . . James O'Neil said, 'Why, we make \$100,000 a year. (After a pause.) A hundred millions a year, I mean. A hundred millions. A hundred millions a year.'"

Buckley told the committee: "Whenever you saw Harry Sinclair around you could expect James O'Neil the next day or maybe the same day. We always expected that." He described Harry Sinclair: "He is a bald-headed man, about 56 to 60 years old, I guess, now, and a man about 5 feet, 8 or 9, pretty thick, heavy-built man; but Mr. O'Neil is a much heavier man, bigger man than Mr. Sinclair. . . . Yes; Mr. O'Neil is a big six-footer."

"What was Mr. O'Neil's manner at those meetings?" Senator Nye asked.

"Well," Mr. Buckley replied, "will I express the way that he expressed himself?"

"Yes, we should like to have it."

"He said, 'Oh, hell; we will make a hundred millions a year.' (Laughter.)"

Mr. Buckley did not know who the other two men were at the table with Sinclair and O'Neil; it would be interesting to know whether they were H. M. Blackmer, of Midwest Refining Company, and Colonel Robert W. Stewart, of Standard Oil of Indiana. Mr. Buckley described one of them, the man who had expressed the wish to be Secretary of the Navy for two years, as "the dark stout man."

"You are sure he didn't say he wished he was Secretary of the Interior?" Senator Nye asked.

"No, sir," Mr. Buckley replied; "of the Navy, because I didn't know how that could be connected at the time, and I never heard of the Teapot Dome until that day at the table. I was surprised. I was interested myself, because I said, 'If this is a good thing I will try and get in when they issue the stock.' (Laughter.) 'I will try and get in on it.' (Laughter.)"

Secretary Fall's version of Harry Sinclair's visit to Fall's ranch at Three Rivers was given by Fall in a report to President Harding which he made on June 3, 1922, after the lease to Teapot Dome had become public information:

On about January 1 [1922], while at my home in New Mexico spending the holidays with my family, I received a telegram from

J. W. Zevely asking if I would remain there a few days longer as Mr. H. F. Sinclair and himself desired to meet me immediately and present to me an application for a ruling with reference to deferred payments upon Indian lease lands in Oklahoma. Within the time limited, Mr. Sinclair and Mr. Zevely, with their respective wives, traveling in a private car, reached Three Rivers. They presented their particular problem for my consideration and secured from me a telegram to the department in Washington, calling its attention to a possible necessary modification of certain rules then in force.

These parties remained at Three Rivers, my home, for two or three days, residing upon their car and visiting with my family and myself.

The day that Mr. Sinclair left Three Rivers, he for the first time asked me if I were contemplating the opening up of the Teapot Dome. I answered immediately that I was considering the matter but was yet awaiting final reports from the Bureau of Mines experts in that field upon the danger of immediate drainage. I was then informed that if the policy of the Navy and the Interior Departments was to open up this field, he would be glad to consider making a proposition to the Government. I detailed to Mr. Sinclair exactly what I have heretofore set forth and which had theretofore been communicated to two or three oil men, as I have stated.

Shortly after my return to Washington, namely, on February 3, 1922, Mr. Sinclair and his attorney came into my office and presented me a paper stating that it contained an outline of what he was willing to do if he should receive a contract for the development of petroleum reserve No. 3.

The same train which brought Harry Sinclair, his lawyer, J. W. Zevely, and their wives to Three Rivers brought another guest, in the public cars. H. Foster Bain, director of the Bureau of Mines of the Department of the Interior, was traveling west to California in the company of J. J. Cotter, vice-president of Doheny's Pan-American Petroleum & Transport Company. Before he became a vice-president of Doheny's company, Mr. Cotter had been employed in the Department of the Interior, and he and Dr. Bain were old friends. When the train reached the little station at Three Rivers, Dr. Bain testified later, he discovered that Harry Sinclair's private car had been attached to it. Mr. Cotter stopped for a few moments to greet Secretary Fall and then continued on the train to California,

where Dr. Bain was to follow him the next day, after he had had a conference with Secretary Fall, his chief.

Dr. Bain told the Teapot Dome committee that he and the Sinclair party arrived at Three Rivers around eleven o'clock in the morning of December 31st. "Mrs. Fall took Mr. Sinclair and his party to a cowboy dance that night, so that I might have an opportunity to talk business with Secretary Fall on these California reserves," Dr. Bain testified. The next day he continued on to California and was met at the station by John J. Cotter. He spent the day with him and with J. Crampton Anderson, of the Pan-American company, and next morning Dr. Bain met with Mr. Doheny, Mr. Cotter and Mr. Anderson and other members of the Pan-American organization. Dr. Bain's business in California was ostensibly to consult with oil companies concerning bids to build storage tanks for naval oil at Pearl Harbor, Hawaii, in return for leases to take oil out of the California naval oil reserves. It was necessary by law that there should be at least a semblance of competitive bidding for this lease and contract. But one month before Mr. Doheny had sent Secretary Fall \$100,000 in bills in a hand satchel.

The Pan-American Petroleum company was an oil company and not a construction company, and therefore could not build storage tanks, but that little difficulty was solved simply: Dr. Bain introduced members of the Doheny company to members of the J. G. White Construction Company, who could build the tanks. Then Dr. Bain went to see officials of the Standard Oil Company of California, the General Petroleum Company, the Associated Oil Company and the Pacific Oil Company, so that they could not say afterwards that they had had no opportunity to compete with Doheny for the leases and the contract.

The officers of the Standard Oil Company of California told Dr. Bain that they would not submit a bid, because their attorneys had informed them that it was not legal for the Department of the Interior to make a contract by which it exchanged the Navy's oil for storage tanks. The officers of the General Petroleum Company said the same thing and suggested that an opinion on the legality of the proposition be obtained first from Attorney General Daugherty. The Associated Oil Company and the Pacific Oil Company said that they would bid only if Congress approved the proposed contract first. Dr. Bain then went back to see Mr. Doheny

and his associates and left California with the assurance from them that they would offer a bid on the contract.

Meanwhile, Harry Sinclair, Colonel Zevely and their wives were having a pleasant and profitable time at Secretary Fall's ranch in New Mexico. They slept in their private railroad car, and spent their days hunting deer, quail and wild turkeys with the cowpunchers and their evenings talking with Secretary Fall before the fire in his ranch house.

"On this visit to his farm in January, 1922, when this question came up what was the object of your visit at that time?" Senator Lenroot asked Mr. Sinclair later.

"I went to Three Rivers to discuss with Senator Fall the leasing of Teapot Dome," Mr. Sinclair answered.

Sinclair testified that he had also discussed with Secretary Fall the matter of royalty payments on Indian oil lands which the Sinclair company held under lease at the time. In his report to President Harding, Secretary Fall had made it appear that this was the object of Mr. Sinclair's special journey to Three Rivers, but Mr. Sinclair's testimony made it clear that the real object of the trip was to talk about a lease to Teapot Dome, and he admitted that it would not have been necessary for him to go there specially to talk of such a routine matter as payments on Indian lands in Oklahoma.

While Mr. Sinclair was visiting at Fall's ranch, Secretary Fall mentioned that he would like to have some milch cows, according to J. T. Johnson, foreman of the Fall ranch, who was present with the party. Mr. Sinclair said that he had some blooded Holsteins on his Rancocas Farm, that he had more than he needed, and that he would be glad to send the Secretary some. After Mr. Sinclair got back home, Secretary Fall received six heifers, one yearling bull, two six-months-old boars and four sows under six months old. Mr. J. T. Johnson, Fall's foreman, received a present of an English race horse from the Sinclair stock farm.

"So far as you know, Mr. Sinclair," Senator Lenroot asked, "is there any profit to be received in this transaction that Mr. Fall received, any benefits or profits, directly or indirectly, in any manner whatsoever, in connection with you?"

"No, sir," Mr. Sinclair replied; "none, unless he had received some benefits from the cattle."

The detailed negotiations for leases to Teapot Dome were carried on with great secrecy. In the early days of February, 1922, the lease was drafted in the Washington law office of Colonel J. W. Zevely, Sinclair's personal and confidential attorney and companion, after whom Sinclair had named the famous race horse, "Zev." On February 1st and 2nd, Secretary Fall, having come up from his ranch in New Mexico, was staying at the Waldorf-Astoria Hotel in New York, according to his expense vouchers at the Department of the Interior. Sinclair's main office was also in New York. On February 3rd, Secretary Fall was back in Washington, and on that day he met Sinclair and Colonel Zevely and received from them at his office in the Department of the Interior their formal proposition for the lease to Teapot Dome.

Other oil companies had heard of the possibility that the naval reserves might be leased early in the Harding administration, and other companies wished to offer bids for them. Secretary Fall did the best he could by evasions and falsehoods to keep these companies from bidding. Colonel Birch Helms, vice-president of the Texas-Pacific Coal and Oil Company, in September, 1921, spoke to Theodore Roosevelt, Jr., to Judge Finney, Assistant Secretary of the Interior, and to Secretary of the Navy Denby about the possibility of his company's getting a lease to Teapot Dome. He was told by all three of these officials that the government had no intention of leasing the oil field. In his letter of June 3, 1922, Secretary Fall told President Harding that he had had conferences in his office with the officials of at least three big oil companies before letting the lease to Sinclair, but he declined later to state the names of these companies. On the witness stand Secretary Fall admitted that no public bids were ever asked for the contract:

"When I say 'bid,' " he told Senator Walsh, "you understand what I mean; that, in the matter of dealing with these gentlemen who communicated that they would like to get in on this proposition, I went very fully into it. I allowed no one to make this contract. I made it myself. I determined what I wanted, and I presented to each of the inquiring parties a memorandum showing exactly what I demanded."

And it was strange that the only one of the companies that could meet Secretary Fall's specifications was that controlled by the visitor to his ranch on New Year's Eve, who was soon to give Fall more than \$230,000 in Liberty bonds, which he had received from the illicit deal in which the Continental Trading Company had participated.

Fall tried brazenly to explain to the Senate committee that Mr. Sinclair was the only person in the United States who could have entered upon the contract, because Mr. Sinclair's company was both a refining and a distributing company. "He was in the unique position," Mr. Fall testified, "where he could afford to bid more for the raw oils and enter into a contract with the Government of the United States for the development of Teapot Dome oil than any other company in the United States." There were, however, several oil companies in the United States who needed and wanted oil to refine and to sell, and who could have met the requirements of a lease; the struggle for crude oil was intense at the time, as we have already seen from the competition for Colonel Humphreys's oil three months before.

Secretary Fall signed the lease to Teapot Dome on April 7, 1922. He locked it in his desk at the Department of the Interior and gave the key to the desk drawer to one of his subordinates, Mr. Stafford. He also told Assistant Secretary of the Interior Finney that the signed lease was in the desk and instructed both Judge Finney and Mr. Stafford that they were to give out no publicity concerning the lease. A few days later Fall went back to his ranch at Three Rivers, New Mexico, for a rest and to supervise improvements he had been making on the property. A short time before Mr. Sinclair had visited him, Fall, with the money Doheny had given him, purchased the property adjoining his ranch, and he was stocking the ranch with blooded cattle for the first time in its history. He was also installing an expensive hydroelectric plant and putting in wire fencing and building roads.

Meanwhile, the news that Fall had leased Teapot Dome to Sinclair was seeping out. People in Wyoming were telegraphing to their Senators, and people in Wall Street were buying the stock of the new Mammoth Oil Company, which Harry F. Sinclair had formed to exploit the Teapot Dome lease. On April 5, 1922, two days before the lease with Sinclair was signed, the *Denver Post*, a lurid newspaper owned by Frederick G. Bonfils

and H. H. Tammen, had printed a story that the lease had been signed. The article, written by the financial editor of the *Post*, pointed out that the large oil companies regarded the lease as the end of their troubles, because by its terms Sinclair was required to build a pipe line from the Teapot Dome field, which they would be able to use. The independent oil operators, however, who had no affiliations with Sinclair, Colonel Robert W. Stewart and other Standard Oil groups, were not so happy about the news, and they regarded the Teapot Dome lease as "a wide-open violation of the leasing act," since the oil field had not been offered up at public sale. The independent oil men feared that with Sinclair's Wyoming pipe line in operation, Colonel Robert W. Stewart, who already had a grip on Wyoming oil through the ownership of the Midwest Refining Company by the Standard of Indiana, would be able to force down the price of oil and drive them out of business. This article was sent at once to Secretary Fall by the agent of the Department of the Interior in Denver, Mr. M. D. McEniry. On April 7, 1922, the day he signed the lease with Sinclair and locked it in his desk, the *Denver Post* published a denial from Secretary Fall that he had made any lease with Harry Sinclair.

Others besides the Wyoming oil operators were excited as soon as they heard the news that Fall had given Teapot Dome to Sinclair. Colonel Birch Helms, of the Texas-Pacific Coal and Oil Company, who six months before had discussed with Theodore Roosevelt, Jr., Secretary Denby and Judge Finney the possibility of his company's getting the lease, and had been told that the government had no intention of leasing the field, called again on these three high government officials, and they all referred him to Secretary Fall. The Secretary, who had not yet left for Three Rivers, saw Colonel Helms on April 10th, told him the matter of a lease to Teapot Dome was still open, and asked him whether his company was prepared to build oil storage tanks for the Navy at Portsmouth, New Hampshire, and to build a pipe line from the Teapot Dome field to the east. At the moment Secretary Fall was sitting at the desk where lay the lease he had signed with Sinclair. Later at his trial in Cheyenne, Wyoming, Secretary Fall tried to maintain that he had not been discussing Teapot Dome with Colonel Birch Helms at all, but that he was referring to a contract for the Navy's royalty oils from the neighboring fields of Salt

Creek. Colonel Helms testified that he had also spoken to Secretary Fall about the Navy's royalty oils at Salt Creek, but that he was sure that this particular conversation was about Teapot Dome and none other. Secretary Fall had told him, he testified, that the matter of a lease to Teapot Dome would be open for another month, that he was going to his ranch at Three Rivers, and that nothing would be decided until he came back, when the Texas-Pacific company would have a chance to bid.

The next thing Colonel Helms heard about Teapot Dome was when he read in the newspapers that Sinclair had got the lease. He sent Secretary Fall a telegram at Three Rivers, reminding him of his promise, and offered to come to Secretary Fall's ranch with the executives of the Texas-Pacific company and discuss a lease to Teapot Dome with him. To this telegram, he received the following reply:

Three Rivers, N. Mex. April 20, 1922.

Birch Helms,
Vice President Texas Pacific Coal & Oil Co.
Fort Worth, Tex.

Regret can not make appointments while on this trip. Teapot Dome matter closed. Salt Creek royalties open until after my return Washington.

FALL, *Secretary.*

Thereupon, Colonel Birch Helms sent a telegram to President Harding requesting an interview on either April 25th or 26th. He also sent another telegram to Secretary Fall protesting against the lease and informing him that he had telegraphed to the President. That same day Colonel Helms also telegraphed to John W. Weeks, Secretary of War, Herbert Hoover, Secretary of Commerce, and Attorney General Daugherty, repeating to them his telegram to the President and requesting that they discuss the matter with the President.

To his telegram to President Harding, Colonel Helms received in reply a letter from George B. Christian, the President's secretary, regretting that the President would be unable to see Colonel Helms on April 25th, as the Cabinet was to meet that day, nor on April 26th, "as the President is planning to leave for Ohio to take part in the centenary celebration of

the birthday of General Grant." Clio must have been playing tricks, for General Grant was another President who had been duped shamefully by his friends. Mr. Christian's letter to Colonel Helms concluded with this comfortless sentence: "In any event the matter to which you refer seems to be one which should come to the President through the Secretary of the Interior, and I suggest, therefore, that you confer with Secretary Fall on the subject."

To his telegram to Secretary of War Weeks, Colonel Helms received the following reply: "No doubt President will give you hearing. For good reasons cannot become involved in controversy."

Herbert Hoover, when he received Colonel Helms's telegram, wrote to Judge Finney and was informed that Colonel Helms had mistaken the purport of Secretary Fall's conversation, that the Secretary had been talking with him about Salt Creek and not Teapot Dome. Secretary Hoover's assistant thereupon wrote to Colonel Helms enclosing a copy of the letter from Judge Finney. From Attorney General Daugherty, Colonel Helms received no reply at all.

Colonel Helms went to Washington at once. He saw Secretary Weeks, who told him that the matter was not in his province; he saw Attorney General Daugherty, who told him that the matter was not in his province; he saw George B. Christian, who told him that the matter was not within the President's province and referred him back to Secretary Fall, who had lied to him in the first place; he saw Secretary Hoover, who repeated to him in substance what his assistant had already written.

The testimony of Colonel Birch Helms, taken before the Senate committee on April 3, 1928, a few months before Mr. Hoover was nominated for the Presidency, made it clear that Mr. Hoover was acquainted with the Teapot Dome affair in time to protest, and that he had made no move to do so. It established that at least three important members of Harding's Cabinet and the President himself knew what their sly colleague was up to in time to take action, or, in the case of Hoover and Weeks, in time to make their protests effective by resignation; none of them moved. They apparently felt that it was not their business, though Fall was engaged in the process of bartering what was estimated to be \$500,000,000 worth of the people's resources by his leases to Teapot Dome and the California reserves.

Meanwhile, with protests raging about his department from newspapers, Senators and oil men, Secretary Fall attempted to keep the lid jammed tight on the public announcement of the lease to Sinclair, while he attended to the additions to his ranch, the new cattle he had purchased and the installation of a \$35,000 hydroelectric plant at Three Rivers. On April 13, 1922, the bureau chiefs of the Department of the Interior were warned in a stern memorandum not to give out any information concerning the lease. On April 14th, Assistant Secretary Finney gave out statements at his office that no agreement had been reached for a lease, though he knew that the lease had been signed one week before and was now locked up in Secretary Fall's desk. No copies of the lease were made public, and Judge Finney declined to give one to Mr. John C. Shaffer, an oil operator and newspaper publisher. As an excuse for this secrecy Judge Finney offered "military reasons." High naval officers knew nothing about the lease to the reserves and were shocked at the published rumors concerning it. On that same April 14th the *Wall Street Journal* published the statement that Sinclair had received a lease to Teapot Dome, and there was great activity in Sinclair stocks on the stock market.

Secretary Fall paid no attention to the protests and kept the matter secret as long as possible. On April 6, 1922, Senator Robert M. La Follette had written the Secretary of State that he understood that there were in existence Executive Orders of the President of the United States concerning naval oil reserves and coal reserves, and asking for copies of those orders, particularly the one empowering the Secretary of the Interior to handle the naval oil reserves. Mr. Hughes forwarded Senator La Follette's request to the Secretary of the Interior, who answered it on April 12, 1922. He transmitted with his reply the orders transferring the naval oil reserves and the coal reserves of Alaska to the Department of the Interior. No information, however, was given to Senator La Follette about any lease to Teapot Dome, or any contemplated lease.

When Fall was asked why he had not given out any information concerning the lease, he replied that he could not divulge military secrets of the United States, even to Senators. He used the excuse "military secrets" so often in his testimony before the Teapot Dome investigating committee that Senator Walsh, vexed by his evident hypocrisy, reminded him sharply that patriotism was not confined to himself.

While Fall remained on his ranch, demands were being made in Washington for the text of the Teapot Dome lease, and telegrams followed him to New Mexico, informing him of the insistence that the lease be made public. His reply instructed his assistants at the Interior Department to turn the entire matter over to the Secretary of the Navy, "to give or not to give publicity, as he pleased." There was no loyalty in Secretary Fall, and he was quite willing, not to say anxious, to put the entire responsibility back on the shoulders of his careless dupe, Secretary Denby, so long as he was able to collect money for his personal use from the recipients of public benefits, Doheny and Sinclair.

But Secretary Denby was not anxious to assume the burden Secretary Fall so obviously wished to shift upon him, and no official information was forthcoming from the government on the Teapot Dome lease. Then on April 16, 1922, Senator Kendrick, of Wyoming, introduced a resolution in the Senate calling on the Secretary of the Interior to inform the Senate whether a lease to Teapot Dome had been signed. The resolution was passed, and the lies and evasions concerning the matter had to stop. On April 18th, the Department of the Interior issued a statement that the lease had been made; on April 21st, Assistant Secretary Finney wrote the Senate that such a lease had been signed with Mr. Sinclair.

Mr. Fall's answers to Senator Walsh's questions concerning this unseemly secrecy on his part were unctuously evasive:

"Well, what objection was there, if there was any objection," Senator Walsh asked, "to giving to the public immediately upon the execution of this contract information that the contract was, in fact, executed, inasmuch as the public would necessarily know as soon as Mr. Sinclair began work that he had the lease?"

"Certainly no sinister purpose could have been served by it," Mr. Fall replied.

"Was there any purpose not sinister?"

"Now, you are going into the policy which I had in mind with reference to this thing," Mr. Fall answered. "I have undertaken to explain that I regarded myself as a business agent of the Secretary of the Navy, acting in what I regarded as a military matter under the President of the United States. I did not propose, so far as I was concerned, to call attention to the fact that contracts providing for

enormous storages for future use in a crisis of oil were being made off the coast or in certain parts of this country. That was what I had in the back of my head. If that information should be given out through publicity of the contracts, it must be by the parties who were interested in it more than I was. I did not suggest it to them. It was up to them. I had my own ideas."

"I did not speak about the matter of the details of the contract," Senator Walsh said. "All I inquired about was what objection there was, if any, to making public a statement to the effect that a lease of the Teapot Dome had been executed to Mr. Sinclair and his interests."

"I think," Mr. Fall answered, "that was pretty well known or else these inquiries as to the contract, where it was and what was being done about it, causing a Cabinet meeting during my absence, as I understand it, would not have occurred. . . . The Secretary of the Navy had stated that after a Cabinet meeting it had been decided, in view of the talk about it, to give out the contract. I wired to Secretary Finney that we had no objection. It was the Navy's business."

"Well, I am told," Senator Walsh said, "and possibly we will have some evidence upon that point, that during the time between April 7, when it was executed, and April 21, when it was made public, transactions in Sinclair oil stock on the New York market amounted to thirty million."

"I do not know," Mr. Fall replied. "I have heard that rumor and it was so stated in the records of the United States Senate. I immediately caused an investigation to be made and found that practically all oil stocks had gone up at that time, many of them much more than the Sinclair stocks."

Some evidence was developed of speculation in Mammoth Oil stock, the Sinclair company, formed to exploit Teapot Dome, and other Sinclair stocks. Brokers with inside information and Attorney General Daugherty were trading in Sinclair stocks at this time, which may have been a motivating reason for Secretary Fall's secrecy about the lease. Daugherty had an account at the brokerage house of Hibbs & Company in Washington, and there was trading in that account in Sinclair Consolidated stock and other Sinclair stocks.

"Before we proceed," Senator Walsh told the Teapot Dome investigating committee, "I want to call the attention of the committee to

a rather notable instance, that the Daugherty account was changed from his own name to the name of Spaid on the 18th of April, 1922, which was the very day that official information was given out from the Department of the Interior of the execution of the Sinclair lease."

Others who bought and sold Sinclair and Doheny stocks, of which the committee was able to trace records, were Senator Charles Curtis, later Vice-President of the United States, Senator Davis Elkins, and Representative Wells Goodykoontz. There may have been others who traded under names other than their own. It was estimated that on the announcement to the public that Sinclair had received a lease to Teapot Dome the market for stock in the various Sinclair companies increased in value by \$57,000,000.

After he had submitted to Secretary Fall his first formal proposals for a lease to Teapot Dome on February 3, 1922, Harry Sinclair organized the Mammoth Oil Company, with a capital stock issue of 2,005,000 shares; 2,000,000 of these were Class A, nonvoting shares, and the other 5,000 were Class B, the voting shares. All of the shares were issued to Harry F. Sinclair personally on April 17, 1922, except the few shares needed to secure the articles of incorporation. In consideration of receiving these shares, Mr. Sinclair turned over to the Mammoth Oil Company the lease to Teapot Dome which he had obtained from Secretary Fall ten days before.

Part of the stock in the Mammoth Oil Company which he had received Mr. Sinclair exchanged for stock in the Hyva Corporation, a personal corporation owned by him and members of his family. It was named Hyva after Mr. Sinclair's two children, Harry and Virginia. G. T. Stanford, attorney for the Sinclair companies, testified that the object of the organization of the Hyva Corporation was to keep Mr. Sinclair's income tax down to the 12½ per cent tax on corporations and thus to make it unnecessary for him to pay any surtaxes. The Hyva Corporation traded some of the Mammoth Oil Company shares which it had received for its own shares to the Sinclair Consolidated Oil Corporation, in return for 250,000 shares of that corporation's stock. The Hyva Corporation also bought Mammoth Oil Company stock at \$17 a share at a time when the public was paying \$50 a share for it, so that Mr. Sinclair profited hugely

by the stock deals in connection with the Teapot Dome lease. It was estimated that Mammoth Oil stock had a trading value of more than \$50,000,000. In his transactions in Mammoth Oil stock Sinclair had realized \$17,059,700 on 34½ per cent of the stock. In addition, the value of Sinclair's holdings and those of his family corporation, Hyva, increased tremendously in value as a result of the lease which his friend Fall had granted to him.

In October, 1922, Mr. Sinclair requested Jesse L. Livermore, stock market trader, to "make a market" for Mammoth Oil stock. A group was formed, consisting of Sinclair, Elisha Walker, of Blair & Company, Edward R. Tinker, president of the Chase Securities Corporation, and Jesse L. Livermore, to trade in shares of Mammoth Oil Company stock in order to create a market for that stock with the public. The group had an option to buy 400,000 shares of Mammoth Oil stock at \$26 a share, which were sold at prices ranging from \$40 to \$56½, but Sinclair was not satisfied that the public was paying enough for the stock and bought some back himself at prices as high as \$88⅞ a share. Mr. Tinker, of the Chase Securities Corporation, assured Senator Walsh that this operation in Sinclair's Mammoth Oil Company stock was no different from the government's effort during the war to make a market for Liberty bonds. Senator Walsh, however, pointed out a vital difference:

"But there wasn't anybody, you see, that got an option on 400,000 bonds," he remarked.

"No," said Mr. Tinker, "because you had a war on and people would work for nothing. Now you are in peace times and it is a different proposition."

In January, 1923, Mr. Sinclair was called before the Senate Committee on Manufactures, which was investigating the oil business in general. At the time, not fearing investigation of the Teapot Dome lease, he testified: "I personally consider the value of the Mammoth property at this time—it is only a guess—at a greater amount than \$100,000,000." The only property which the Mammoth company possessed was the lease to Teapot Dome. At the time the lease was made it was generally believed that Teapot Dome oil fields contained about 135,000,000 barrels of oil.

H. S. Reavis, an oil man and former publisher of an oil trade journal, testified that the Teapot Dome lease was so valuable that it would have been easy for the government to get a bonus in addition to royalties of at least \$10,000,000, and possibly as high as \$50,000,000, if the contract had been let in open competition instead of in the privacy of Secretary Fall's office.

On May 8, 1922, M. T. Everhart, Secretary Fall's son-in-law, met Harry Sinclair and Fall in Washington. It was just a month since Fall had signed the lease to Teapot Dome. Everhart and Sinclair went down to the railroad siding where Harry Sinclair's private car was lying, and Sinclair handed Everhart \$198,000 in 3½ per cent Liberty bonds. Everhart then took the bonds to Secretary Fall, who kept \$2,500 worth of them and Everhart took back the rest. Then Everhart went to New York where Harry Sinclair gave him another \$35,000 worth of 3½ per cent Liberty bonds. It was at this time in Sinclair's office that Everhart gave Sinclair a check for \$1,100 to pay for the six heifers, one yearling bull, two young boars and four sows which had been shipped to Secretary Fall's ranch from Sinclair's Rancocas Farm the previous March. G. D. Wahlberg, Sinclair's private secretary, testified that the Sinclair offices had to telephone to the Rancocas Farm in order to get a price on the cattle, and that then Everhart paid \$1,100 for Fall. The bill of lading for the cattle showed that the freight charges which Sinclair's farm paid had been \$1,105.20. Mr. Sinclair had never intended to charge Secretary Fall anything for his present of cattle, nor had Secretary Fall intended to pay anything for them, but, between the time of the shipment in March and the day in May when Everhart paid for them, the newspapers had announced that Sinclair had received a lease to Teapot Dome from Fall's department, Senators were asking questions, and a resolution had been passed by the Senate calling for an investigation of the leases to the naval petroleum reserves. Secretary Fall and Mr. Sinclair thought it safer to cover themselves on the matter of the heifers, bull, boars and sows, but they never imagined that the Liberty bonds which Sinclair had given to Everhart could be traced to Fall in any way. But Mr. Sinclair was careless in diving into his safe deposit box to get Liberty bonds for Fall. He saw no reason why he should not give Everhart the same Liberty bonds which Osler had given to him as part of the Continental Trading Company's illicit profits. Those Liberty bonds, however, like all Liberty bonds, had num-

bers, and the numbers were registered at the Dominion Bank of Canada, when they were purchased for the account of H. S. Osler.

On that same day, May 24, 1922, when he received the \$35,000 worth of Liberty bonds in Sinclair's office in New York, Everhart told Sinclair that Secretary Fall would like a loan, and Fall received \$36,000 in cash from Sinclair. Then in November, 1922, when Sinclair visited Fall again at Three Rivers, New Mexico, to talk over the matter of a contract for the government's royalty oils in the Salt Creek oil fields of Wyoming, adjoining Teapot Dome, Mr. Sinclair gave Mr. Everhart \$10,000 in bills for Secretary Fall. In January, 1923, Mr. Sinclair gave Mr. Everhart \$25,000 in bills in Sinclair's suite at the Wardman Park Hotel in Washington. He took no receipt for these payments and no note for them.

Four years later, when all these payments were finally revealed, Everhart insisted that Sinclair had given him this money in payment of a one-third interest in Secretary Fall's ranch in New Mexico. It had been Mr. Sinclair's intention, he said, to turn part of the ranch into a sporting club for himself and his friends, but Everhart admitted that so far as he knew Mr. Sinclair had never come back to Three Rivers after November, 1922, when he came there to talk with Fall about Salt Creek oil. So that Mr. Sinclair's name need not appear on the books of Secretary Fall's cattle company, the Tres Ritos Cattle Company, his interest in the Fall ranch was held in trust for him by Mr. Everhart, but nothing was ever put in writing to prove that Sinclair had a one-third interest in the property in return for his Liberty bonds. And no steps were ever taken to turn any part of the ranch into "a recreational club."

The excuse Secretary Fall offered for leasing Teapot Dome and the California naval reserves to his friends was that oil from them was being rapidly lost to the Navy by drainage into neighboring fields which were in private hands, and that it was absolutely necessary to save the Navy's oil by having it taken out of the ground as fast as possible. However, neither Fall nor Denby ever asked the opinion of the United States Geological Survey on drainage of the naval reserves, for the Survey was of the opinion that the oil should be kept in the ground, and that there was no important drainage that could not be remedied by drilling a few offset wells.

Fall, Denby and Admiral Robison all insisted on their high patriotic

motives in agreeing to lease the naval reserves to private oil interests. Fall and Denby feared the Navy's oil would all be drained away, so they said, and Robison also feared foreign invasion of our coasts soon and the Navy in the pitiable condition of having crude oil in the ground and not enough in tanks. Both K. C. Heald, chief of the Oil and Gas Section of the United States Geological Survey, and W. C. Mendenhall, chief geologist of the United States Geological Survey, testified that the drainage from Teapot Dome was negligible.

Secretary Denby testified that it was of vital importance in case of war for the Navy to have oil in tanks ready for use. Senator Walsh agreed, but he wanted to know why in that case the Secretary had not asked Congress for an appropriation to build oil tanks and to buy oil instead of bartering the invaluable assurance for the future in exchange for tanks and oil. Denby answered that the oil was being drained off rapidly, a fact which had been called to his attention as soon as he took office, and Senator Walsh pointed out that the lease was only executed thirteen months after Denby had become Secretary of the Navy, and that Congress was in session all the time.

Secretary Fall informed the Senate committee that, having realized that the Navy was to be cut down by agreement with foreign governments at President Harding's Washington Naval Conference, he had let the contracts to Sinclair and Doheny in order to insure that the Navy would always have an adequate supply of oil, with the result "that the efficiency of the Pacific Fleet would be more than doubled, and that one-half of the battleships then on the Pacific would be worth more than the total number under other conditions; that this change would make one-half of the battleship fleet worth more than the total fleet had heretofore been." Secretary Fall then concluded in a letter to the Senate investigating committee: "But I will say right now, without fear of successful contradiction, that the efficiency of the United States fleet in the Pacific waters today is more than doubled already by this policy. You can see for yourselves what the experts may think of it; I do not know, but that is the offhand opinion of a layman who is and has been very much interested in the entire situation." And Secretary Fall did not wish to have to speak of it again.

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MEANWHILE, the negotiations for leases to the California naval reserves between Secretary Fall and his lifelong friend, Edward L. Doheny, were quietly making progress. It was necessary to have a semblance of competition for the contract to drill certain oil wells within the California reserve, which were to be drilled in order to prevent drainage into neighboring wells. Secretary Fall with the co-operation of his friends at the Navy Department had stipulated that the lessee of these wells should build storage tanks for naval oil at Pearl Harbor, Hawaii. As we have seen, some other California oil companies had questioned the legality of such an arrangement.

Admiral Robison testified that he was told by Secretary Fall that the legality of the deal had been questioned, but that Fall was convinced that it was all right. He said that his own anxiety was to see the Navy in possession of storage tanks full of oil, and that he took Secretary Fall's word for the legal part of the transaction. "I knew that Secretary Fall, as Senator, was a party to the making of the laws," Admiral Robison testified. "I rather thought he knew what was meant by it."

"And he told me," Admiral Robison continued, "that after advancing such objections as you have just made, and after hearing me as to the needs of the situation, it was all right; he advised me that it was all right, and that he could arrange to bring it about, he thought. Later he did advise me that there was grave doubt as to whether, in view of some question as to the legality of undertaking such an extensive project as was involved in this million and a half barrels, he could get any bids from anybody to put it across. Well, I felt pretty badly about it—and I don't know whether this is quite pertinent to your question, but I would like to state it because I want to pay a tribute to a man. I told this young officer who had been with me aboard ship, and who was a friend of mine, about it, and I said, 'I don't know how to handle this thing. Talk to your dad, won't you?' I got a letter from him saying that he had talked to his father, and his father would see me within a day or so and talk it over. That he agreed that the defensive

well proposition was necessary. And then I got hold of the old man, of Mr. Doheny, the president of the Pan American Petroleum & Transport Co., and I recited the circumstances, and I appealed to him as a Californian to help me accomplish what I showed him was needed, and he promised that we would have at least one bid. And that is the only way this thing was accomplished, I believe."

It is difficult to tell whether Admiral Robison was naïve to the point of incompetence in his work, or clever to the point of deception in his testimony; but, if he appealed to Mr. Doheny as a Californian to do what Mr. Doheny had shown alert willingness to do—put in a bid for the California naval reserves—Mr. Doheny must have enjoyed a chuckle. The lieutenant aboard his ship whom Admiral Robison said he had used as an intermediary in his appeal to patriotism and local pride was the same young man whose father had used him as an intermediary to take \$100,000 worthy of currency in a little satchel to Secretary Fall in November, 1921, two days after Mr. Doheny had made his first offer to build tanks in return for naval reserve oil.

At noon on Saturday, April 15, 1922, the bids for building storage tanks for the Navy at Pearl Harbor, Hawaii, were opened in the office of Assistant Secretary Finney at the Department of the Interior. Secretary Fall was at the moment down in New Mexico supervising the additions and improvements to his ranch. Three bids were submitted. The Standard Oil Company of California submitted a bid which covered only the supply of oil for the tanks and not their construction. The Associated Oil Company, of California, submitted a bid, with the proviso that Congress must first approve the contract. Doheny's Pan-American Petroleum & Transport Company submitted two bids. The first, marked "Proposal A," was in strict conformity to the conditions set down in the invitations to bid and provided for a straight profit on the work of constructing the oil tanks at Hawaii, which profit was to be taken in oil from the naval reserves. The second, marked "Proposal B," agreed to perform the work for \$255,000 less in oil than the first, but in it was the provision that the Pan-American Petroleum & Transport Company was to have a preference on any lease to the entire Naval Petroleum Reserve No. 1 which the government might give in the future. In the invitations sent out to oil

companies to bid for the contract nothing had been said about any possibility that a lease to the California naval reserve might be made in the future.

On Monday Dr. Bain and his assistant in the Bureau of Mines rendered a report favoring Doheny "Proposal B." Judge Finney then conferred with Doheny's other friend, Admiral Robison, and telegraphed to Secretary Fall that both he and Admiral Robison approved of the Doheny company's bid. Secretary Fall answered that since such was the case, they should close the contract with Doheny's company and make it public. The Pan-American Petroleum & Transport Company then received a letter informing it that "Proposal B" was accepted. Mr. Cotter, vice-president of that company, was taking no chances, however; he demanded an assurance in writing that the company would receive a lease to at least part of the California naval reserve within a year.

The first Doheny contract, which was signed on April 25, 1922, provided that the Pan-American company was to build storage tanks at Pearl Harbor, Hawaii, to hold 1,500,000 barrels of oil. In payment the company was to receive 6,000,000 barrels of oil from Naval Petroleum Reserve No. 1 in California. Then in June, 1922, Secretary Fall granted to Doheny's company a lease to some acres in Naval Petroleum Reserve No. 1. But the big prize was still to come. Judge Paul J. McCormick, of the United States District Court of California, wrote in an opinion in 1925 concerning Mr. Doheny's contracts and leases:

The contract of April 25, 1922, meant no profit to him. The lease of June 5th was not valuable. It was small in area and was coexistent with the April 25th contract. It was the preferential right to further leases granted by the April 25th contract that Mr. Doheny expected would fructify into a valuable property right.

At a meeting of the Cabinet, Attorney General Daugherty had made a verbal statement that the contract with Doheny was legal, according to Secretary Fall. Dr. Bain now suggested that, in view of the attitude of Mr. Doheny's grumbling rivals in the oil business in California, some of whom had even threatened to bring suit to test the legality of the contract, Secretary Fall should ask Attorney General Daugherty to put his verbal

statement in writing. But no action was ever taken on this suggestion. Secretary Fall had pulled the wool further over the eyes of Secretary of the Navy Denby by writing to him that he had delayed the Doheny contract so that Congress might pass a bill authorizing the exchange of oil for storage tanks, but no such bill was ever introduced into Congress, and Secretary Fall never had any intention of having such a bill introduced, for it would have brought out into the open the dangerous question of the legality of his clandestine leases with Doheny and Sinclair.

In the fall of 1922, Mr. Doheny had another talk with his friends, Secretary Fall, representing the Interior Department, and Admiral Robison, representing the Navy. He proposed that the Pan-American company should increase the number of oil tanks it was building for the Navy, fill them with oil, and that it should erect a refinery at San Pedro, California, and a pipe line from the naval oil reserves to this refinery. In return for tanks, oil and royalties, the Pan-American company was to receive a new lease to all the remaining acres of oil lands in Naval Petroleum Reserve No. 1 for fifteen years, with the right to drill out of them at once the oil which was being kept in the ground in case of an ultimate shortage. "It was," wrote Judge McCormick, "in effect a complete surrender and transfer of approximately 30,000 acres of valuable proven oil land and its oil contents, estimated at from 75,000,000 to 250,000,000 barrels of oil for fifteen years at least."

A contract embodying the features of Mr. Doheny's proposal was signed by Secretary Fall on December 11, 1922. The prize was at last in Mr. Doheny's hands, and it had only taken about a year from the time he had sent Secretary Fall \$100,000 in bills. Mr. Doheny himself, when testifying later before the Senate committee, estimated that "we will be in bad luck if we do not get \$100,000,000 profit. But that will depend upon the price of gasoline." Mr. Doheny insisted, however, that the contract was highly advantageous to the government, and he maintained that before he was granted the right to drill offset wells in the California reserves, the Navy had lost 100,000,000 barrels of oil by drainage. Senator Walsh wanted to know whether the Bureau of Mines had had access to this information concerning drainage, and he pointed out that the bureau had estimated "that the loss to the Navy by reason of the failure to drill offset wells at

all times prior to March 4, 1921, on the two California reserves has been 11,100,000 barrels."

"No, sir," Mr. Doheny answered. "No man on earth has access to the same information I have, because my information comes from 29 years of close study of the proposition, such as no other living man has given to the business. That sounds egotistical, I grant you, but that is absolutely the truth, since you have asked the question."

But further questioning revealed that Mr. Doheny was making a sheer guess.

When his machinations with the oil men were completed, Secretary Fall had leased to Sinclair and Doheny naval oil reserves valued by each of them at \$100,000,000 profit apiece. And some men considered the oil in the reserves to be worth \$500,000,000. In return for these leases the government was to get storage tanks for the Navy to be built by Doheny at Pearl Harbor, Hawaii, and by Sinclair at Portsmouth, New Hampshire. The cost of construction of the tanks was estimated to be \$103,000,000. The two men were to take the oil out of the naval reserves, pay the Navy 17 per cent royalty, and out of this royalty the Navy was to pay the companies the cost of construction of the storage tanks.

Naval officers and geologists maintained that if the oil were left in the ground it would prove invaluable to the Navy and the nation. "Tanks," Captain John Halligan, Jr., U.S.N., pointed out to Secretary Denby, "may be destroyed by lightning, fire, or by the acts of an enemy." Oil in the ground could not be destroyed if proper precautions were taken to prevent drainage and gas pressure. And Chester W. Washburne, formerly of the United States Geological Survey, pointed out another important factor to the Senate committee investigating the leases. He maintained that if the crude oil were left in the ground it could be used in the future in any form required then, whereas if taken out at once, refined and placed in storage tanks, it could be used only as fuel oil. "It may be that in another generation the need will not be fuel oil at all," he said, "but will be some other kind of oil. . . . We can always get anything out of crude oil." Gasoline as well as fuel oil was necessary to the Navy to run its airplanes and battleships, Mr. Washburne told Senator Jones. "They do

not operate battleships with gasoline," Senator Smoot remarked. "We do not know how they will run battleships in another generation," Mr. Washburne replied. "When they adopted this policy they assumed that the storage of fuel oil would answer that problem; whereas the naval reserve holds any kind of oil product that may be needed for the future, it is the only way we can hold gasoline, say, for fifty or a hundred years. . . . They decided all that when they made this lease. Instead of keeping the one kind of insurance which covers all possible needs for the Navy in the way of oil, they have reduced it to one particular species of insurance, fuel oil against all kinds of oil which they had in the reserve."

W. W. Tarbell, an oil expert, told the Teapot Dome investigating committee:

"To summarize, we have been bound by this agreement, to a contract worth millions perhaps without one cent of cash consideration, with faked royalty terms, with special and monopolistic carrying privileges, with unfair and exclusive sales conditions, with our values and their disposition under the absolute control of the 'other party thereto.'"

Mr. Tarbell was referring to both the Doheny and the Sinclair contracts. He also pointed out that these contracts gave Doheny and Sinclair practically a monopoly of the business with the Navy in gasoline and oil products, because the Navy had to buy these products from those two companies in return for the oil which it received as its share of the operation of its reserves. Mr. Tarbell gave it as his opinion that, granting that the government's policy was to lease the reserves, Fall had thrown away between fifteen and twenty millions of dollars for the Teapot Dome lands alone, for that much would have been paid as a cash bonus for the lease if it had been offered in competitive bidding.

When asked by Senator Walsh concerning his authority to barter the naval oil reserves for storage tanks and fuel oil, Fall insisted that, "it was the only salvation for that oil," and that his contracts constituted an advantageous deal. "But some of us might differ about that," Senator

Walsh remarked, "and the trouble is that we must find some authority in the law for you to do it." "Well, I did it," Fall replied.

Secretary Fall was not one to let a little thing like authority stand in the way when he wanted to negotiate between the government and his friends. He took other arbitrary action in favor of his friend and benefactor, Harry Sinclair. Testimony concerning another oil deal between Fall and Sinclair was taken before the Select Committee of Congress to investigate the Shipping Board in 1924. During the administration of Woodrow Wilson the United States Shipping Board had made a contract with the Department of the Interior whereby the Shipping Board for its vast ship operations was to use royalty oil due to the government from government-leased oil lands. The Shipping Board consumed more oil than any other unit in the world; its oil bill for 1923 alone was \$26,453,170.31.

When the contract for oil between the Shipping Board and the Department of the Interior came up for renewal in May, 1922,—one month after he had leased Teapot Dome to Sinclair and made his first contract with Doheny—Fall suddenly refused to renew it. The Shipping Board also had a contract with the Midwest Refining Company by which it was obligated to exchange crude oil which it received from the Department of the Interior for fuel oil which it received from the Midwest Refining Company. By this arrangement the government saved between two and three millions of dollars a year on the cost of Shipping Board oil. M. W. Bowen, manager of the department of purchase and supplies of the Shipping Board's fleet, testified that the contract with the Interior Department gave the Shipping Board its oil at half the market price. Secretary Fall declined to renew the contract, Mr. Bowen said, on the grounds that he was then negotiating to sell the government's oil for a higher price than had been received hitherto, and that he would thereby save the government money. There was doubt whether Secretary Fall could get a higher price, and meanwhile the Shipping Board contract was a sure advantage to the government. "While the Interior Department might get \$1,000,000 more, we might have to pay \$5,000,000 more," Joseph E. Sheedy, of the Shipping Board, testified. Fall insisted that by bringing another oil company into the competition for the government's royalty

oils from the Salt Creek fields in Wyoming, he was going to get a higher price.

"Did he tell you that Sinclair was the man that he expected to make that arrangement with?" Representative Davis asked.

"I think Mr. Fall did tell me that he was considering making an arrangement with Sinclair," Mr. Bowen answered. "Sinclair's representative was there all the time when we were negotiating, and so was the Midwest, and so were other companies there."

"Sinclair's representatives were sitting in with Secretary Fall, were they?" Mr. Davis asked.

"Not while we were talking with him, but I meant that they were about the department all the time."

"Oh, yes," Mr. Davis commented, "he was keeping his eye on the situation."

Another factor in this situation was that in its contract with the Department of the Interior the Shipping Board had an option to renew the contract when it expired, but that legal formality meant nothing to Secretary Fall.

"Did any of you call Secretary Fall's attention to that fact?" Mr. Davis asked Mr. Bowen.

"Yes, every argument at our command under heaven was used and even what pressures we might be able to bring in the matter. . . . Well, the Secretary stressed it wholly on the grounds that he was a trustee not only for the Federal Government, but for the State government [of Wyoming] as well, and, as trustee, was charged with the responsibility of getting the largest possible returns from operation of a property in his charge."

"It has since been developed he is trustee for Sinclair, too, has it not?" Mr. Davis asked.

"You do not want me to answer that? (Laughter.)"

Albert D. Lasker, chairman of the Shipping Board under Harding, Sheedy, Smull, Phelan and Bowen, other Shipping Board officials, visited Secretary Fall and tried to get him to change his mind. But Secretary Fall's mind was in one of its favorite states—obdurate. Lasker then went

to see President Harding about the matter, and the President ordered the Director of the Budget, Mr. Lord, to make an investigation of the situation and to report to him. Mr. Lord appointed Redmond D. Stephens to investigate the matter, but before Mr. Stephens could go into it thoroughly, Secretary Fall hastened to sign a contract with Sinclair for the government's royalty oil in Wyoming and Montana. In the meantime Lasker and Fall had agreed between themselves not to renew the contract with the Shipping Board. There was feverish haste to have the contract with Sinclair signed before the Director of the Budget could put in any objections to it. The contract was sent over to the office of the Director of the Budget after office hours by special messenger from the Department of the Interior and then signed at nine o'clock the following morning before the Director of the Budget could have it examined by his investigators. When Mr. Stephens arrived at the Department of the Interior that morning at 11:30, he was handed a release to the press announcing that Secretary Fall had signed a contract for all the government's oil with Sinclair. The press release was to be issued at noon, but Mr. Ambrose, one of Fall's assistants, said that he would permit Mr. Stephens, of the Budget Office to see it since he happened to be at the Interior Department. There had been controversy for some days between Mr. Stephens and the Interior Department as to whether Fall had authority to act in this arbitrary manner as trustee for the United States and the State of Wyoming.

Mr. Sinclair had gone down to Three Rivers to see Secretary Fall again in November, 1922, about this Wyoming oil in the Salt Creek fields, which the government received as royalties from private companies for its leased oil lands. While Sinclair was at the ranch with Secretary Fall, bids for the oil were being received at the Department of the Interior in Washington. Secretary Fall telegraphed to his Assistant Secretary, Judge Finney, to hold up all bids. Then Mr. Sinclair sent in a bid by telegraph, which was received late in the afternoon of November 15, 1922, after the advertised bids were supposed to be closed.

Colonel Robert W. Stewart and H. M. Blackmer were also after this oil, and they, too, visited Secretary Fall at his ranch in November, 1922. But Sinclair had an inside track with Fall.

"What was the result of your visit at Three Rivers with respect to the Salt Creek rights?" Senator Nye asked Colonel Stewart.

"We did not get the contract, Senator," Colonel Stewart answered. "We did not get the oil."

"There was a great push down there in a general way by oil interests to secure those rights there in the Salt Creek field?"

"Oh, everybody was after that oil at that time," Colonel Stewart said. "There was a tremendous scarcity of oil and a great scramble for oil at that time."

The contract with Sinclair for the oil in the Salt Creek fields was dated December 20, 1922. The Shipping Board had a contract with the Midwest Refining Company, of which H. M. Blackmer was president, by which it was obligated to deliver crude oil from its Department of Interior contract in exchange for fuel oil. If it defaulted on this contract, the Shipping Board would have had to pay the Midwest Refining Company \$600,000. For a time it looked as if Secretary Fall would not deliver oil to the Shipping Board in order to enable it to fulfill its engagement. Secretary Fall told Mr. Stephens, of the Budget Office, that President Harding could compel the Secretary of the Interior to give the Shipping Board enough oil to meet the contract, "but that if he did, the Secretary of the Interior who did carry it out would not be named Albert B. Fall."

"In other words," Representative Cooper asked, "if he was told to carry out the provisions of contract No. 3 [between the Midwest company and the Shipping Board] that he, Fall, would resign?"

"That is what he said," Mr. Stephens answered. "He did carry it out, though, and did not resign until sometime later."

"Well, that was just a bluff, was it not?"

"Apparently."

5

HARRY SINCLAIR was subjected to financial pressure from other oil operators and promoters in connection with his lease to Teapot Dome. He had given Secretary Fall \$233,000 in Liberty bonds, but that was by no means all he had to pay out before he could be assured of peaceful possession of the government's oil lands.

Mr. Fall later claimed that he had made it an absolute condition before he would lease Teapot Dome to Sinclair that Mr. Sinclair must buy up all the claims to lands within the naval reserve and thus clear the title completely. In March, 1922, about a month before the lease was signed, Sinclair had interviews with representatives of the Midwest Oil Company, which now owned the questionable claims which had been maintained by the Pioneer Oil & Refining Company and the Société Belgo-Américaine des Pétroles du Wyoming. On March 11, 1922, Sinclair signed an agreement with the owners of these disputed claims by which he contracted to pay them \$200,000 down and \$800,000 in oil in return for their relinquishment of all claims to any lands within Teapot Dome reserve.

Meanwhile, Leo J. Stack still had a contract with the Pioneer company and the Société Belgo-Américaine to get them a lease to Teapot Dome. While Sinclair and Fall were carrying on their private negotiations for the lease, Stack wanted to try to get the lease, but his employers showed great reluctance to permit him to go to Washington in their behalf, and they told him that satisfactory progress was being made. As soon as Stack learned that his employers had sold out their claims to Sinclair for \$1,000,000, he was indignant. They offered him a certified check for \$50,000, 5 per cent of their profits. Stack did not have a 5 per cent interest in the old claims of the Pioneer and Belgo-Américaine companies, but merely a 5 per cent interest in any lease those companies might obtain to Teapot Dome through his efforts. Stack testified later that he answered the offer of \$50,000 by asking his associates, "if they had any more funny stories to tell." Stack claimed that the Midwest Oil Company had no right to sell to Sinclair his share of the prospective lease, which he felt

might be worth \$1,500,000 to him eventually. "They offered me \$50,000," Stack told the Teapot Dome committee. "The day they offered me \$50,000 I had only \$187 to my name, but I refused their \$50,000, feeling that I had been 'gypped.'"

Stack testified that the Standard Oil Company of Indiana, Colonel Stewart's company, of which the Midwest Oil Company was a subsidiary, was willing to sell out to Sinclair for \$1,000,000, because the oil men knew that the value of the pipe line which Sinclair would build to Teapot Dome would be far greater to their interests than the value of their spurious claims. Senator Walsh maintained that Sinclair had been willing to pay \$1,000,000 for spurious claims in order to buy off possible competition on the part of the powerful Standard Oil Company and its subsidiaries for the lease to Teapot Dome.

When the news that Sinclair had received a lease to Teapot Dome was first rumored in April, 1922, Leo Stack went to see Frederick G. Bonfils and H. H. Tammen, owners of the lurid *Denver Post*. Bonfils and Tammen had been picturesque and unscrupulous blackmailers for many years; Bonfils was a flamboyant, stingy character whose main asset was a colossal nerve, and his partner Tammen was a ribald, mischievous person who enjoyed profiting at the expense of anyone so long as there was fun and money to be made out of it. Stack had known them in Denver for some years. He told them his story and showed them his contract with the Pioneer company and the Société Belgo-Américaine. Bonfils and Tammen and their lawyer, H. H. Schwartz, examined the contract and decided that it offered an opportunity for all of them to make a lot of money. They made a contract with Stack on April 14, 1922, by which they agreed to help him to collect money from the oil companies, and if they were successful, the profits were to be divided as follows: 46¼ per cent to Stack; 23⅛ per cent to Bonfils; 23⅛ per cent to Tammen; and 7½ per cent to Schwartz.

Then the process of holding up Harry Sinclair began. The day after they signed their contract with Stack, Bonfils and Tammen began a vigorous onslaught in the *Denver Post* on the Teapot Dome lease which Secretary Fall had granted to Sinclair a week before. The *Post* had always pretended to be the defender of the people, and in its columns Bonfils kept an editorial feature running from time to time which he

headed, "So The People May Know." "A few such arbitrary and autocratic deals as this," said the *Denver Post* on April 15, 1922, "will set the country aflame with protest against these kinds of methods, these kinds of deals, and this kind of favoritism of the Government for the powerful and already completely entrenched oil monopoly." The next day there appeared an even more vigorous attack on the Sinclair lease, headed "So The People May Know." "If carried out," said the *Denver Post*, "it will consummate one of the baldest public-land grabs of a century."

On June 24, 1922, Leo Stack started the preliminary process of a suit in the United States District Court of Denver, Colorado, against the Midwest Oil Company, the Standard Oil Company of Indiana, the Pioneer Oil & Refining Company, the Mammoth Oil Company, Henry M. Blackmer, L. L. Aitken and Harry F. Sinclair for \$5,000,000. Then Colonel J. W. Zevely, Sinclair's attorney, went to Denver to see Bonfils and his fellow contractors and invited them to visit Sinclair in New York City. Some time around the Fourth of July, Bonfils testified, he, Tammen, Stack and Schwartz went to New York. They had an appointment with Mr. Sinclair at his private office in 45 Nassau Street, which appointment Mr. Sinclair broke. Then another appointment was arranged, and at this interview Mr. Sinclair was brusque and angry. According to Bonfils, Sinclair said to them: "I don't know why you gentlemen came here at all." He maintained that Stack's suit was not any of his business, and that any redress to Stack should come from the Midwest Oil Company, which owned the claims of the Pioneer company and the Société Belgo-Américaine. That was true, but, as Sinclair had purchased the Midwest claims for \$1,000,000, the other parties maintained that their interest was of concern to Mr. Sinclair. In any case, as they made clear by implication, they could be of great nuisance value to Mr. Sinclair. The Denver men went home angry and determined to make further trouble for Sinclair.

During the summer of 1922 Bonfils sent Mr. Stackelback, one of his best Denver reporters, to New Mexico, to find out all he could about Secretary Fall and his relations with Mr. Sinclair. Stackelback remained in New Mexico for a month, interviewing people who knew about Fall's affairs, and, according to Bonfils, he was cautioned not to quote his informants and not to reveal his identity, as to do so might result in

bodily harm. Bonfils testified that Stackelback brought to Denver "a shocking and astounding statement from there, a statement that we all hesitated to believe because of the nature of the information or rumors or what was told him down there." Bonfils testified that he, his managing editor and his lawyer decided that Stackelback's material could not be printed, for fear of libel suits; Bonfils and Tammen had rarely feared libel suits before.

The attacks on the lease to Teapot Dome went on in the *Denver Post* during the summer of 1922. Then, in September, 1922, Colonel Zevly invited Bonfils and his associates to come to New York again to see Mr. Sinclair. They declined, but finally agreed to meet Mr. Sinclair at the Muehlbach Hotel in Kansas City. Bonfils and Karl C. Schuyler, an attorney of Denver, who represented Stack, went to Kansas City to negotiate with Sinclair and Colonel Zevly.

Zevly had offered Bonfils \$100,000 in cash and a one-half interest in the net profits from 120 acres of oil lands in Teapot Dome for Stack's claims. Bonfils, who was notorious for his greed, wanted to accept this offer at once, but Schuyler, acting for Stack, declined it. Sinclair then said, Schuyler testified, "Stack will not get another dollar." After going over the legal aspects of the matter, Schuyler argued with Sinclair that Stack had performed valuable services which had made it possible for Sinclair to get a lease, because he had worked for some time in Washington to demonstrate that the oil reserve was being drained by neighboring wells of private companies. This argument must have struck Mr. Sinclair as humorous, for he knew, what Owen J. Roberts mentioned in the courts some years later, that the only drainage had been from Sinclair to Fall and consisted of \$233,000 worth of Liberty bonds.

"We were discussing this subject," Mr. Schuyler continued, "when Mr. Sinclair broke into the conversation with the remark that \$100,000 is a lot of money and Stack ought to be satisfied with it. This was the opening of the conversation lasting about one hour and a half. Among other things, I told Mr. Sinclair that I could not understand how he, a man accustomed to doing big things, would seriously offer \$100,000 to the man who in great measure had made it possible for him to get a lease which at that time was estimated to be worth

several hundred millions of dollars. This remark seemed especially to challenge Mr. Sinclair's interest. He launched into a recital of several of the big accomplishments which have made him such a prominent figure in the oil industry. I remember, he seemed to enjoy particularly a transaction with the late John T. Millikin, of St. Louis, which involved many millions of dollars and the final outcome of which vindicated completely Mr. Sinclair's estimate of the values involved.

"Getting back to our subject, I said, 'Mr. Sinclair, if any young man came to you today and created a situation for you to enter upon whereby you might secure an oil property as valuable as the Teapot structure, would you think of valuing his services at less than \$1,000,000?' Mr. Sinclair replied, 'You must think this is all net and forget the burdens I have to carry,' to which I replied, 'If the property is as valuable as it is believed to be you could pay a million to Stack and still have plenty left for expenses.' We then got into a lengthy discussion as to the cost of pipe lines, royalties to the Government, costs of field equipment, storage tanks, etc. I again brought before Mr. Sinclair the elemental justice of Mr. Stack's position as I saw it and presented every argument that occurred to me. Mr. Sinclair said, 'Well, you don't expect a million in cash?' to which I responded, 'No; in view of your burden of expense it should be part cash and part deferred, the deferred part to come out of oil land in which Stack would take his chances with you. 'Mr. Sinclair finally said, 'Well it's a big thing, and perhaps you are not asking too much.'"

It was finally agreed that Mr. Sinclair should pay Mr. Stack \$250,000 in cash and one-half of the profits of 320 acres in Teapot Dome. After some further arguing, it was also agreed that if Mr. Sinclair did not work the particular 320 acres within 18 months, he should buy out Stack's half-interest in them for another \$750,000, but in case Stack did not want to sell, Sinclair was to have the right to buy them out for \$1,000,000. "There was joking conversation," Mr. Schuyler testified, "as to that creating a sporting proposition where the parties would have to do some real guessing as to values when the time had expired."

After he had finished this transaction, Mr. Schuyler could have felt as proud of his own prowess in deals as Mr. Sinclair had been of his when they began their conversation. For the interest of his client in a question-

able contract, Mr. Schuyler had obtained \$250,000 in cash and a potential \$1,000,000 within 18 months. Mr. Bonfils and Mr. Schuyler went back to Denver with their contract, and the *Denver Post* ceased at once any further notice of Teapot Dome in the "So The People May Know" column. In fact, after this contract was signed by Sinclair there appeared in *The Great Divide*, a weekly newspaper published by Bonfils and Tammen, a highly laudatory article on Harry F. Sinclair.

Bonfils came in for a severe grilling concerning the Stack contract when he was called as a witness before the Senate committee investigating Teapot Dome. Bonfils grew lyrical, which he did whenever the opportunity was offered, about the great service which the *Denver Post* performed for the common man. He told of its campaigns against wicked corporations, how it had sold coal to the poor and thus earned the enmity of a large coal corporation, and how its circulation was more than the combined circulation of all the newspapers printed in Denver and the states of Wyoming and New Mexico. "I say that," he told Senator Lenroot, "not in the spirit of braggadocio, but in the spirit of gratitude. I would rather see one man coming into my office carrying a dinner pail, than to see a man leaving the finest limousine and coming in. And I am never going to forget my allegiance to the common man. He has made the Post, and he has not breathed the scandal, and the lies that have been circulated by the wealthy and the rich in that State."

Senator Lenroot wanted to know why Mr. Bonfils's defense of the rights of the common man in Teapot Dome had ceased as soon as Mr. Sinclair had made this profitable contract with Mr. Stack. Senator Lenroot also wanted to know why Mr. Bonfils, knowing what he did about the Teapot Dome affair, had waited to be subpoenaed before the Senate committee on the suggestion given to Senator Walsh by his reporter, Mr. Stackelback, instead of coming before the committee voluntarily. Mr. Bonfils answered that he had sent copies of his articles on Teapot Dome to all the Senators of the United States. "I presume you got your copy," he said to Senator Lenroot. "I did," Senator Lenroot replied, "but I got nothing from you, sir, after you made this deal with Sinclair." "Well, how many times did you have to get things from me, Senator, before you would act?" Mr. Bonfils inquired.

"And yet, so long as you got your piece out of it, a million dollars, you were willing to become a party to it and stand upon this rotten deal and contract?" Senator Lenroot asked.

"I was not," Mr. Bonfils replied. "That had nothing to do with it at all." . . .

"Is it not a fact, Mr. Bonfils, that your transactions with Mr. Sinclair were not based upon any supposed legal rights of Mr. Stack?"

"That is not true at all."

"But that this whole deal was for the purpose of Mr. Sinclair purchasing your silence in your newspaper?"

"That is not true at all. It is as false as it could be; absolutely false." . . .

"Do you think that Mr. Sinclair paid you \$1,000,000 on the theory that there might be any legal liability there?"

"I do."

"Do you think that, Mr. Bonfils?"

"I do. Did you ever know of Sinclair giving anything away to anybody?" Bonfils asked. "He is about as close-fisted a man as you ever met."

"I think Mr. Sinclair thought he was getting value received for whatever he paid to you, sir," Senator Lenroot remarked.

"He fooled himself if he did, sir," said Mr. Bonfils.

6

IN THE summer of 1922, during the same period when Sinclair was having his troubles with Stack, Bonfils and their associates, there was another controversy over some oil wells within the Teapot Dome reserve, and it was solved in an extraordinary fashion.

Colonel James G. Darden had known President Harding since 1917, had contributed money to Harding's campaign fund when he ran for President, and was vice-chairman of the Harding inauguration committee. In 1919 Colonel Darden and two associates, R. C. Taylor and

John F. Campion, had acquired title to some of the lands in Salt Creek and Teapot Dome which had been claimed by the old Société Belgo-Américaine des Pétroles du Wyoming.

After President Harding's inauguration, Roxy Stinson, Jess Smith's former wife, met Colonel Darden with Harry Daugherty and Jess Smith at a shack which Daugherty and his friend Smith used for recreational purposes about fifteen miles outside of Washington Court House, Ohio. Roxy Stinson testified later before the Daugherty investigating committee of the Senate that, "personally I did not care for Mr. Darden myself." She added that Jess Smith had told her that he and Daugherty had each given Colonel Darden \$2,400. "They had a deal on an oil proposition out West," Miss Stinson testified. "Colonel Darden had for years been trying to get through some leases some way through Washington—this is as told to me—prior to this administration. Jess says, 'I think he is a dreamer, but we are taking a chance.'" Smith also told Roxy Stinson: "Now, if this is not a pipe dream we have put this much money in it; it will probably make us a lot of money." Roxy Stinson testified that she replied: "You will never see your money back." It may be that Colonel Darden, too, was trying to get the coveted lease to Teapot Dome before Sinclair got it, and that he aimed to work for it through his own influence with Harding and through Daugherty and Jess Smith; but, be that as it may, Secretary Fall, who had been an enemy of Colonel Darden for thirty-five years, arranged matters otherwise. It also may be that Colonel Darden intended to use his antiquated claims to make a lot of money for himself and associates.

When Colonel Darden heard from some oil men that Sinclair was going to get a lease to Teapot Dome, he went at once to see his friend Attorney General Daugherty, who referred him to Secretary Fall. Colonel Darden testified before the Teapot Dome investigating committee that he called on Fall, who told him that Sinclair would take care of Darden by buying up the claims of himself and his associates in Wyoming.

Meanwhile, Colonel Darden made a contract with the Mutual Oil Company to drill some wells on his claim in Teapot Dome, after Fall had leased the whole of Teapot Dome to Sinclair. Fall was in a rage. He went to see President Harding in June, 1922, and urged that the marines be sent at once to Teapot Dome to eject Colonel Darden's drillers from the

land. The President was perplexed. Colonel Darden was his friend and campaign contributor; Fall was his Secretary of the Interior and adviser. The President wrote to Fall that he would talk to Colonel Darden personally about the matter. Colonel Darden told the Teapot Dome committee that he received a letter from President Harding saying that he would like to see him, and Darden went to the White House and spoke to George B. Christian, the President's secretary:

"I said," Colonel Darden testified, "'George, the President wants to see me.' He said, 'He is busy, or playing golf, or something.' I said, 'I will come back.' He said, 'No; wait.' So after awhile he came back, and I went in. He [Harding] said, 'Jim, how about this property you think you own in Teapot Dome,' or in Wyoming, he put it. I said, 'I don't know; I couldn't tell you. We feel naturally we own it, because we spent some money to get it.' He said, 'Fall doesn't think you own it. He is kicking up Jack'; no, he didn't say 'kicking up Jack.' He said, 'He is T.N.T.' And then we began to discuss it. Then he said something about Senator Bursum [of New Mexico]. He said, 'What do you know about Senator Bursum?' I said, 'He is a good fellow.' He said, 'Is that so?' I said, 'Yes.' He said, 'Why is it he and Fall don't get along together?' I said, 'I don't know. I have my reasons, but I don't want to discuss it.' He said, 'What are you going to do?' I said, 'I guess we have to go into court, Mr. President.' So I left."

On July 26, 1922, Secretary Fall wrote to President Harding and suggested again that marines be sent to eject the men who were drilling an oil well for Colonel Darden in Teapot Dome. In his letter Fall said that no action in the courts was necessary, and that immediate action must be taken, or else there was danger that Mr. Sinclair's lease would be put in jeopardy, and that Mr. Sinclair might back out of his contract. Fall was probably exceedingly anxious that there should be no suit in the courts of the country concerning Teapot Dome, for that might raise the question of the entire validity of his lease. Harding reluctantly gave Fall his approval to send marines to Teapot Dome.

On Saturday, July 29th, three days after he had written to President Harding and had obtained his reluctant consent, Secretary Fall sent a note to Theodore Roosevelt, Jr., Assistant Secretary of the Navy, asking

him to come to see him at once. When Mr. Roosevelt arrived at the Department of the Interior, Secretary Fall told him that there were trespassers taking oil out of Teapot Dome, and, Mr. Roosevelt testified later, "that he and the President, as I recall it, wanted them put off with some marines. He then said that he had looked up the legal phases of it, and that that was O.K.; that it was all right legally, and supplemented that by a remark to the effect that, furthermore, he had looked and found that Secretary Daniels had done the same thing in a like instance." When questioned by Senator Walsh, Mr. Roosevelt could give no instance from the records of the Navy Department when Secretary Daniels or any other Secretary of the Navy had ever used marines for a like purpose.

That Saturday afternoon Theodore Roosevelt, Jr., who was Acting Secretary of the Navy at the moment in the absence of Secretary Denby, sent for Major General John A. Lejeune, commanding officer of the United States Marine Corps. He told General Lejeune to select an officer and a small detachment of marines to send to Wyoming for the purpose of ejecting trespassers from the naval oil reserve there.

At about two o'clock that afternoon Captain George K. Shuler, who had been a captain in the Marine Corps for twelve years, was asked by his commanding officer at the Marine Barracks in Washington whether he would like to make a trip to Wyoming. He said he didn't mind if he did, and then he was told, "General Lejeune wants to see you." Captain Shuler went at once to Marine headquarters, and General Lejeune told him that he had a delicate mission for him to perform, and that he had confidence that Captain Shuler could carry it out. He then told Captain Shuler that Secretary Fall was waiting at the Department of the Interior to talk with Captain Shuler and added that the mission involved a trip to Casper, Wyoming; he showed Captain Shuler where Casper was on the map.

"I went over to the Interior Building," Captain Shuler told the Senate committee, "and the Secretary was waiting there, and I went in, and he said: 'I have got a job for some marines. We have a naval reservation out in Wyoming, the Salt Creek country, and there is an oil company that is going in there and they are trespassing; that is, they are drilling a well,' and he says, 'We know that they have no rights there,' and that he

had called on the Secretary of the Navy to detail some marines to go out and drive them off. And he said that he had taken the matter up with the President that morning, and that the President did not want to take this action because an officer of the company that was trespassing was a close personal friend, and contributed to the campaign fund. And Mr. Fall told me that he had told the President that his friend was a low down S.O.B., and Mr. Fall said that the President told him that he supposed he was all that when he sent him his check, and Mr. Fall said that he told the President, 'Mr. President, by God he was.' But he said the President finally consented, and that was why the marines were to go out.

"He said, 'What would you do if they served an injunction on you, signed by a Federal judge?'

"I said, 'Mr. Secretary, I have never seen an injunction in my life, and wouldn't know one if I saw it, and if they served one on me I would file it.'

"He said, 'I guess you will get along all right out there.' And he said he had made arrangements with Mr. Ambrose of the Bureau of Mines, to accompany me, and that he had sent for Mr. Ambrose and expected him every minute. About that time Mr. Ambrose came in, and Mr. Fall asked me how soon I could go. I said, 'Why, I can go immediately, as soon as I get some money.' And after conferring with Ambrose, who had some reports to make up before he left, we arranged to leave on the same train the next day, that was Sunday."

Captain Shuler then reported to General Lejeune what Secretary Fall had told him, and General Lejeune asked how many men Captain Shuler wanted to take with him. Shuler testified that he replied that, "if we were going out there and fight the whole State of Wyoming we probably would have to take quite a few, but if there wasn't going to be any fight, I would not need anybody." But General Lejeune suggested that Captain Shuler take four or five marines with him and told him he could have any men he wanted. Shuler selected some men who had been with him in the late war.

Sunday evening, July 30th, Captain Shuler, four marines and Mr. Ambrose, of the Bureau of Mines, left for Wyoming. When they arrived at Casper, the nearest station to Teapot Dome, the party was met by officials of the Department of the Interior and taken in automobiles at

once to the oil fields. "We got there," Shuler testified, "and Mr. Patterson was driving the car I was in, and had two marines with me in the same car. He said, 'There is your battle field,' and we got out of the car." Captain Shuler testified that he saw before him a large oil drilling rig, with a barbed-wire fence around it, covering about three-quarters of an acre.

"The wire was new and bright; it had not been rained on, even. I went up to the fence and yelled out and asked where the boss was, and a man came over and said that he was Harry McDonnell, or O'Donnell. I said, 'Do you represent the Mutual Oil people?' He said he did. I said, 'I am the commandant of this Navy district.' I assumed that title, being the only representative of the Navy Department around there, and somebody had to be commandant, so I took the title. I said, 'I have orders to stop the work in this part of the reservation.' He says, 'Well, I have orders to keep everybody outside of this fence.' I said, 'Well, I have orders here from the Secretary of the Navy that I think will supersede any orders you have.' I said, 'Do you realize that I am absolutely serious about this thing, and I am going to back up what I say?' He said, 'Yes.' He looked at the marines; they had pistols, and rifles, and belts full of ammunition, and everything that goes with it. He said he thought we meant business. I said, 'You have got to stop drilling.' He said, 'I can't give the order.' I said, 'Who is your boss driller?' So he called over a fellow named Harry Martin, and I said, 'Are you in charge of the operation?' He said he was. I said, 'How long will it take you to stop this work?' He said, 'Well, it all depends on what you want me to do.'"

Harry Martin said that he could carry out the Navy's orders, which Captain Shuler wrote out after consultation with the officials of the Interior Department, in five minutes. "I will give you ten," Captain Shuler replied. Then Shuler placed a government seal on the oil rig, which the Interior Department officials told him was "absolutely sacred; it was a Government seal, and no one would disturb it." Then the field superintendent of the Mutual Oil Company arrived on the scene. "He was rather peeved," Shuler testified, but ended up by inviting the marines to lunch with him. The next day Captain Shuler posted "No trespassing" signs on the fence and started back to Washington with his

marines two days later. When he arrived in Washington, Captain Shuler received the congratulations of both the Secretary of the Interior and the Acting Secretary of the Navy for his good work. To the letter of commendation which Secretary Fall sent to Captain Shuler, Theodore Roosevelt, Jr. added in his own handwriting in ink: "You did excellently and confirmed our pride in the ability of the Marine Corps to measure up to whatever it was put up against. T. R."

After Captain Shuler had testified, Senator Walsh made a statement to the committee, pointing out that it was settled law of the mining country that anyone with a bona fide claim could get an injunction almost automatically restraining the party in possession from extracting mineral from the ground until the courts had decided the claims. In the case of the government of the United States, he pointed out, it was not even necessary to post a bond indemnifying the possessor in case of loss if the litigation went against the government. In his conference with the press on August 4, 1922, President Harding had referred to Fall's action in sending marines to Wyoming as "lawful and efficient." When he was cross-examined by Senator Walsh as to his part in the transaction, Theodore Roosevelt, Jr. tried to defend his action on the grounds that the naval reserves were as much the property of the Navy as were the navy yards, and that therefore trespassers could be chased by marines without court action. When they were protesting against the leases to Sinclair and Doheny, some of the Navy's officers had pointed out that the naval petroleum reserves were as much navy property as the navy yards, but at that time both the Navy and Interior departments had chosen to ignore the analogy. Senator Walsh told Theodore Roosevelt, Jr. that since the Navy and Interior, acting in conjunction, had leased Teapot Dome to Sinclair, it was no longer in the same class with a navy yard, but was private property of the Mammoth Oil Company, which should have been defended in the United States courts like any other private property and not by force of marines.

"Yes, Senator," Theodore Roosevelt, Jr. said, "but I did not assume—you understand that I am not a lawyer?"

"Colonel Roosevelt," Senator Walsh remarked, "I suppose when you were at school you learned, did you not, that it is a fundamental principle

of our Government that the military is to be kept in strict subordination to the civil power?"

"Yes; absolutely."

Senator Walsh pointed out to the Senate committee, after he had given the Assistant Secretary of the Navy a lesson in the relative positions of the civil and military powers, that neither Sinclair nor Fall wanted to go into any court in the United States and start a lawsuit which would raise any question of any feature of Sinclair's lease to Teapot Dome. "So they put them off," Senator Walsh said, "just merely because they did not want to precipitate litigation in which the validity of this lease would be raised." That was why Secretary Fall was so frantic to get President Harding's permission to use marines in a civil case, in the effort to eject the President's friend and campaign contributor. At a Cabinet meeting two or three days after Captain Shuler left for Wyoming, Acting Secretary of the Navy Roosevelt told President Harding, Roosevelt testified, that he had sent "a very excellent man to go out there, and he said, 'Good.'"

Colonel Darden testified that he never protested against this unusual use of marines: "I took it for granted the Government could do whatever they wanted to do. I didn't pay any attention to it." Colonel Darden also testified: "Senator Fall, if you knew him at all, was kind of peevish about anything he wanted to do and might be, like myself, hard-headed."

The eviction of the Mutual Oil Company from Teapot Dome by United States marines caused indignation in the West and played right into the hands of the team of Bonfils and Tammen, who were trying at the time to get as much money as they could out of Harry Sinclair. On August 5, 1922, the jovial Tammen wrote to George B. Christian, Harding's secretary, enclosing a copy of the *Denver Post*, with the story of the eviction and seizure of the Mutual Oil Company's rig. Mr. Tammen wrote:

Of course, I am sending all of this to you, but if you think it wise, I would like to have the President see it. Our investigation so far of the Teapot Dome in its various forms suggests that it is an awful mess and a smear.

I hope that you all are well and happy and believe me, with love and good cheer, as always.

H. H. TAMMEN.

7

By the end of 1922 Sinclair and Doheny were in possession of the rich naval oil reserves, and Fall was in possession of the cash and the Liberty bonds. The work had cost enough effort, what with protests from naval officers, protests from competing oil companies, protests from Senators, individuals to buy off and companies with claims to satisfy or send the marines against. But the troubles of Secretary Fall, Harry Sinclair and Edward L. Doheny were only beginning. And, before they had heard the last of it, it is very likely that all three regretted that they had ever heard those euphonious words, so easy for the public to remember: Teapot Dome.

Although there were forebodings of difficulties almost from the start of the enterprise, during 1922 Fall, Sinclair and Doheny could feel safe. On April 16, 1922, about a week after the lease with Sinclair was signed, Senator Kendrick, of Wyoming, it is true, had submitted a resolution calling for information from the Secretary of the Interior and the Secretary of the Navy as to their intentions with respect to Teapot Dome. But that was not so serious. Secretary Fall sent to the Senate copies of the executive order of May 31, 1921, transferring the naval reserves to his department, and the order of 1909 creating the reserves. He hoped that these might keep the Senate quiet. Then, in response to Senator Kendrick's demand, Assistant Secretary Finney had informed the Senate on April 21st that a lease to Teapot Dome had been made. But Senator Robert M. La Follette continued to ask embarrassing questions of the departments. He wanted to know particularly from both the Navy and the Interior "the legal opinion upon which your department based

the authority for the President to make this transfer and also to transfer jurisdiction from the Navy department to the Interior Department granted by a Federal statute." He asked, too, under what law the Secretary of the Interior was leasing the naval oil reserves.

In the absence of Secretary Fall at his ranch in New Mexico, Judge Finney answered, "that I am not informed as to the legal opinion upon which the President based his order of May 31, 1921." Secretary Denby replied, "I have no record of a formal legal opinion on this question." Before his departure for his ranch Secretary Fall had written to Senator La Follette stating in general terms his policy in having the oil reserves transferred to his jurisdiction; he had then added that details as to the handling of the naval oil lands were withheld unless permission was given by the President as Commander in Chief of the Army and Navy, on the grounds that they were "military plans." At the same time Fall had written to President Harding advising that these "military plans" "should not be given to Senator La Follette or anyone else." President Harding approved this attitude of his Secretary of the Interior and supported him in it.

Then on April 29, 1922, Senator La Follette introduced a resolution in the Senate calling for a complete investigation by the Senate Committee on Public Lands and Surveys of the leases to naval oil reserves. This was important, but still it would be some time before the committee could begin its investigations and public hearings, and in the meantime Fall, Sinclair and Doheny, as well as the other minor characters involved, could take whatever precautions they thought advisable and could feel confident that they had covered their tracks. Besides, the Republican Party was in power, and the personnel of the committee would be made up of leading Republicans with a minority membership of Democratic Senators.

On June 7, 1922, in response to the Senate resolution of Senator La Follette, Secretary Fall sent 2,300 copies of documents concerning the leases to the Senate Committee on Public Lands in mail sacks. His own estimate was that this data consisted of between ten and fifteen thousand pages, and, he wrote significantly in his letter of transmittal, the mechanical cost of assembling the documents was \$6,000. "Of course," he added,

"it has been a great pleasure to comply with the direction of the Senate of the United States to the best of our ability." The best of his ability, however, was not very good, for, it turned out later, significant documents, including a certain letter from Edward L. Doheny, were not among the 2,300, and these turned up only after Sentaor Walsh sent his own investigators to the files of the Department of the Interior some months later.

The following day, June 8, 1922, President Harding issued a statement expressing his full approval of the leases to the naval oil reserves and took full responsibility for the acts of his Cabinet officers; he defended the deals with Sinclair and Doheny, using for that purpose the facts and figures which Fall had supplied to him.

Meanwhile, Secretary Fall continued his leasing activities with Doheny and his sale of Shipping Board oil to Sinclair. By December, 1922, the last lease and contract were made. Then the rumors, which had been prevalent from time to time, that Secretary Fall was going to resign his post, once more became public. As early as February 10, 1922, there had been rumors of Fall's resignation, and at the time it was said that he was not getting on well with the other members of President Harding's Cabinet. There was Secretary Wallace, who had objected strenuously to turning over Alaska and the Forestry Service to Secretary Fall. Fall was also said to have been opposed to the Washington Conference on Naval Limitation, which Secretary of State Hughes had sponsored; then, too, Fall had always been an ardent advocate of the use of force against Mexico by the United States, and Secretary Hughes was not in favor of such a policy. And Secretary Hoover, the gossips said, was making Secretary Fall very jealous by his water power projects in the West. However, Secretary Fall, who never liked anyone to disagree with him, who was a bit peevish, according to Colonel Darden, and T.N.T., according to President Harding, swallowed his resentments until the last lease with Doheny and the last contract with Sinclair were signed. Then, on January 9, 1923, it was announced that Secretary Fall would resign, effective March 4, 1923. President Harding announced at the time that he had offered to appoint Fall a justice of the Supreme Court of the United States but that Fall had declined, for he wished to attend

to his private affairs, after so many years spent in the public service as Senator and as Secretary of the Interior, as well as his service in New Mexico as associate justice of the state supreme court and as attorney general.

On February 16, 1923, Secretary Fall was the leading speaker at the convention of the American Electric Railway Association in Washington. He said:

“Despite some misgivings as to whether a politician is entitled to classify himself with the meek and lowly Christians or with the rough-necked barbarians of the gladiatorial arena, I shall venture, here on the eve of my political dissolution, to adopt the same greeting: ‘We who are about to die salute you.’ I have read that the Christian martyrs frequently were so reconciled to their fate, so assured of the happiness awaiting them that they would burst into the singing of hymns following the grim greeting to their Emperor. If that ancient tale of religious faith may be accepted, then, I feel entitled to classify myself with the martyrs; for I confess to a grateful sense of satisfaction as I contemplate my approaching political demise.

“A good many years of more or less philosophical observation of public life has gone far to convince that your public man is likely to be appreciated just about as much as he deserves, and, as a rule, considerably less than he thinks he deserves. On the whole, I have considerable confidence in the rough justice of public verdicts on public servants and their careers.

“Whether in our own country or in others, there never has been a time when the public was so exacting in its attitude toward its servants, as it is today. There never was a time when the critic on the outside looking in found more to criticise than he can find in these days. Today the tendency is not only to criticise a public servant for any act of omission or of commission, but to charge him personally with being actuated by ulterior motives, or motives of personal or purely selfish interest.”

One week later, on February 23, 1923, the Committee on Public Lands met and decided to hold public hearings on the naval oil reserves the following October.

After Fall, like Cincinnatus, had retired to the plow, he received the following letter:

DEPARTMENT OF COMMERCE
OFFICE OF THE SECRETARY

Washington, March 12, 1923.

Hon. Albert B. Fall,
Three Rivers, N. M.

My dear Fall:

This note is just by way of expressing appreciation for the many kindnesses I had at your hands during the last two years in the Cabinet. I know that the vast majority of our people feel a deep regret at your leaving the Department of the Interior. In my recollection, that department has never had so constructive and legal a headship as you gave it.

I trust the time will come when your private affairs will enable you to return to public life, as there are few men who are able to stand its stings and ire, and they have got to stay with it.

Yours faithfully,

HERBERT HOOVER.

Before he left Washington there was one little matter Mr. Fall attended to. He had shipped to him at Three Rivers, New Mexico, the elegant Jacobean office furniture which had occupied his room in the Department of the Interior. He accomplished this purchase by first having the authority over the furniture transferred to the General Supply Committee of the Treasury Department and then giving that committee his check for \$231.25. It was a bargain, for the furniture was estimated to be worth between \$2,500 and \$3,000 at the time.

IN THE spring of 1923, while he was on his ranch in New Mexico, Fall received a telegram from Sinclair asking him if he would come to New York at once, prepared to go to Europe. Fall telegraphed for further details and was informed that the trip was to be concerned with the lease of oil lands in the southern half of Sakhalin Island, which belonged

to the Russian government of Chita. Sinclair was negotiating a contract with the Russian government which provided that he was to get the lease to the Sakhalin oil lands on condition that, within five years of the date of the contract, the United States government recognized Soviet Russia.

Colonel J. W. Zevely made a special trip from New York to Three Rivers in May, 1923, to talk with Fall about the Russian matter. At this conference Fall told Zevely that he would have to have some money for the trip and would require \$25,000. Liberty bonds worth \$25,000 were sent to a bank in El Paso for Mr. Fall's account. In addition, Colonel Zevely later testified, Fall received \$10,000 in cash for expenses of the trip. Fall later told the Teapot Dome committee that he had received only \$10,000 for his Russian expedition, and that he was very anxious "to see American citizens secure oil supplies abroad for the future use of the Navy and the shipping of the United States." Colonel Zevely testified that the additional payment of \$25,000 in 3½ per cent Liberty bonds was a loan, but he was forced to admit that he received a note for the payment from Fall only after they had returned from Russia.

During the summer of 1923, while President Harding was on his journey to Alaska, Sinclair, Fall and Archibald Roosevelt, a vice-president of the Sinclair export corporation, were negotiating with the Soviet government in Moscow. Sinclair signed the contract with the Soviet government providing for the lease to Sakhalin Island oil lands on condition that the United States recognize Russia within five years from date. When they returned to New York in July, 1923, Mr. Fall told the reporters that he had been much impressed with what he had seen in Russia, that the country was not so bad as it had been painted, and that he looked forward to the recognition of Soviet Russia by the United States.

President Harding arrived in San Francisco in July, 1923, from his Alaskan trip and was taken suddenly ill. On the voyage he was accompanied by Herbert Hoover and a large group of newspaper men, including the smooth Frederick G. Bonfils, editor of the *Denver Post*. William Allen White, who was in the party, wrote later that the President "kept asking Secretary Hoover and the more trusted reporters who surrounded him what a President should do whose friends had betrayed him." Then,

suddenly, on August 2nd, at the Palace Hotel in San Francisco, President Harding died while Mrs. Harding was reading to him.

The clergymen and the newspapers poured forth their fulsome eulogies of the dead President, for the country was still unaware of what had been going on behind the scenes while a "good fellow" was President of the United States. There had been, it was true, disquieting charges against the President's best friend, Attorney General Daugherty. Their crony, Jess Smith, had shot himself through the head in the Wardman Park Hotel in the previous May. Grave misconduct had been established, as we shall see, on the part of Charles R. Forbes, Harding's friend, whom he had appointed director of the Veterans' Bureau. But as yet nothing had been proved about anyone except Colonel Forbes, who had resigned early in 1923. Rumors about Teapot Dome, about "the little green house in K Street," were flying about Washington. But Senator Walsh was still patiently examining the mass of documents on the naval oil leases.

On October 23, 1923, the Senate Committee on Public Lands held its first public hearings on the leases to naval oil reserves. The first witness was Albert B. Fall. He was garrulous, hypocritical, brazen and evasive in his testimony. He resented any implication that the leases he had granted to his friends were not both patriotic acts and good business deals, entered into in good faith by himself as a public officer with the interests of his country at heart and with no personal profit to himself. At the end of two days on the witness stand Fall had admitted nothing damaging and had not hesitated to take refuge in patriotism and in the shroud of his dead friend, the President.

After Fall had completed his incorrect and incomplete version of the lease transactions, Senator Walsh remarked that as matters developed it might be necessary to ask Mr. Fall some further questions, but that he did not want to keep him before the committee constantly.

"If I am here," Mr. Fall replied, "I will be glad to answer and throw any light upon this subject that I can. I want it understood that I am here for this particular purpose, and at the same time one of the matters I made reference to is not finished, and may require considerable time and attention. I might be called out of the city at any time and might be called quite a distance."

Harry Sinclair testified after Fall concerning the Teapot Dome lease, and he, too, gave the committee very little enlightenment concerning the real nature of the transaction. Senator Lenroot asked him:

“So far as you know, Mr. Sinclair, is there any profit to be received in this transaction that Mr. Fall received, any benefits or profits, directly or indirectly, in any manner whatsoever, in connection with you?”

“No, sir,” Mr. Sinclair replied, “none unless he had received some benefits from the cattle.”

The hearings continued with testimony of geologists, naval officers and government officials. Then Senator Walsh put on the witness stand several witnesses from New Mexico. Carl C. Magee, a newspaper owner of Albuquerque, gave the first testimony concerning Mr. Fall's financial condition before and after the leases to Teapot Dome and the California naval reserves.

Mr. Magee had had dealings with Fall when the latter was Senator. In 1919, Mr. Magee was eager to buy the Albuquerque *Morning Journal*, which had been a strong supporter of Senator Fall in New Mexico. The paper was then owned by the El Paso & Southwestern Railway, Senator John W. Weeks, of Boston, Price McKinney & Company, of Cleveland, the Chino Copper Company and a firm in Boston. Senator Fall became irritated when some of these interests were in favor of selling the strong Republican newspaper to Mr. Magee, who was an independent in politics. He gave the El Paso & Southwestern Railway Company water rights in perpetuity on his ranch at Three Rivers in return for \$25,000 worth of stock and bonds of the Albuquerque *Journal*. Until then Fall had received an annual payment for his water rights from the railroad.

In 1920, Senator Fall asked Mr. Magee to meet him at his ranch in Three Rivers to negotiate for the sale of the newspaper. Mr. Magee went there in February and spent a day and night. He and Senator Fall had a long talk about politics in New Mexico, and Fall told Magee that he needed money, and that he would sell his interest in the Albuquerque *Journal* and get the other owners to sell theirs to Magee, if he could get cash at once. He also told Mr. Magee that he was going to resign

from the United States Senate in order to rehabilitate his fortunes; that being a Senator "had broken him"; "that he couldn't pay his taxes on his property; that his ranch was in a dilapidated condition, and it showed it, and that he must rehabilitate himself financially, and dwelt quite at length upon the personal private financial problem he had on his hands." That was before Senator Warren G. Harding was being considered by anyone except Harry Daugherty as a possibility for the presidential nomination.

"You spoke about the condition of and the appearance of the ranch at the time you were there, Mr. Magee. What can you tell us about that?" Senator Walsh asked.

"Well, Senator Fall met me at the railway station at Three Rivers. There is nothing but a station there. There is no town there. And I was impressed with the character of the car he was driving. He had a Franklin that we had to get out and fix three or four times to get 3 or 4 miles up to his house, in a very dilapidated condition, and I was impressed before he told me about his financial situation, with the very dilapidated condition of the house, both inside and outside, and the general run-down condition of the place. I at first attributed it to the fact that his son had died in 1918—he had had charge of the ranch—and I thought it was neglect. He informed me that it was poverty, in the course of a conversation; that he needed the money." . . .

"And what was the character of the road which you traveled over?"

"It was a very inferior, winding road, unmade road, and very rough."

Senator Walsh then introduced into evidence tax assessments and other proof that Fall had been unable to pay his taxes from 1912 to 1921, that on June 4, 1922, about two months after he had signed the lease to Teapot Dome, Fall had paid his taxes from 1912 to 1915, after a court order had been issued, and that that same day he had paid his taxes from 1916 to 1920 inclusive. On June 22, 1922, he paid his taxes for 1921.

In August, 1923, after all the leases to naval oil reserves had been signed and Fall had resigned from the Cabinet and returned from his trip to Russia with Sinclair, Mr. Magee had occasion to pass through Three

Rivers again. He testified that he was going from Carrizozo to Alamogordo in his automobile, and that when he came in sight of Three Rivers he "was lost."

"I knew I was on the right road," Mr. Magee told the Senate committee, "but I couldn't locate myself. And I was puzzled, and I discovered when I came down there that a change had been made in the road going to Mr. Fall's place, was the cause of my confusion. There had been pillars built up to this road, and beautiful woven wire fence put along, and trees planted, and beautifully concreted gutters, and a very expensive road, as far as I could see, up to the ranch house. I couldn't see all the way. The conditions were so changed I couldn't recognize it."

Mr. Magee met an electrician at Carrizozo whom he had known in another part of the state. "I asked him what he was doing in that part of the country," Mr. Magee testified, "and he said he was making a \$40,000 electrical installation on Senator Fall's ranch."

"That is all," said Senator Walsh.

In November, 1921, after he had received \$100,000 in bills from Edward L. Doheny, Secretary Fall went down to his ranch at Three Rivers and began negotiations to purchase the neighboring property, a ranch belonging to Will Ed. Harris and his family. The ranch was 3,200 acres and included cattle and buildings. "I think it was about the best small ranch in New Mexico," Mr. Harris told the Senate committee. Fall paid \$91,500 for it, according to Mr. Harris, and not \$140,000 as his neighbors said. Fall made the first payments in one-hundred-dollar bills at the office of his son-in-law, C. C. Chase, in El Paso, Texas, Mr. Harris testified. C. C. Chase was Collector of Customs at El Paso during the Harding regime. Early in the year 1922, Fall also acquired additional land for which he paid \$33,000 and bought four Hereford bulls for which he paid \$3,000; Fall had introduced no new blood into his herd since he had assembled it ten years before.

The information obtained from the witnesses from New Mexico caused curiosity among the investigators, interest among the public and uneasiness among those who had had dealings with Secretary Fall. It was not much as yet in the way of evidence, but it was indicative of a great deal

that required explanation. Fall had been poor; he had then been Secretary of the Interior under Harding; he had suddenly become affluent; and the naval reserves had been leased by him to private oil men who were his friends. Where had he obtained the money to buy land and cattle?

The testimony of the witnesses from New Mexico was taken in November, 1923, a few weeks after Fall had given his testimony and after Sinclair had testified that the only thing he had ever given Fall was a present of a few cattle from the Rancocas Farm. The Republican Senators on the Teapot Dome investigating committee were anxious for Fall to come before the committee and tell where he got the money for his land, his cattle and his improvements. Senator Reed Smoot, then the chairman of the investigating committee and a brahmin of the Republican Party, sent Fall a telegram suggesting that he would want to answer certain evidence just given to the committee, and that he "had best return" to Washington. Fall answered with a telegram dated November 20, 1923, in which he attacked Carl C. Magee, the New Mexico newspaper owner, as a libeler, because Magee had once been tried in New Mexico for libeling the chief justice of that state. Magee later told the Senate committee the circumstances of this case, and it appeared to be a quarrel between himself and politicians in the course of which he had accused them of corruption. In his telegram to Reed Smoot, Fall added that C. C. Chase, his son-in-law, who knew all about Fall's tax matters and ranch business, was on his way to Washington. "Of course if necessary will go there personally after Walsh has concluded," the telegram continued, and then added: "I understood Doheny, Robison and Bain were to testify before Walsh went any further. This very important." Senator Smoot then sent Fall another telegram urging him to come to Washington and answer the testimony of Magee and other witnesses concerning his financial affairs. On December 3rd, Fall answered that he was leaving for Washington and would be prepared to meet the Senate committee the following Friday if he arrived on time.

Meanwhile, C. C. Chase came north ahead of his father-in-law and stopped off at Cleveland to see an old friend of Fall's, Mr. Price McKinney. Mr. McKinney had known Fall for more than twenty years in Texas and Mexico. Mr. McKinney had previously received a letter from Fall asking him if he would testify that on a trip which he and Fall had made

together to California in December, 1921, Mr. McKinney had lent Fall the money with which to buy the Harris ranch in New Mexico. Mr. McKinney had not answered the letter. Then, after the witnesses from New Mexico had testified to Fall's financial condition before and after the leases to the naval reserves, C. C. Chase suddenly arrived at Mr. McKinney's home in Cleveland. "I think I did most of the talking," Mr. McKinney told the Senate committee. "It only got started, and I said, 'I have not made him a loan, and I could not say that I have.'"

Mr. Chase then went to Washington, where he saw Colonel J. W. Zevely, Sinclair's lawyer, who advised him not to appear before the Teapot Dome investigating committee. Chase went from Washington to Kansas City to meet Fall, who had decided in the meantime to come north himself. From Kansas City they went together to New York, where Fall saw Doheny, Sinclair and Zevely. According to testimony given four years later by C. C. Chase, Fall inquired of Doheny whether he still had his note for \$100,000.

Meanwhile, Edward L. Doheny had appeared before the Senate committee for the first time on December 3, 1923, and was questioned about his leases with the government. He said that he had "felt very badly" when he heard the reflections made upon his old friend Fall, with whom he had mined and studied law when they were young. "I want this record to show," said Mr. Doheny, "that I felt very badly about it; in fact, felt greatly outraged about it." When he was asked point-blank by Senator Lenroot whether Fall had profited in any way, directly or indirectly, "through the making of this contract with you," Mr. Doheny replied, "Not yet." And he added that he would always be glad to employ Mr. Fall in his company as he had Secretary Lane. "This is not an offer at all," said Mr. Doheny, "but I just want to say that I have got too high a regard for Mr. Fall to think that anything in connection with this matter has injured his reputation, in my opinion." Mr. Doheny said nothing about the \$100,000 which he had sent to Fall in cash by his son Edward.

The Senate committee next heard from Fall on December 13, 1923, when he wrote to Senator Lenroot, who had taken Senator Smoot's place as chairman of the investigation, that he had been confined to his room, "with an exceedingly bad and threatening cold." "I am also

thoroughly run down physically," he wrote, "and after an examination yesterday the doctor prohibited my attempting to do any work for a few days, commanding absolute rest." He had not, he added, been able to go through the testimony given by the witnesses from New Mexico, which Colonel Zevely had brought over to New York from Washington for Fall, sent to him by Senator Smoot. "I found it absolutely impossible to go into this voluminous record and I have not been in a physical or mental state to give much attention to the matter since," Fall wrote Senator Lenroot, who was eager for Fall to come to Washington and defend himself and the Republican Party. In his letter Fall also tried to make it appear that Senator Walsh had attempted, "to besmirch my character or to raise a smoke screen," and had not given him an opportunity to explain first. But he had had plenty of opportunity to explain his sudden wealth when he was first a witness and plenty of time to do so afterwards, but he still remained carefully away from Washington, and the condition of his health seemed to continue to demand any climate except that surrounding a Senate investigation.

After his conferences in New York with Doheny, Sinclair and Sinclair's lawyer, Fall went to the Ritz-Carlton Hotel in Atlantic City. He wrote Senator Lenroot from there that he was under doctor's orders to go there to rest and would not be able to come to Washington by December 19th after all to tell the committee of his financial affairs. "I will advise you as soon as my health is regained," he telegraphed. But his health seemed to get progressively worse, though he continued to do a great deal of traveling.

From the Ritz-Carlton Hotel at Atlantic City, Mrs. Fall telephoned to Edward B. McLean in Washington. She asked him to come to Atlantic City as Albert was very anxious to see him and was ill and nervous. McLean told Mrs. Fall that he was leaving for Palm Beach soon and did not want to come to Atlantic City unless it was absolutely necessary. "Then she called up again," Mr. McLean testified later, "to the best of my recollection in about an hour and a half—I know it was at 7 o'clock, because I was having supper, and she said, 'Yes, he wants you to come down, and he can't come up.'"

The next day, December 20, 1923, Mr. McLean and his two confidential secretaries, W. O. Duckstein and John Major, went to Atlantic City in

Mr. McLean's private car, "The Enquirer." He arrived at the Fall suite in the Ritz-Carlton during the afternoon.

"They had three or four rooms, and a very big parlor," Mr. McLean testified a few months later. "It struck me as a very big parlor; it was the biggest I have ever seen in a hotel. And she said, 'The Secretary is asleep, and you can't wake him.' She said, 'He had a dreadful night.' 'Well,' I said, 'Mrs. Fall, I have to go back in an hour and a half from now to catch the train; it is the only decent connection I can get; and I will wait as long as I can possibly.'

"I think I stood there in the room for at least 20 minutes, Senator, before Mr. Fall finally came in. He was in a sort of a dark red wrapper, or smoking gown, and he had been asleep, and he was in a very nervous, bad physical condition. It didn't need a doctor to tell me that, or anything. And he talked to me for a couple of minutes, and he was awfully upset. He seemed to be in a very bad condition, as I have said.

"But what you want to hear I will tell you now, Senator. He said, 'Ned, you remember our check transactions of two or three years ago.' I said, 'I do.' He said, 'Will you say'—or 'do you mind saying'—I don't know the exact phraseology used—'that you loaned me that in cash?' And he said one thing, he said, 'It has nothing to do with Harry Sinclair or Teapot Dome.' And now these are his exact words: He said, 'They are barking up the wrong tree,' and he said, 'Will you do this? I am in an embarrassing position here. Some of my enemies are just trying to make it look as if it was something which it is not, and it has nothing to do with Harry Sinclair or Teapot Dome: not a cent of it came from them.'

"Then the result of that was I said, 'Yes, I will, Senator.'"

Mr. McLean was questioned further about the proposition which Mr. Fall put up to him:

"Mr. McLean," asked Senator Adams, "referring back to your Atlantic City conversation, as I recall, Secretary Fall said in substance to you, 'Would you be willing to say, in place of saying that you had given me checks, that you gave me cash?'"

"You are correct, sir," Mr. McLean answered. . . .

"Well, now, Mr. McLean," Senator Walsh said, "I want to get back to this meeting at Atlantic City."

"Yes, sir."

"When this extraordinary request was made of you by Senator Fall."

"Yes, sir."

"That, in substance, you should deceive the committee."

"Yes, sir."

"Concerning the source from which he got this money. Now, what did he tell you as to his situation which impelled him to make such enormous draft as that on the friendship which you had entertained theretofore for him?"

"Senator, just what I told you before. He said that he was being bedeviled by his political enemies. Whether he said New Mexico politicians or not I am not positive, but the impression is that he did. And he said: 'Ned, this has nothing to do with Harry Sinclair or Teapot Dome whatever. They are barking up the wrong tree.' That is the best of my recollection of what he said, sir."

"Well, yes; but what did he say as to why he did not go on and tell the plain truth about it, instead of asking you to tell a lie about it?"

"I don't know, sir. He didn't say anything. If he had brought it up as clearly as that I never would have done it."

"Well, that was the plain situation, was it not?"

"Unfortunately, it was, sir."

"And without inquiring of him what the embarrassing feature was which induced him to withhold the true sources of it and to endeavor to get you to join him to impose upon the committee, he did not make any explanation?"

"Only about his political enemies, and assuring me that it had nothing to do with Harry Sinclair or Teapot Dome, Senator. Those are the very words he used."

"Yes; but the political enemies were pressing the inquiry as to where he got the money. We understand that. His political enemies were just bedeviling him and trying to find out where this money came from?"

"Yes, sir."

"Yes. Did you not say to him: 'Well, why don't you tell the truth about it; where you got the money?'"

"No, sir; I did not."

"It would be a good deal easier for him to tell the truth than for you to tell a falsehood about it, Mr. McLean."

"It would have, and for me too; both of us, yes, sir."

But Mr. McLean had only come to this realization that the truth is best in the end, after he had been through a very hectic period indeed, as a result of Fall's extraordinary demand upon his friendship and his own acquiescence in that demand.

Fall finally went to Washington again on December 26, 1923, and took rooms at the Wardman Park Hotel. He wrote to the Senate committee on December 28th, saying that he had intended to come before the committee to make a statement about his financial affairs. "I am still confined to my room," he wrote, "and I am therefore dictating this statement with the request it may be placed upon your records." He then added the information that he had borrowed \$100,000 from Edward B. McLean and concluded:

The fact that Mr. H. F. Sinclair came to Three Rivers with his wife and another lady and gentleman on December 31, 1921, or January 1, 1922, just after I had taken possession of the Harris home ranch property and of the Harris-Brownfield cattle, has incited some evil-minded persons to the conclusion that I must have obtained money from Mr. Sinclair. It should be needless for me to say that in the purchase of the Harris ranch or in any other purchase or expenditure I have never approached E. L. Doheny or anyone connected with him or any of his corporations or Mr. H. F. Sinclair or anyone connected with him or any of his corporations nor have I ever received from either of said parties one cent on account of any oil lease or upon any other account whatsoever. . . .

I shall go into no further detail in discussing this matter. The entire subject, of course, is more or less humiliating even to refer to.

Very respectfully yours,

ALBERT B. FALL.

By this statement in writing to the committee Fall obviously hoped to escape cross-examination by Senator Walsh on his tale of his sudden affluence after years of unpaid taxes and financial embarrassment.

The Republican leaders were now thoroughly worried at the effect of the revelations before the Senate committee on the reputation of their party, which was to come up before the people for re-election in the following fall. While he was confined to his room in the Wardman Park Hotel, Fall was visited by Will Hays, who had resigned from Harding's

Cabinet on March 4, 1922, to become czar of the motion picture industry, by Senator Smoot, Senator Lenroot, and Senator Charles Curtis, who was later to become Vice-President of the United States.

Senator Smoot and Senator Lenroot being Republican members of the Teapot Dome investigating committee, went together to visit Fall at the Wardman Park. They found him in a dressing gown, attended by a nurse. Senator Lenroot testified later that he told Fall that it was his duty to the committee, the country and the party to disclose the facts as to where he got the money to buy the Harris ranch. Fall insisted that it was a private matter. Lenroot said that the circumstances were suspicious and should be cleared up. Then Fall offered to tell Smoot and Lenroot privately who gave him the money, but Senator Lenroot refused to receive in confidence any information which he felt should be given to the committee publicly. Fall then volunteered the information that he got the money from Edward B. McLean. It was after this interview with the Senators that Fall sent his letter to the Senate committee disclosing that he had borrowed the money for his private affairs from Edward B. McLean.

In 1928, Fall told the Associated Press that in 1923 two Senators and a former Cabinet officer had advised him to write to the Senate committee that McLean had lent him the \$100,000 which Doheny had actually given him. Fall then claimed that they had been anxious for him to conceal Doheny's name because Doheny had just lent the Mexican government 10,000,000 pesos and the Senators thought that the disclosure of this fact, together with the fact that Doheny had given a Cabinet officer \$100,000, might embarrass the Republican administration in its policy of protecting American interests in Mexico. The Associated Press dispatch containing this interview with Fall, which was sent out on April 2, 1928, added: "The McLean letter was the only act in the whole deal of which he was ashamed, Fall declared." Senator Lenroot denied in 1928 that there had been any persuasion on his part or that of Senator Smoot in 1923 to make Fall do anything but tell the truth to the Senate committee. Mr. Fall was up to his old trick of hiding behind the foreign policy of the United States, and taking refuge from his misdeeds in a form of sniveling patriotism.

Meanwhile, Mr. McLean, who was in Palm Beach, was getting nervous.

"I have heard indirectly that I may be called as a witness before the Teapot Dome investigating committee," Mr. McLean telegraphed to his confidential man, John Major, on December 26th. That same day he telegraphed Major: "Keep all my wires in your possession." Later that day he telegraphed again: "Ask Mitchell Palmer if in case Fall should testify that I had loaned him \$100,000 I should send a telegram to the chairman of the Teapot Dome investigating committee, or whether he would personally tell them that I know nothing which in any conceivable way or manner, no matter how remotely, would have any possible bearing upon the investigation." A. Mitchell Palmer, former Attorney General of the United States in the administration of Woodrow Wilson, was Mr. McLean's Washington attorney. Mr. McLean was badly frightened, and he did everything he could think of and his advisers could think of to avoid testifying before the Teapot Dome committee. Mitchell Palmer spoke to Senator Walsh in the interests of Mr. McLean, and then informed McLean by telegraph and through his secretary, John Major, that while Walsh would not commit himself, Palmer did not think McLean would be called before the committee. That same night, December 29, 1923, Mr. McLean received the following telegram:

Mrs. Fall and I leaving for Palm Beach tonight 9.40. Love to you both.
A. B. FALL.

The day before Mr. Fall had written to the Senate committee saying that he was too ill to attend its sessions, and that McLean had lent him \$100,000.

McLean's employees in Washington were using all the influence they could to prevent Senator Walsh from calling McLean as a witness. Senator Charles Curtis testified that Ira E. Bennett, editor of McLean's *Post*, called on him together with John Major, McLean's secretary, and told him that Mr. McLean was ill, that his boy had just had an operation, and that he could not come to Washington at this time. They asked Curtis to see Walsh and find out if a statement in writing from McLean would not serve his purposes just as well. Senator Curtis testified that he told Bennett and Major that they ought to see a Democratic Senator and suggested Underwood or Robinson. They then went to see Senator Under-

wood, who told them that it would not do any good, but that he would speak to Senator Walsh.

Mr. McLean's anxiety was now so great that he had a private telegraph wire installed between his home in Palm Beach and the office of the *Washington Post*. The wire was opened at six in the evening and closed at six in the morning. Its operator was E. W. Smithers, who during the day worked as telegraph operator at the White House. He was employed for McLean's wire at the suggestion of W. O. Duckstein, another secretary of Mr. McLean's. Mrs. Duckstein worked at the Bureau of Investigation of the Department of Justice, and Mr. McLean himself was a special agent of the Department of Justice by courtesy of Attorney General Harry Daugherty. As such Mr. McLean possessed a copy of the special code book of the Department of Justice, which code was used for many of his telegrams between Palm Beach and Washington. In order to reassure his friend McLean, Attorney General Daugherty at this time gave Ira E. Bennett the following message to telegraph to his employer: "You know what to depend on. The fight is on me and I am ready for them and feeling fine."

During the last days of December, 1923, and the first week in January, 1924, telegrams were going between Palm Beach and Washington in rapid succession. McLean later testified that during this period, when the Senate committee was beginning to get on the scent of Fall's financial affairs, he received between 150 and 300 telegrams every night. Many of these were in the Department of Justice code and contained special designations for various characters in the drama. Secretary Fall was known as "apple" and Senator Walsh as "jaguar." There were also a "peaches" and an "apricot." The following are examples of telegrams flying back and forth between Palm Beach and Washington:

Just had long talk with Apple and it was perfect for you his mind was very clear and you need not worry about peaches would follow apricot and advise to forget about the whole thing will be at office after seven where I will see apricot again regards.

THE CHAMPION.

Another read:

Haxpw sent over buy bonka and householder bonka sultry tkvouep prozoics sepic bepelt goal hocusing this pouted proponent.

On January 3, 1924, A. Mitchell Palmer wrote a letter to Senator Lenroot, chairman of the investigating committee. In it he quoted the following telegram which he had received from his client, Mr. McLean:

In 1921 I loaned Fall \$100,000 on his personal note. I have never met Harry Sinclair nor have I ever met Doheny or any of the so-called oil crowd. I have never owned any Sinclair oil stock nor stock in any of its subsidiary companies. I have never owned any stock in Mr. Doheny's company or any company with which he is connected, nor any of his subsidiary companies. There is no stock of these oil companies pledged with the note. It is absolutely unsecured.

Mr. Palmer added in his letter to Senator Lenroot that Mr. McLean regretted that owing to the condition of his own health and that of his wife, he would not be able to come to Washington to testify in person.

Mr. McLean was now getting very nervous, indeed. When he heard the rumor that A. Mitchell Palmer was advising Fall and Doheny as well as himself, he sent telegrams asking that another of his attorneys, Francis McAdoo, son of W. G. McAdoo, should go over all statements issued to the Senate committee in his behalf. Then still another attorney for Mr. McLean, Mr. Wilton J. Lambert, appeared before the Senate committee with a telegram from McLean's physician, and the further assurance that McLean knew nothing about Teapot Dome.

Mr. McLean, according to his own statements and those of his physician, was suffering from sinusitis. Senator Walsh told the committee that he himself had undergone an operation for sinusitis a few weeks before, and that the disease was not serious. However badly Mr. McLean's sinuses may have been acting, Senator Walsh's did not incapacitate him for work or for traveling, and the committee finally decided that since McLean would not or could not come to Walsh, that Walsh should go to McLean and examine him in Palm Beach concerning his alleged loan to Fall.

Meanwhile, the nervous little group in Palm Beach became worried and excited when they received the news that Senator Walsh was leav-

ing for that winter resort on the committee's business. On January 9, 1924, W. O. Duckstein, known in the McLean code as The Duck, sent his employer the following message in code, which, when decoded by the War Office for the Senate committee read:

Zevly thinks trend of investigation favorable to you. Not impressed with Jaguar [Walsh] as cross-examiner. Thinks you need have little apprehension about forthcoming interrogation. Zevly had conference with Lambert regarding your answers to questions which may arise of which Lambert will advise you. Walsh leaves Seaboard tonight. Due Friday morning 8.

W. O. D.

Later that day "W. O. D." telegraphed again in code:

Walsh leaves Coast Line 12.35 tonight instead of Seaboard. Lambert on same train.

Lambert was Mr. McLean's attorney.

Another visitor in Palm Beach at this time was C. Bascom Slemp, secretary to President Coolidge, who was spending a vacation there. He met Fall at lunch and dinner several times at Mr. McLean's house. On one occasion, Mr. Slemp testified, Mr. Fall told the assembled ladies and gentlemen that he was going to straighten this thing out and tell the committee exactly what had happened, unless a personal friend of his of thirty years' standing did so. Mr. Slemp told the Senate committee that he had urged Fall to tell the whole truth, and that Fall had answered that if Mr. Slemp would look at the record, he would see that that was exactly what he had done.

Mr. Slemp also said that there was great excitement in Palm Beach at the news of Senator Walsh's imminent arrival. Until then, he said, the conversation there had been confined almost entirely to Prohibition, the weather and Secretary Mellon's tax bill, which aimed to reduce appreciably the taxes of rich people. But as soon as Senator Walsh arrived, the oil scandals took the spotlight at dinner parties and luncheons. Mr. Slemp testified that he had met "Ned" McLean walking along the beach the morning Senator Walsh arrived in Palm Beach, and that Mr. McLean

had told him that he was going "to tell it all" in about an hour. Meanwhile, Mr. Fall took to his bed in The Breakers Hotel.

At the request of Mr. McLean, Senator Walsh postponed his examination until two o'clock that afternoon. Meanwhile, Fall and McLean were having conferences at which their attorneys were present. Fall was anxious to know whether Senator Walsh had the authority to compel him to testify. McLean, when he testified again later in Washington, described Fall's condition as one of nervous indecision:

"One minute he said, 'I am going right down and testify before Senator Walsh'; the next minute he wasn't going to go. That was the thing right along, as Mr. Lambert can tell you. One minute he thought you were going to drag him before you. The next minute he would go. The next minute he would not go. There was never any—you couldn't have had a conference with Senator Fall at that time if you had seen him yourself, more than two or three minutes."

"Well, all that I would like to find out, Mr. McLean, if you can tell us about it," Senator Walsh asked, "is what the trouble was, so far as Senator Fall was concerned?"

"Senator, I be doggoned if I know today what the trouble was," Mr. McLean replied.

Perhaps Mr. Fall was suffering from acute guilt.

The examination of Mr. McLean took place at The Breakers Hotel, where both Senator Walsh and Fall were staying. Mr. McLean told Senator Walsh that in November, 1920, after the election he was on the fishing trip in the South which President-elect Harding took with some of his friends. McLean met Fall at this time in Brownsville, Texas, and Fall spoke to him of his ranch at Three Rivers; he told McLean that it had great possibilities as a breeding place for thoroughbred horses, and that money was to be made in such a venture, because there was a big race track at Juarez, one hundred miles away. One year later, in November, 1921, Mr. McLean said, he received a letter from Secretary Fall, describing the Harris ranch in New Mexico, "a rather bulky letter," Mr. McLean testified, "I should think about 14 pages approximately that anyhow, asking me if I would care to buy it or go into partnership with him. I replied that it was impossible at that time."

Two weeks later, according to McLean's story, Secretary Fall came to Mr. McLean's house in Washington and asked if he would lend him \$100,000 on his personal note, as the Harris ranch was about to be sold and Fall had to act at once in order to get it. They had a long conversation, and Mr. McLean testified that he agreed to lend Fall \$100,000. He gave Fall two or three checks—he was not sure how many—on different banks. Two or three days later Fall dropped in again and gave McLean his note for \$100,000 with a memorandum attached, McLean said. Then he came back two or three days later, returned the checks and said that he had made other arrangements, but he did not say what the other arrangements were. Mr. McLean told Senator Walsh that he had no copy of Fall's alleged note, no copy of the memorandum attached to it, that he never kept the stubs in his checkbooks but merely got statements from his banks at the end of the month, and that therefore he had no record whatsoever of the checks he claimed that he gave to Fall and which Fall returned uncashed.

After he had told this tale, Senator Walsh asked Mr. McLean when he had seen Mr. Fall last, and he answered: "Fifteen minutes ago." He then admitted that he and Mr. Fall had conferred that morning concerning the nature of McLean's testimony, and that they had talked it over several times previously.

After he had examined Mr. McLean, Senator Walsh wrote a letter to Mr. Fall, telling him in substance of the testimony which Mr. McLean had just given that Fall had not used McLean's \$100,000 and added: "I shall be glad to take, for the information of the committee, any further statement in respect to the matter you may care to make, either orally, before me at your convenience at any time, or in the shape of a letter to the committee, if you prefer to take that course." Senator Walsh signed and sealed this letter. He told the committee when he got back to Washington:

"I took it to the desk in the office at the hotel, and accosted the gentleman at the desk, whom I assumed to be the manager of the hotel. I asked him if he would not have the kindness to present the letter to Senator Fall. He said, 'Senator Fall is not registered here.' I said, 'I understand he is not registered here, but I know as well that he is in the hotel, and I

very respectfully ask you to hand the letter to him.' He said, 'Well, I do not want to hand him the letter.' I then said to him, 'Now, I do not care to place this in the hands of the sheriff and have him go rummaging through your hotel to find Senator Fall, but Senator Fall must get this letter.' He thereupon said, 'Well, I will give this letter to Mr. McLean and let him deliver it to Senator Fall.' I said, "That will be satisfactory."

Soon afterwards Mr. McLean and his attorney, Wilton J. Lambert, came to see Senator Walsh and told him that Mr. Fall desired very much to talk with him, but that he was too ill to do so that day. Senator Walsh said that he told them: "Very well, I will see Senator Fall tomorrow morning at 10 o'clock."

Mr. McLean testified later in Washington that it was only after he had delivered Senator Walsh's letter to Mr. Fall that Fall told him for the first time that he had got \$100,000 from Doheny:

"And what did he tell you then?" Senator Walsh asked Mr. McLean.

"He said that Mr. Doheny had loaned him the money."

"Well, what did you say?"

"I said, 'I be damned.'"

"What is that?"

"I said, 'I be damned,' if you want to know exactly what I said, sir. Just on the theory that I never thought it had anything to do with these leases, sir."

"How long did Senator Fall remain there as your guest after that, Mr. McLean?"

"After you left?"

"Yes."

"I think about four or five days, Senator, and he went from there to ——"

"New Orleans, was it not?"

"To New Orleans; yes."

"Did you recall to him the fact that he had left upon your mind the impression ——"

"No, sir."

"That this loan did not have anything to do with the leases?"

"No, sir; I was in then, and the water was over the dam."

"Well, anyway, you knew about the source of the money before I left Palm Beach?"

"Yes, sir."

"That is all."

McLean testified that when he brought Senator Walsh's letter up to Fall's room, he found Fall writing out a telegram to Doheny informing him that he was going to tell the committee that he got the money from him. Fall wrote to Senator Walsh in answer to Senator Walsh's note to him:

I desire to advise you that I have carefully read the testimony which Mr. McLean gave today and that I endorse the accuracy of same. I will also say that before giving his testimony Mr. McLean had a conference with me and I told him that, so far as I was concerned, it was my wish that he answer freely, and in this connection, I will say that it is absolutely true that—I did not finally use the money from Mr. McLean, which he expressed himself willing to give me, because I found that I could readily obtain it from other sources. I wish it thoroughly understood that the source from which I obtained the money which I used was in no way connected with Mr. Sinclair or in any way involved in any concession regarding the Teapot Dome, or any other oil concession.

Further than this I would not care to go at the present time, inasmuch as I am not in anything like the physical condition to stand the ordeal of an examination. It may be, though, that I will desire to amplify this statement to you for the committee at a later date.

Very truly yours,

ALBERT B. FALL.

Mr. McLean testified later in Washington to this conference with Fall mentioned in Fall's letter to Senator Walsh, but his version of it was slightly different from that of Fall:

"And you had a conference evidently with Mr. Fall prior to the time you testified?" Senator Walsh asked Mr. McLean.

"Yes, sir."

"As to what you were to say?"

"No, sir."

"No; as to what you were going to say?"

"Yes, sir; that is correct."

"Now, tell us about that conversation. What was that?"

"I just told him, I said: 'Albert, this thing has gone as far as it can go. I have gone down the line for you. I have done everything but it has come to the point where I have got to tell the truth.'"

On January 7, 1924, two days before Senator Walsh had arrived in Palm Beach, McLean had telegraphed to his adviser, Francis T. Homer: "Wire me your opinion as to whether investigating committee can force me to tell from what sources I accumulated sum of \$100,000. Think over certain prominent people at that time and you will realize why large cash fund was kept on hand." The next day, the day before Senator Walsh left for Palm Beach, Mr. McLean had telegraphed to his confidential man, John Major: "Find out in careful manner from bank about matter I will talk to you about over telephone today." Then, later that day, he telegraphed again:

This is a hypothetical question: John Doe draws a check for \$10,000. On the back of the check is written indorsement as follows: 'John Doe, for purchase of house.' Does bank simply keep a record of the amount of cash drawn or does it keep a record of explanation written on back of check?

Mr. Major answered that a bank did not keep a record of the purpose for which a check was drawn. Both of these telegrams were in code and were decoded for the Senate committee by the Signal Office of the War Department.

On January 16, 1924, after Senator Walsh had left Palm Beach and was back in Washington, Mr. McLean received the following telegram from Edward S. Rochester, Attorney General Daugherty's confidential publicity man at the Department of Justice:

Informed investigation is being made by Senate committee to determine if you had \$100,000 in cash in any bank at the time you testified you

gave Fall checks for that amount. Thought I better advise you concerning this phase. Regards.

ROCHESTER.

After Senator Walsh had left Palm Beach, Mr. Fall's health improved sufficiently to enable him to leave for New Orleans, where he had arranged by telegraph to meet Edward L. Doheny, who was on his way to Washington from Los Angeles. Fall had also telegraphed to Sinclair's lawyer, Colonel J. W. Zevely, asking him to meet him in New Orleans. Colonel Zevely testified later that he was glad to go at once from Washington to New Orleans to meet Fall, as he and Fall were old friends. A rumor flew about that Fall had gone abroad suddenly and that Doheny had also gone abroad. On Sunday, January 20, 1924, Senator Smoot received a telegram from Mr. Fall from New Orleans: "I am contemplating no sea voyage until hearings close. Will hold conference parties arriving this evening, and wire fully not later than Tuesday."

Although Fall was not contemplating a sea voyage, Harry Sinclair departed suddenly for Europe after Senator Walsh got back from Palm Beach with the sworn testimony that Fall had not used "Ned" McLean's \$100,000. Care was taken to see that Mr. Sinclair's name was not on the passenger list of the *S. S. Paris*.

On Monday, January 21, 1924, the Senate committee investigating the naval oil leases met at two o'clock in the afternoon and spent one of the most sensational days of its existence. First it heard Senator Walsh's report of his trip to Palm Beach and examination of Mr. McLean. Then it heard testimony from Archie Roosevelt and his brother Theodore, Assistant Secretary of the Navy, who, as we have seen, had played a part in the administration and transfer of the Navy's oil reserves.

After he had read in the newspapers of Senator Walsh's journey to Palm Beach and its results, Archie Roosevelt had telephoned to his brother Theodore and asked him if he thought he ought to resign from the Sinclair company. Theodore Roosevelt, Jr. went to New York on Friday night and saw his brother Archie early Saturday morning. "Archie came down, and Archie outlined to me certain things that had happened to him, and certain conversations that he had had during the past three or

four days, which I felt were of such a nature that they should be brought to this committee's attention," Theodore Roosevelt, Jr. testified. He and his brother went to Washington and saw Senator Walsh and Senator Lenroot on Sunday, January 20th. Archie told them his story, and the Senators agreed with the Roosevelts that Archie should tell it to the committee the next day. Archie Roosevelt testified:

"I will begin the story by saying that on Sunday a week ago—what date was that?"

"The 13th," said Senator Smoot.

"The 13th—Sunday, the 13th, I read Senator Walsh's experience in Florida, and that was the thing that finally convinced me that I was in the wrong place. On Monday Mr. Sinclair had me taken up to his office or had me sent for."

"That is the 14th?" Senator Smoot asked.

"That is the 14th, Monday; and asked me to get him a ticket on the steamship *Paris*. The steamship *Paris* sailed Wednesday, and it was the next boat departing for Europe that week, after Sunday, that is. There was no boat Monday or Tuesday. On Wednesday Mr. Sinclair sailed. On Thursday Mr. Calloway, wasn't it—or Senator Caraway?"

"Caraway," said the chairman.

"Senator Caraway's speech came out, and I read that with great interest, because it clearly showed me by its very able summing up just where the matter stood at present. On Friday I received a call from a friend of mine, who is Mr. Sinclair's private secretary, Mr. G. D. Wahlberg."

"Mr. Roosevelt," Senator Walsh said, "before you go into that, will you tell us what conversation you had with Mr. Sinclair at the time he asked you to get the ticket?"

"Mr. Sinclair asked me to get him a steamship ticket, and to see that his name was not put in the passenger list, nor was I to tell anyone in the office."

"Do you know why he assigned you to this work?"

"Yes, sir; because I—because my brother Kermit is connected with the steamship company, and I know all the officials, and I am able to get the steamship ticket, you know, and the best places that we can. Then, also, I am connected with the foreign work of this Sinclair company, I knew there was absolutely no—well, I want to qualify that. As

far as I knew, and I am connected with most of the foreign work, there was absolutely no reason which would require the immediate presence of Mr. Harry Sinclair in Europe at the present time." . . .

Mr. Roosevelt continued:

"Mr. G. D. Wahlberg, as I was saying, called me up and said that he would like to speak to me."

"Who is he?"

"Mr. G. D. Wahlberg is Mr. Sinclair's private secretary; not the corporate Sinclair Oil Co.'s secretary, the private secretary of Mr. Sinclair. We have been friends for quite a while. He shut the door and he said to me that he had some advice. This is all a general conversation, and it went through a couple of hours. He said to me that he wished I would resign from the company. That I had a name and a reputation which I should guard jealously. That he personally was unhappy to see me there, as a friend. Mr. Wahlberg stated that he himself was extremely unhappy in the company, or not in the company but with Mr. Sinclair. That he was connected with the Hyva corporation—that, I believe, is, according to your testimony, Mr. Sinclair's privately owned corporation, isn't it?"

"Yes."

"He was an officer of that. Then I asked him if he thought that Mr. Sinclair had bribed Secretary Fall. Mr. Wahlberg hesitated—it is a nasty word—and he said: 'I think somebody lent Mr. Fall money.' No, he didn't; he said, 'Somebody might have lent Mr. Fall money.' I think that is how he put it. I want to get his words as nearly accurate as possible. Then I asked him why he thought Mr. Sinclair was leaving the country. He shook his head, and he said, 'Well,' and he said, that 'it must be, of course, on account of the findings of Senator Walsh's trip down at Palm Beach.' He then said to me that he was extremely worried. That leaving him over here all alone with Mr. Sinclair away, he was afraid that he would be forced to explain certain things; that he would then undoubtedly be expected to lie about certain things; that one of the things that he was worried about was a payment which was made to a foreman of Mr. Fall's; that that payment was \$68,000, and that he had the canceled checks. Now this was the main reason. This, of course, was the thing that took my breath away at first."

It was after this conversation with Mr. Wahlberg that Mr. Roosevelt called his brother Theodore on the telephone and went to Washington with him on the midnight train at the end of the week. Before leaving for Washington, Archie Roosevelt saw a friend of his named Crandall, who also worked for Sinclair. He told Mr. Crandall that he was "worried to death how it connected me up with it, worried to death how it connected my brother up with it," and that he was going to Washington probably, and if there was anything he wanted attended to for him in New York, he expected Mr. Crandall as a friend to do it for him. After seeing Senators Walsh and Lenroot on the Sunday they arrived in Washington, Archie and his brother went to Theodore Roosevelt's house. On Monday at one o'clock in the morning Archie Roosevelt telephoned to his friend Crandall and asked him to go to see Wahlberg at once and ask him to telephone Archie Roosevelt at his brother Theodore's house in Washington as soon as possible; Archie had forgotten Wahlberg's telephone number.

Mr. Crandall called on Mr. Wahlberg, and at about one-thirty Monday morning, Wahlberg got the telephone connection to Washington. Archie Roosevelt told Wahlberg that he must come down to Washington to testify before the Senate committee. Wahlberg agreed to come. "I didn't question him," Wahlberg testified later, "or didn't say anything against coming, or any reason why I didn't want to come, because there was a man in the room listening to me." Theodore Roosevelt, Jr. was also listening on the extension telephone in his house to the conversation between his younger brother and Wahlberg. Wahlberg testified that Assistant Secretary of the Navy Roosevelt also told him over the telephone that he would have to come to Washington, and that a subpoena would be served on him soon enough to enable him to catch the 9:15 train that same Monday morning.

Mr. Wahlberg did not sleep any more that morning. Instead, he thought the matter over. He testified later that he saw no one except Mr. Roosevelt's friend Mr. Crandall from 1:30 Monday morning until he testified before the Senate committee that afternoon. At 7:30 that morning Wahlberg telephoned to Archie Roosevelt again. Archie got out of bed and hurried to his brother Theodore's room and said: "Get on the telephone,

Wahlberg is on the telephone." Meanwhile, Wahlberg would have had plenty of time to consult a Sinclair lawyer. Colonel Zevely was down in New Orleans conferring with Mr. Fall. But other Sinclair lawyers were in New York. At any rate, at this telephone conversation at 7:30 Monday morning, Wahlberg told Archie Roosevelt that he must have misunderstood him, that he had no facts about any payments to Fall, that he could not prove that any money had gone from Sinclair to Fall, and that he did not want to come to Washington to testify. In this second telephone conversation Wahlberg also denied that he had ever said anything about \$68,000 going from Sinclair to the foreman of Fall's farm. "I never remember of saying anything like that to you, Mr. Roosevelt," he testified he told Archie Roosevelt. "I couldn't have said that. That doesn't exist." On examination by Senator Walsh, Wahlberg admitted that he had not denied the \$68,000 payment in his first telephone conversation at 1:30 that morning. He said that the reason for his silence at that time was because of the presence in his room of Mr. Crandall, and that, "it is almost a business rule of mine not to talk any more than is necessary."

"Some of us suspect that you are acting on that principle now, Mr. Wahlberg," Senator Walsh said.

"I regret that," Mr. Wahlberg answered. "I regard this as totally different from a circumstance under which I do that."

Archie Roosevelt testified that he also had said to Wahlberg: "Are you willing to go through with it?" and that Wahlberg had answered: "I will come down and tell the truth." "Are you scared?" Mr. Roosevelt asked. "Yes; I am awfully scared," Wahlberg replied. "And I said I was too," Archie Roosevelt told the committee.

Meanwhile, a subpoena had been issued for Wahlberg, and he had to take the early morning train to Washington. Archie Roosevelt decided that it was important for him to talk with Wahlberg before he saw anyone else, and Archie and his wife drove down to Baltimore from Washington to meet Wahlberg's train. At Baltimore they left their motor car and rode the rest of the way to Washington in the train with Wahlberg. Archie hired a drawing room, and he and his wife took Wahlberg in there to talk with him. Wahlberg insisted at this conversation that Archie Roosevelt

was mistaken, that he had not mentioned a payment of \$68,000 to the manager of Fall's farm, and Archie Roosevelt insisted that Wahlberg had.

"Well, now," Wahlberg said, according to Mr. Roosevelt, "that seems to be such a doubtful point, what are you going to say about it?"

"I have got to say that I thought that that was the case," Mr. Roosevelt told the Senate committee he had replied.

Mrs. Archibald Roosevelt then remarked to Wahlberg: "It is awfully hard for you, because it looks as though the public would believe him and would not believe you, and it is perfectly awful."

"Your wife evidently had suspicions about it?" asked Mr. G. T. Stanford, Sinclair's lawyer.

"Oh, she always suspects me," Mr. Roosevelt answered.

"I take it, Mr. Roosevelt, there is no ground for that suspicion, though?" Mr. Stanford asked.

"Oh, I hope not," Mr. Roosevelt answered, "I try to do my best."

Immediately after Archie Roosevelt told his story, G. D. Wahlberg was called to testify. He was a quiet, cautious man, who was born in Gothenburg, Sweden, had come to the United States in 1899 and had become naturalized in 1912. He had worked for Harry Sinclair as his private secretary since November, 1916. Mr. Wahlberg asked first if he might make a short statement:

"Why, after today," he said, "I don't expect to be in the employ of Mr. Sinclair, as I will probably forward my resignation to him tonight after the committee has adjourned.

"There is one thing I would like to correct after Mr. Roosevelt's testimony, namely, that the \$68,000 that he understood he heard me say was paid to Mr. Fall's cattle man, must have been an error on his part in hearing what I said, because we were talking about the cattle, and I think I referred to six or eight cows, and he probably understood that to mean \$68,000 in some manner. I talked to Mr. Roosevelt about that, and he still clings to his recollection that I said \$68,000, but I want to say that that was not what I said, because that is not the case."

Mr. Wahlberg's statement that Mr. Roosevelt had misunderstood the six or eight cows Sinclair had sent to Fall as a present to mean sixty-eight

thousand dollars which Sinclair sent to the manager of Fall's farm was one of several phonetic misunderstandings which came up in the course of the testimony taken before the Teapot Dome investigating committee. Mr. Francis T. Homer, Edward B. McLean's adviser, was alleged to have said over the telephone that if Mr. McLean took a leased wire between his home in Palm Beach and his office in Washington, it would give "easy and quick access to the White House." Mr. Homer testified that this construction of his telephone conversation amazed him, that the telephone service at his home in Maryland was wretched, and that what he had really said was "easy and quick access to Wiley at your house," Wiley being the editor of McLean's Cincinnati paper, who was then staying with McLean at Palm Beach. Mr. Homer testified that he had thought it inadvisable for Mr. Wiley to be in Palm Beach without a leased wire, out of touch with the general news situation. But Mr. McLean's private wire was used for personal telegrams and not for news. Presently we shall see how by another phonetic misunderstanding the "manager of Fall's farm" became "the manager of the horse farm," referring to Sinclair's Rancocas Stables.

"What induces you to resign, Mr. Wahlberg?" Senator Walsh asked the witness.

"Well, must I answer that question?"

"Oh, yes."

"Might I say," Senator Lenroot, the Chairman, interposed, "the committee desires from you, Mr. Wahlberg, all facts in your possession?"

"I see," Mr. Wahlberg replied. "Well, I think after today's testimony I would not remain in Mr. Sinclair's employ in any event." . . .

"Well, of course," Senator Walsh continued, "but for some reason or other you told us that you proposed to tender your resignation this evening."

"Yes."

"And you go on and tell us why you are going to do so."

"Well, because I feel that I could work under more happy circumstances—to do work that was more agreeable to me."

"Well, what are the disagreeable features of the work?"

"Well, it is primarily the fact that I am burdened with a great deal of responsible work, and that I am not in very good health and have not been for several years. I haven't had a vacation for three years."

"Yes, but Mr. Wahlberg——"

"I am stating my personal reasons."

"I know, but all that has existed for some time. Something has happened now that you are now going to resign. What is it?" Senator Walsh asked.

"I am at a loss to answer it in any other way. As I have already stated, I am very unhappy. I feel that I could work under more ideal conditions."

"Well, when did your state of unhappiness begin?"

"Oh, it has gone on for two or three years, probably."

"Oh, that is the point. You have gone on for two or three years, and now it just happens that you put in your resignation now. You didn't put it in last week?"

"No."

"You did not put it in last month?"

"No."

"But you are going to do it tonight. Now, what is it that has now brought you to the sticking-point where you are going to put in your resignation?"

"Well, I haven't felt happy about the particular business that I have handled at any time. And I have been called upon to come down to Washington quite a few times, worked very hard, and I can not give you any other particular reasons for it."

"Well, certainly there has not been anything unpleasant happened here? We have treated you very courteously, have we not, Mr. Wahlberg?"

"Yes."

When pressed further for the reason he wanted suddenly to resign his position, Mr. Wahlberg remained guarded in his answers.

"In my confidential capacity," he said, "I have to handle a great deal of personal work. And I am called upon to do some very difficult things."

"Well, what are these difficult things that you are called upon to do, Mr. Wahlberg?" Senator Walsh asked.

"Financial matters."

Except for the detail of six or eight cows instead of sixty-eight thousand dollars, Mr. Wahlberg said when he testified the first time that Mr. Roosevelt had given an accurate account of their conversation. After he had had

time to think the matter over from 1:30 Monday morning until late Monday afternoon, when he first went on the witness stand, Wahlberg insisted that he had no knowledge of any checks drawn by Mr. Sinclair to the order of the foreman of Fall's farm or anyone else connected with Mr. Fall. He also testified that the checkbooks of Mr. Sinclair's family corporation, Hyva Corporation, had been taken up to Mr. Sinclair's home from his office at Sinclair's request the night before Sinclair had sailed suddenly for Europe. When he was questioned further concerning his conversation with Roosevelt, Wahlberg said that the misunderstanding may have come about because of a net profit of \$268 on the shipment of cattle by Sinclair to Fall. Instead of \$68,000 perhaps he had mentioned \$268. But Senator Walsh brought out that instead of a profit of \$268 for Sinclair on his present of cattle to Fall, there was a loss of \$5.20.

"And you think," Senator Walsh asked, "that talking about six or eight cows, you think that Mr. Roosevelt got that confused with \$68,000 paid to the foreman of the Fall ranch?"

"I believe that is what happened," Mr. Wahlberg answered.

Mr. Wahlberg was asked how it was that Mr. Roosevelt had remembered the words "canceled checks" and "foreman of Fall's farm" coming into the conversation. He insisted that he had made no mention of canceled checks, and that he had seen no canceled checks, but he testified that he may have mentioned the foreman of Fall's farm in connection with the six or eight cows which Mr. Roosevelt had taken to mean \$68,000. Archie Roosevelt was then put on the witness stand again for a few minutes:

"I want to ask you just one question," Chairman Lenroot said. "With reference to the original conversation, what is your recollection as to the conversation with reference to the \$68,000?"

"I was dead sure."

"Won't you repeat it just as you recollect it?"

"As I recollect it, he said, 'What'—it is hard to say now. Just a minute. He said that he wouldn't like to have to explain about the sixty-eight—about the canceled checks he had for \$68,000. That is what I understood."

"Well, what did you say?"

"I think I whistled."

"Was that all that was said about the \$68,000?"

"Yes, sir."

"Well," Senator Walsh said, "you did not tell us, Mr. Roosevelt, in your statement just now, concerning the conversation, to whom he said the checks went?"

"Oh, the foreman of Fall's cattle ranch; he did not mention the name. I don't know the name yet—yes, somebody told it. No; I don't think I know the name yet. Somebody mentioned it here, perhaps."

In the course of his testimony Mr. Wahlberg admitted that there was another thing which had aroused his uneasiness and contributed to his unhappiness. This was the loan of Liberty bonds and securities by Mr. Sinclair to Colonel Zevely and to Will H. Hays, former chairman of the Republican National Committee. He had hoped that he would not have to testify concerning these transactions before the Senate committee. When the Senators asked him why he had hoped that, Mr. Wahlberg answered: "Because I knew so little about them. I had only ideas, and no more." But the Senators wanted his ideas.

"And in your mind," Senator Adams asked, "there were suspicions that these particular loans had some relationship to the matters being investigated by this committee?"

"Yes."

"What led to that suspicion?"

"I can not answer that except that Colonel Zevely of course was active in the matter of Teapot Dome. That is the only thing."

"Mr. Zevely was acting actively at the time of the negotiation of the Teapot Dome lease?"

"Yes, sir."

"Was he in touch with or acting in contact with Secretary Fall?"

"That I do not know. He was active, I said, at that time." . . .

"So that if there were any irregularities or anything inducing a suspicion it was contained in the three things you have mentioned—the cattle, Liberty bonds, and the stock?"

"That is all."

"And what you do know of these things leads you to feel that you should resign your connection with the company?"

"Yes."

"Now, one of the statements made to us by Mr. Roosevelt upon the stand here, Mr. Wahlberg," Senator Walsh said, "was to the effect that he asked you if you thought Sinclair had bribed Fall. That part of the conversation you have not adverted to, but have, generally, indorsed what he said. . . . Mr. Roosevelt said that you answered in reply to that that sometimes people loaned money and loaned securities."

"Yes, I think that is correct," Mr. Wahlberg said. "I think Mr. Roosevelt is correct there. I think that was my answer."

"Well, just what did you mean by that?"

"Some money might have been lent to Mr. Fall."

But Mr. Wahlberg disclaimed all knowledge of any such loan; he said that it might have been made, but that he did not know that such a loan was made.

The next time Mr. Wahlberg testified, on January 26, 1924, he had another explanation of the difference between what Mr. Roosevelt said he heard him say and what he claimed he had said. He then stated that at the time when he and Mr. Roosevelt were talking he had on his desk checks for \$68,000 made out to the order of Sam Hildreth, the manager of Sinclair's Rancocas Stables, and that it was to these checks he had referred in his conversation with Archie Roosevelt and not to checks for \$68,000 to the manager of Fall's farm. Thus there had been another phonetic misunderstanding: "the manager of Fall's farm" became "the manager of the horse farm." Mr. G. T. Stanford, counsel for the Sinclair company, brought out this information in his examination of Wahlberg:

"Mr. Wahlberg," Mr. Stanford asked, "at the time you had your conversation with Mr. Roosevelt on or about Friday, January 18, did you have in your possession or on your desk checks aggregating approximately \$68,000?"

"I did have on my desk checks for that amount," Mr. Wahlberg answered. "I recall turning from Mr. Roosevelt for a moment and to my desk, and these checks were lying there waiting for a letter to be sent with them, to be sent out to Mr. Hildreth. . . . He is manager of Mr. Sinclair's stable at Rancocas farm, and the sight of the checks brought to my mind a comparison between the horse racing man's situation and mine, and

that caused me to say to Mr. Roosevelt, 'Now, here are these salary checks for \$68,000 to the farm horse manager,' or 'the manager of the horse farm,' I don't recall which, and evidently Mr. Roosevelt misunderstood me and thought that I said, 'to the manager of Fall's farm.'"

Mr. Stanford then offered for identification and for the record two checks, one for \$25,000 and one for \$43,244.27, made out to the order of S. S. Hildreth, and dated January 14, 1924. They totaled \$68,244.27.

"Mr. Wahlberg," Chairman Lenroot asked, "you did not remember this transaction when you were here before?"

"No, sir."

"When did you first remember it?"

"Tuesday night, I believe."

"When was it you testified? On Monday?"

"On Monday."

"What called it to your mind then?"

"Why, reviewing all the circumstances of the day, of the afternoon, when we had the talk, it came to my mind very clearly because I recalled exactly what I had in front of me and what I had said. I recalled the substance and the spirit of what I had said, and had the feeling that it is absolutely as I have stated it; that the conversation occurred in that manner, and was caused by those checks, and that I said, 'the horse farm manager' or 'the manager of the horse farm,' I am not sure which, or something that could have been misunderstood to mean 'manager of Fall's farm.'"

"That is the way you think the misunderstanding occurred?"

"Yes, sir. And I said it somewhat in the way of contempt, or I would not have called it 'horse farm.' I recall that very, very vividly."

"And the occasion for the remark was the disparity between what the man on the horse farm was making and what you were making?"

"That is true."

Mr. Wahlberg told the committee that he had been dissatisfied for a long time with his position and his compensation as private secretary to Harry Sinclair:

"Our relationship—Mr. Sinclair's and mine—is quite formal," he said, "and we very seldom discuss anything that does not need to be discussed. And Mr. Sinclair does not tell me anything that he does not want me to know. Besides, my situation has been somewhat unfortunate there. I felt I have done about three men's work, and I have purposely avoided talking to Mr. Sinclair, because I have been nervous and did not dare trust myself to talk to him and disagree with him on the question of the compensation for my work there."

At this second session with the committee Mr. Wahlberg added other details concerning the conversation in his office between himself and Archie Roosevelt, and he indicated that both of them were bitter about their employer, who had left suddenly for Europe that day. Wahlberg told the committee that the conversation did not take place on Friday, January 18th, as previously stated by Mr. Roosevelt, but on Wednesday, January 16th, the day Harry Sinclair sailed on the *S. S. Paris* in the stateroom which Archie Roosevelt had obtained for him through the influence of his brother Kermit. The occasion for the conversation, Wahlberg testified, was that Archie Roosevelt called him on the telephone to ask whether Mr. Sinclair's accommodations on the boat had been satisfactory. Wahlberg said that he answered that they were very bad, and that he was afraid that that would be held against him by Mr. Sinclair. Archie then said that he would come up to his office and talk to him about it.

"He inquired of me what was my concern about the accommodations for Mr. Sinclair," Wahlberg testified. "I told him I was very sorry, because it would be a reflection on me, that I had given Mr. Sinclair assurance he would get the good room. Mr. Roosevelt says, 'Tell him to go to hell.' I said, 'I can not do that.' 'Well, he is an upstart anyway——'

"Who said this?" Chairman Lenroot asked.

"Mr. Roosevelt said, 'Well, he is an upstart anyway. What does he expect?' . . . He asked me what I thought Mr. Sinclair was going to Europe for. I answered probably on account of the turn in the investigation occasioned by Mr. McLean's testimony in Florida. Mr. Roosevelt said something about Mr. Sinclair running away. Then I think I said, 'I believe he is going to Russia some time or other, because we have a contract pending there,' . . .

“‘Well,’ Mr. Roosevelt said, ‘if he does go to Russia and makes a contract he will only turn it over to the Sinclair corporation [Hyva Corporation] the same as he did the Mammoth Oil Co. stock.’ And he says, ‘I am connected with that Russian petroleum corporation. My name is attached to it. I think I will resign.’ He says, ‘What would you do?’ ‘Well,’ I said, ‘yes, decidedly. You have your name, and you have your future to think about, and I think I would.’ ‘Well,’ he says, ‘I am going to speak to my brother Ted about it.’

“And I believe it was at that point I turned around to my desk, and I had stopped talking about him and the fact that he was going to resign, and I was talking about myself. The conversation with reference to the checks you already know.”

Mr. Wahlberg went on to say that he was worried because with the turn the Senate investigation was taking, he might be called on any day to submit books and checks and explain things of which he did not have the explanation.

Senator Walsh cross-examined Mr. Wahlberg carefully concerning this change in his story from “six or eight cows” to “the manager of the horse farm”:

“Mr. Wahlberg,” Senator Walsh said, “when you were here before you thought it quite likely that it was your talk about six to eight cows that Mr. Roosevelt got confused with the \$68,000?”

“That was the nearest explanation that I could offer at that time of how it occurred,” Mr. Wahlberg replied.

“Reflecting upon that you rather came to the conclusion that that was an improbability, didn’t you?”

“Yes, sir.”

“That story would scarcely wash?”

“Nevertheless, we had had a conversation about the cows.”

“I understand. You had talked about the cows?”

“Yes, sir.” . . .

“Anyway, you conclude now that that is not the case? That really he did not get it confused with six or eight cows, but he got it confused with these \$68,000 checks to the manager of the horse farm?”

“That is how the confusion occurred.”

"That is your present theory?"

"Yes, sir."

Mr. G. T. Stanford, for the Sinclair defense, took the witness and attempted to establish that Sam Hildreth, who was known all over the United States as one of the most famous trainers of race horses was "the manager of the horse farm" in Wahlberg's mind. The word "trainer" did not possess the same values for phonetic misunderstanding as the word "manager" or "foreman."

At the conversation between Archie Roosevelt and G. D. Wahlberg another secretary had been present for a time. Merritt Baldwin, Wahlberg's assistant, testified at the 1928 oil investigation that Archie Roosevelt "had quite a few highballs" before he spoke with Wahlberg. The checks for Hildreth were lying on Wahlberg's desk at the time, Mr. Baldwin said, and he testified that he had remarked to Wahlberg:

"The chief signed this check, and I guess I had better shoot it out to Sam Hildreth," and he said, 'Go ahead.' I held it out and let Archie see it. The check was for \$68,000 to Sam Hildreth, which covered \$25,000 plus 10 per cent of the purses—that was his contract on the purses, and that brought it up pretty heavy. Of course, Wahlberg was great on this kind of stuff, and he figured that Hildreth was not entitled to that from an economic point of view and he thought it was too much money for Hildreth to get; he did not appear to be happy about Hildreth getting \$68,000 for one year. He asked me about that and, of course, told me that Roosevelt said this, that, or the other thing; and I said, 'Well that is my recollection of the affair.' I had the check, and I put the check in the mail chute myself that night.

"You see," Mr. Baldwin added, "Wahlberg is a pretty sincere sort of a person, and he was very much troubled that Archie should have made these statements, and he said to me, 'Archie would not deliberately tell a lie and it must have been Archie's understanding of what took place'; so I said, 'Maybe it was because you had a couple of drinks in there?' He said, 'No; that did not have anything to do with it.' I just told him my recollection of what took place, just to ease his conscience and set him right that Archie was incorrect."

"What was the attitude of Mr. Sinclair about the whole transaction?" Senator Walsh asked Mr. Baldwin.

"Well, I do not know; he just laughed it off; I mean he did not seem to take it very seriously."

From Paris, Mr. Sinclair sent the Senate committee a long cable, stating that he had come to Europe on business only after he had been discharged from further testimony by the committee, and he reiterated that neither he nor any of his companies had ever "given Secretary Fall or any representative of the Government any money or any consideration whatsoever in connection with the Teapot Dome lease." He refused to turn over the books of the Hyva Corporation, however, on the ground that the President of the United States had ordered legal proceedings to be instituted to determine the question of fraud in the leases, proceedings which, he cabled, he personally welcomed, and that he alone was the proper party to testify concerning any records which might be pertinent. "Any other procedure," Harry Sinclair concluded, "it seems to me, is entirely unfair and not in accord with the American idea of a square deal."

The sensational testimony which had been taken by Senator Walsh during the month of January had aroused the interest of the country. At first there had been a tendency to regard the Teapot Dome investigation as a mere political inquiry designed to gain votes for the Democrats, but as Senator Walsh gradually brought out facts and circumstances it developed that the situation was much more serious than even the Democrats had suspected.

The next important witness was Edward L. Doheny, who had testified previously to the purity of his relations with Fall, but who was now constrained to admit that money had passed between them, however pure his intention. Doheny met Fall in New Orleans, after McLean's testimony in Palm Beach. Colonel Zevely also met Fall there. But now there was a tendency on the part of the Doheny faction to keep strictly separate from the Sinclair group. If there was to be any hanging, Doheny seemed to prefer to take his chances alone rather than to join forces—by advice of counsel. All the two groups had in common was Fall, and perhaps each knew him well enough to realize that there was no telling how much and by what means he had got from the other.

There was a conference in the St. Charles Hotel in New Orleans about eight o'clock Sunday night, January 20th. At that moment Archie Roosevelt and his brother were in Washington preparing to tell all Archie thought he had heard. Those present in Fall's room at the St. Charles Hotel were Fall, Doheny, Gavin McNab, Doheny's lawyer, and W. A. Hawkins, Fall's law partner. Colonel Zevely was anxious to join the conference, but Mr. Doheny, on advice of Mr. McNab, refused to see him. Mr. McNab testified later that when he and Doheny entered Fall's rooms, Doheny said to Fall: "Why didn't you do as I told you to in the beginning when these things started—tell all about this thing? You remember that I told you to do so." It would be interesting to know whether in the early hours of Monday morning Colonel Zevely received a long distance telephone call in New Orleans from G. D. Wahlberg, who was worrying in New York after he had been told that he must come to Washington to testify. It was obvious that now Doheny had to tell the Senate committee of his "loan" to Fall. On January 24, 1924, he testified again before the committee.

Mr. Doheny told a peculiar tale. He began by informing the committee in a belated confession that on November 30, 1921, he had loaned Albert B. Fall \$100,000 on Fall's promissory note, in order to enable Fall to purchase a ranch in New Mexico. Fall's desire to acquire the Harris ranch, adjoining his own property, Mr. Doheny told the committee, "was a hope of his amounting to an obsession," and he added that when Fall had failed to raise the necessary money out of his Mexican mine holdings, he had felt "that he was a victim of an untoward fate." Doheny and Fall had been friends for thirty years, and, Doheny testified, they had camped together, mined together and worried about the Indians together in New Mexico; he felt, he said, that when one had mined, camped and worried about the Indians with a man, one naturally lent him \$100,000.

"We both worked in the same mining district in New Mexico in 1885," Mr. Doheny testified. "In those days the Indian troubles were still on the country, and we were bound together by the same ties that men usually are, especially after they leave camp where they have lived under trying circumstances and conditions. Sometimes when men are in camp where their conditions are hard, and where the struggle for a living is

precarious and the danger from Indians is bad, they do not have such a very great feeling for each other; but after they leave there they become warmer friends by reason of having associated under the same conditions.

"Furthermore, I studied law at the same time that Senator Fall did. I practiced for a short time in the same district that he did. I watched his career all through the development of it, as district attorney, United States judge, and United States Senator. I was very much interested in him on account of our old associations. I, myself, followed prospecting. I was fortunate and accumulated quite a large amount of money. Senator Fall was unfortunate, and when he was telling me about his misfortunes, and at a time when it was coupled with his misfortune of having to bear the loss of his two children—two grown children—I felt greatly in sympathy with him. He was telling me about his hope of acquiring this ranch, and being of an impulsive nature I said to him, 'Whenever you need some money to pay for that ranch I will lend it to you.'"

It was singular that one day after Secretary Fall had received a letter from his old friend Doheny offering to construct oil tanks for the Navy at Pearl Harbor, Hawaii, in return for oil from the naval reserves in California, Secretary Fall should need the money to pay for that ranch, and that two days after Fall had received Doheny's letter about the Navy's oil, Doheny should have sent his own son to Washington with \$100,000 in United States currency in a satchel. Thereafter, Mr. Fall, too, may have remembered the old days when he and Doheny had fought Indians together, studied law together and mined and camped together; he, too, had watched his old friend's career with interest, and saw that he had prospered; being likewise of an impulsive nature, Mr. Fall, who had acquired control of the Navy's oil lands, was quite willing to turn over the nation's property to his old friend of prospecting days.

A newspaper in New Mexico published the following parody, entitled "The Golden Fleece," which, perhaps, sums up the situation:

"Abou Dough Heenic (may his tribe increase)!
Awoke one night from a deep dream of peace
And saw within the moonlight in his room,
Making it rich and like a lily in bloom,

A Senator writing in a book of gold.
Enormous wealth had made Dough Heenie bold.
And to the Senator in his room he said:
'What writest thou?' The statesman raised his head,
And with a look which made Abou boil
Answered, 'The names of those who seek for oil!
'And is mine one?' said Abou. 'We will see!
Replied the Senator; but Abou Dough cheerily
Responded in a still and softer tone,
'Write me as one who loves to make a loan.'
The Senator wrote and vanished. The next day
He came again—it looked like Caraway—
And showed the names of those whom Fall liked best,
And lo! Dough Heenie's name led all the rest."

Mr. Doheny insisted that his loan to Fall and the leases his company received were two entirely separate transactions and had nothing whatever to do with each other. Then Mr. Doheny's attorney read a prepared statement offering to turn back the naval oil reserves to the Government, if a board of experts appointed by the President of the United States should decide that the contracts made by Fall were not "wise, desirable and advantageous for the Government." The offer, however, was a little late, for the courts of the United States had now to decide whether the leases were collusive and fraudulent.

"How did you come to make this remittance to Senator Fall in cash?"
Senator Walsh asked Mr. Doheny.

"That it just what I said a moment ago. I do not remember whether it was the result of his request or whether it was my own idea of sending it to him in cash to pay for the property. But he was going to use it down in New Mexico, and I thought perhaps—well, I do not know exactly how that was, as my memory is not good on that point."

Senator Walsh inquired whether the method Doheny had used of sending the cash to Fall in a satchel with his own son as messenger, after the bills had been drawn out of the son's account in a New York bank, was not unusual. Mr. Doheny could find nothing unusual in the procedure. He

said that he had been used to doing business in Mexico where cash was often used. "I was not speaking of Mexico," Senator Walsh reminded him. "I dare say a remittance to Mexico would require that it be made in essentially different way than in this country. But I am speaking of a remittance from New York to Washington." But Mr. Doheny had no further explanation to offer of his unusual use of cash.

Mr. Doheny also testified that to lend an old friend like Fall \$100,000 "was a bagatelle to me; that it was no more than \$25 or \$50 perhaps to the ordinary individual. Certainly a loan of \$25 or \$50 from one individual to another would not be considered at all extraordinary, and a loan of \$100,000 from me to Mr. Fall is no more extraordinary."

"I am examining you," said Senator Lenroot, "concerning your own statement, that by reason of your accommodation to Mr. Fall you think that had he a discretion to exercise he might have been more likely to exercise it in your favor."

"Why, I admit that," Mr. Doheny said.

"Very well."

"I don't think he is more than human," Mr. Doheny remarked.

Mr. Doheny also admitted on cross-examination that his company had got the leases to the naval oil reserve from Secretary Fall without competitive bidding, and that he expected to make \$100,000,000 out of his leases, though other oil men, he said, were not so confident as he of their potential value. His partner and brother-in-law, Mr. Anderson, Doheny testified, was against the idea of the lease, but he himself wanted to help out Admiral Robison and the Navy. "There is nothing extraordinary about me," Mr. Doheny told Senator Walsh. "I am just an ordinary, old-time, impulsive, irresponsible, improvident sort of a prospector, and I do not pretend to keep track of the details of our business."

When Doheny had first testified before the Senate committee on December 3rd, he had said nothing of a loan to Secretary Fall. He had then told the committee that he felt very badly about the finger of suspicion which was being pointed at his old friend, Fall, that in fact he was "greatly outraged about it." Senator Lenroot wanted to know, on

January 24th, why, in view of his outraged feelings, Doheny had not told the committee the facts on December 3rd. Mr. Doheny replied that he felt that it was Fall's business to tell the committee of the loan, that after his first testimony he had met Fall in New York and urged him to do so, and then he added that "it was not pertinent to any question I had been asked all the way through."

"I refer," Senator Walsh said, "to the letter sent to the committee by Senator Fall in which he stated to the committee that he got the money from Edward McLean."

"Yes," Mr. Doheny remarked, "I read that letter."

"Now, where were you at the time that you learned of the communication?"

"I was in California."

"Mr. Doheny, why did you not promptly advise this committee that that was not correct?"

"Well, that is a difficult question to answer, I will say, Senator. I was willing to await developments and see what they were going to develop."

"And you did wait, Mr. Doheny?"

"I did wait; yes, sir."

"Until the developments resulting from the taking of the testimony of Mr. McLean in Florida."

"Yes, sir."

"Well, you appreciate now that that was rather dangerous, do you not?"

"Rather dangerous for whom?"

"For both of you."

"I don't see how it can be."

"Perhaps I did not express myself properly," Senator Walsh said. "You appreciate that a greater degree of suspicion attaches to the transaction by reason of that evidence?"

"Sure."

"I would like to have you tell us, then, in that situation of affairs, just what developments you were awaiting, Mr. Doheny, and just why it was that you did not come forward at that time and tell the committee about it?"

"Well, I think that I came forward pretty promptly. I am here, and this is still early in January, and that occurred in the holidays. I don't

know whether I read it the day it was published or not. I know I was not taking on any concern of what happened here during the holidays. I was with my family and ——”

“Mr. Doheny,” Senator Walsh interrupted, “you doubtless heard as well that Mr. McLean had sent a communication to this committee in which he told the committee that he had loaned this money?”

“I heard that also.”

“And that this committee was being deceived by both Mr. McLean and Senator Fall concerning the origin of those funds?”

“It was not my business to identify the money that I loaned to Senator Fall. It might well be he had borrowed some money from Mr. McLean. He had talked to me about borrowing money from Mr. McLean. I didn’t know but he did, because there was more than \$100,000 expended on the ranch. I came forward promptly.”

The committee, however, did not feel that Mr. Doheny had come forward promptly to tell the truth, and even after he testified the second time, he had not told all. On February 1, 1924, Mr. Doheny was examined a third time by the Senate committee. This time he had with him the note he had received from Secretary Fall in return for his \$100,000. But the note was torn into two parts, one the note proper, and the other the signature of Mr. Fall. He explained that in December, 1921, he and Mrs. Doheny were leaving New York for California, and that as he was going through his papers, he came across Fall’s note. Mr. Doheny testified that he thought at the time that in case he and his wife were destroyed in a train wreck on the way to California, he would not like to have Fall bothered by his estate for the money, and so he tore the signature off and left it in New York, while the note itself he kept in his pocketbook in his inside pocket. When he had been before the committee the second time, he had this mutilated note in his pocket, but he had not presented it to the committee when the Senators had asked to see it. When he was asked why he had not told the committee about the note in his pocket on January 24th, Mr. Doheny said: “I thought that the wisest thing to do was to produce the entire note, and not produce a part of the note, which might add to the suspicions which you folks already entertain, and which the world entertains, that this was a crooked transaction.”

"Well, if you were asked by any member of the committee to tell all about this loan and that note, then you did not tell the whole truth, did you?" Senator Pittman asked Mr. Doheny.

"Are you trying to get me to admit that I lied about it?" Mr. Doheny asked. "Because there is no use; if I lied about it, I lied about it. I don't need to admit it to you. It is in the evidence, whatever I said, and my admitting it doesn't make any difference in the testimony at all."

"No," Senator Pittman remarked, "I am trying to see if you are as innocent as you are pretending to be."

Then Mr. Doheny and Senator Pittman got into a discussion as to whether or not Mr. Doheny was a liar. Senator Pittman pointed out that if he had not wanted to be considered such, he could have reached into his pocket and produced the torn half of the note without the signature. To have done that, of course, would have been to confess to the committee that Fall's note was not negotiable, and it would have added to the suspicions which those folks and the world already entertained that the transaction was crooked. Mr. Doheny blandly told the committee that he had not regarded the note as a note without its signature, and therefore had said nothing about it.

Mr. Doheny was asked how he expected that the note with the signature torn off could have been collected from Mr. Fall. He answered that in the event that he and his wife were killed in a railroad wreck, their son could have gone to Mr. Fall and said: "The note you gave to my father was lost when they were in that wreck, and we want a new note for it," and we believed that Fall would give him a new note, and in case we were all killed in a wreck, why of course it would have been a legacy to him."

"Could you not have provided in your will that this should be considered as a legacy to Senator Fall?" Senator Pittman asked.

"It might have been done in a dozen different ways, and every one better than this, but this is the one I adopted, Senator Pittman."

A few moments before Mr. Doheny had burst out with: "What difference does it make now if I could have thought of any other way of

doing it? I did it this way. This thing is done." Mr. Doheny also admitted that he had not listed Fall's note as an asset in his income tax returns. All the circumstances seemed to indicate that Mr. Doheny regarded his payment to Fall as more in the nature of a gift than a loan.

Another circumstance which Mr. Doheny had kept from the committee on the occasion of his second testimony, and which had to be dragged out of him at his third examination, was that he had borrowed the \$100,000 to pay Fall from his son and had paid his son in two separate checks, thus making it harder for investigators to trace the payment to Fall if they should try to do so. When asked why he had not told the committee about this element in the transaction, Mr. Doheny said that it was because he wasn't asked. Senator Lenroot reminded him that he had come before the committee with a voluntary statement which was supposed to be the truth, the whole truth and nothing but the truth.

Before finishing his final testimony before the Senate committee, Mr. Doheny tried to shield Fall from the charge of lying when he said that McLean had lent him the \$100,000:

"Mr. Doheny," Chairman Lenroot asked, "did you ever tell Mr. Fall what you had done with reference to mutilating this note?"

"Yes; I told Mr. Fall about it."

"When?"

"Last December, when I urged him to come in and tell about the note. I told him that I had torn the note in two, in case it should be used to injure him. And I want to say right now, and I don't mind saying it under oath, without any question being put to me, that I think it was poor Fall's attempt to screen me that caused him, that note being mutilated, to tell that white lie, or black lie, whichever you call it, about getting the money from McLean, and he told it because he thought that might screen me until I could get the note together. He knew I only had a part of the note."

By the time Senator Walsh and the other members of the committee had got through with Mr. Doheny, the country was as suspicious as the Senators that Mr. Fall had received money from Mr. Doheny in return for leases to the Navy's oil lands. It was now obvious that Fall had profited by his position as Secretary of the Interior, if only in the form of so-called

loans. But the country was prosperous, Coolidge was in the White House, and the national slogan was, "Don't Rock the Boat." Senator Walsh, who had done such able work in dragging the truth out of evasive and unwilling witnesses, was considered in many parts of the country as a malicious muckraker with political ambitions. The San Francisco *Chronicle* questioned the importance of his revelations; a St. Louis newspaper called him a hyena clawing into the grave of President Harding. While Senator Walsh was delivering his speech on the floor of the Senate on February 8, 1924, outlining the details of the oil scandals thus far revealed and recommending that President Coolidge should demand at once the resignation of Secretary of the Navy Denby, there were only five Republican Senators who remained in the chamber to listen to him, and they were progressive Republicans who were not in the good graces of their own party. Senator Walsh's comment on Denby was: "Stupidity is not a ground for impeachment, so far as I have been able to discover." He therefore recommended that Denby's resignation should be demanded, since he could not be impeached. On February 11th the Senate voted by a vote of 47 to 34 to ask President Coolidge to demand Denby's resignation. Coolidge denied the Senate's request, but a week later Denby resigned voluntarily, still insisting on the legality and propriety of the leases. President Coolidge accepted the resignation avidly.

Fall was under subpoena to appear before the Senate committee again after the McLean testimony, the Roosevelt and Wahlberg testimony and Doheny's belated admissions. On January 29, 1924, the day Fall was supposed to appear to explain his financial transactions and their connection with the oil leases his attorney, Levi Cooke, appeared before the committee and read a statement from Dr. John Wharton, Dr. Henry P. Parker, Dr. William Mercer Sprigg and Dr. Caryl Burbank:

The undersigned have this day carefully examined Hon. A. B. Fall. We find that it would be detrimental to Mr. Fall's health for him to leave his residence in his present condition.

We further state that we see no objection from a medical standpoint to Mr. Fall's being examined by the Senate committee at his residence.

We recommend that the examination be conducted at the earliest convenient moment.

Mr. Fall was then in Washington, though for a very sick man he had done a great deal of traveling about the country within the past month, going from New Mexico to Washington, to New York, to Atlantic City, to Washington, to Palm Beach, to New Orleans and to Washington again. In the ensuing discussion as to whether the committee should go to Fall or Fall to the committee, Senator Walsh said: "I should dislike very much to intrude myself in Senator Fall's sickroom." Senator Walsh was probably thinking of the occasion when Senator Fall had been a member of the Senatorial committee which went into President Wilson's sickroom to ascertain his condition. It was reported at the time that Senator Fall had bent over the bed and said unctuously to the sick President: "Mr. President, I am praying for you." And it was also reported at the time that Mr. Wilson had said it was the only time in his life when he had felt like smashing a man in the face.

All during his difficulties Fall used his health as an excuse whenever possible, and he tried in every way to put the Senate and the courts in the position before the public of hounding a dying man to the grave. Senator Walsh asked Fall's attorney when Mr. Fall would be able to appear before the committee. Mr. Cooke replied that from his own observation Fall was "on the verge of a nervous breakdown." "He has been under great strain for the past few weeks"; he added, "he has traveled extensively; he has been put to great physical strain as well as mental concern, and I gather from the statements which the physicians make to me that delay in examination adds to the difficulty of his position as a matter of health." Mr. Cooke also requested that if Fall's physicians were to be examined by the committee concerning Fall's health that they be examined privately in executive session, as "the question of a person's health is a matter that can be well considered privately." The Senate committee decided to send three physicians of its own to Fall's sickbed instead of questioning him in the privacy of his room and thus gaining him the sentimental sympathy of a portion of the public. The committee's physicians reported:

Mr. Fall shows the effect of severe nervous strain, but his general appearance is fairly good. He is somewhat anemic looking and his

muscles are flabby. The radials are soft, the pulse 92 to the minute and regular. The blood pressure is 170 systolic, 90 diastolic.

The heart is normal as to size and sounds. The lungs are apparently normal. The abdomen is negative except for slight tenderness in the gall-bladder region.

We are told by the attending physicians that there is no evidence of disease of the kidneys.

He is in an anxiety state, but there is no evidence of organic nervous disease and no psychotic symptoms.

In our opinion Mr. Fall is in condition to appear before the committee.

THOMAS A. CLAYTOR.

DANIEL D. V. STUART.

STERLING RUFFIN.

Dr. Sterling Ruffin had been one of President Wilson's physicians.

The committee then ordered a subpoena to be issued for Fall, calling for his appearance before the committee at 10 o'clock the following morning. Fall appeared, and at the first question Senator Walsh put to him, he read a prepared statement declining to answer on the grounds of the technicality that the Senate resolution under which the committee was sitting was no longer in operation, having expired with the end of the Sixty-eighth Congress, and on the grounds that his answers might tend to incriminate him, inasmuch as Congress had ordered the President to institute criminal and civil suits in connection with the leases. Senator Caraway had introduced Senate Resolution 54 on January 7th, declaring that it appeared from evidence taken before the Committee on Public Lands that the leases to Teapot Dome and the California naval reserve "were executed under circumstances indicating fraud and corruption." It was not until after the McLean testimony, the Roosevelt and Wahlberg testimony and the Doheny testimony, however, that the Senate passed the resolution unanimously on January 31st and it was concurred in by the House.

The committee adjourned after Fall's refusal to answer questions on February 2, 1924, and, when it met on the following Tuesday, February 5th, it had additional authority from the Senate to sit, but Fall still in-

sisted on his constitutional rights not to answer on the grounds that his answers might tend to incriminate him. His subpoena was vacated rather than grant him immunity from prosecution.

After Harry Sinclair returned from Europe, he, too, was subpoenaed again by the Senate committee. He appeared on March 21, 1924, accompanied by his lawyer, Martin W. Littleton, who argued that the committee had no further authority to continue its investigation because of the fact that the Senate had passed its resolution calling for criminal and civil suits. Mr. Littleton also argued that the committee had no right to exercise judicial powers and therefore could not compel witnesses to tell them anything if the witness declined to answer. He maintained that since his client was a defendant in a suit brought by the United States, he could not answer without incriminating himself. The Senate committee denied Mr. Littleton's contention that it had no authority to investigate and voted to call Sinclair. Sinclair, by advice of counsel, declined to answer all questions put to him by Senator Walsh. At the committee session of March 24, 1924, Mr. Sinclair was cited for contempt of the Senate and a few days later a grand jury indicted him for contempt. In their arguments on the contempt charge Sinclair's lawyers, Martin W. Littleton, J. W. Zevely, George P. Hoover and G. T. Stanford quoted Patrick Henry, George Washington, Alexander Hamilton, George Mason and James Madison on usurpation of official powers.

The stockholders of the Sinclair Consolidated Oil Corporation refused to see anything wrong in what Sinclair had done, and on May 23, 1924, they gave Harry Sinclair a vote of confidence for the manner in which he had negotiated the Teapot Dome lease. After the resolution of confidence was passed, Mr. Sinclair "admitted" that "the government did get a little better of the contract." "Nevertheless," he told his stockholders, "I made it and am going to carry it out." In his speech to his stockholders Mr. Sinclair expressed his appreciation of their confidence and declared the work of the Senate investigating committee to be "unfair and un-American." Mr. Sinclair had expressed his attitude toward the Senate investigation in March, 1924, to Clarence W. Barron: "Everything is now a matter of fashion. Sometimes everything is exposed and sometimes you can't see their ankles. The government," he added, "hasn't a Chinaman's

chance to cancel the Teapot Dome lease. The only mistake Doheny made was to offer to cancel the lease."

On June 30, 1924, Fall, Sinclair, Doheny and Doheny's son were indicted by a special United States grand jury for conspiracy and bribery.

9

WHEN the first Teapot Dome investigation ended in the spring of 1924, the government knew only that Fall had leased the naval reserves to his friends Sinclair and Doheny without competitive bidding, that he had spent more money in 1922 than could be accounted for even by the Doheny payment to him of \$100,000, and that Doheny had paid him \$100,000 which Mr. Doheny insisted was a friendly loan. The leases had been denounced in the Senate as fraudulent and were now to be considered by the courts, and some of the principals were under indictment.

Owen J. Roberts and Atlee Pomerene, appointed by President Coolidge to handle the government's case in the effort to get back the naval oil reserves and to punish the alleged conspirators, went to work promptly. During the summer of 1924, while the political orators were using some of the material unearthed by Senator Walsh in the futile effort to defeat Coolidge and the Republican Party, Mr. Roberts and Mr. Pomerene were quietly examining Fall's bank accounts. They visited the banks at which Fall had had accounts and found that 3½ per cent Liberty bonds had been deposited to his account at the First National Bank of Pueblo, Colorado, and that some of them had found their way into accounts of his at a bank in New Mexico and at another bank in El Paso, Texas. The attorneys took the serial numbers of the Liberty bonds and began to trace their origin. The bonds had been deposited in the First National Bank of Pueblo by M. T. Everhart, Fall's son-in-law, and all that could be learned at first was that Everhart had been in the East before bringing the bonds west for deposit. After diligent search Roberts and Pomerene learned

that along with other Liberty bonds, bonds bearing these particular serial numbers had been purchased by the New York branch of the Dominion Bank of Canada and had been delivered to H. S. Osler, barrister-at-law of Toronto.

The government attorneys went to Canada to call on Mr. Osler, but they found him reluctant to talk. He mentioned, however, that he had purchased the bonds in question for a Continental Trading Company, Ltd., of which he was the president. The government attorneys had never heard of this one, but they did not let Osler know that. Osler made a few careful remarks about the business of the Continental Trading Company, and said that it had dealt in oil in New York. He also mentioned that Colonel A. E. Humphreys had had something to do with the transaction. The attorneys then went to see Colonel Humphreys, who told them of the conference at the Vanderbilt Hotel in New York on November 17, 1921, at which he had sold the mysterious Continental Trading Company 33,333,333 $\frac{1}{8}$ barrels of oil, and where he had made his agreements with Sinclair, Stewart, Blackmer and O'Neil.

Meanwhile, those who had purchased Colonel Humphreys's oil at the Vanderbilt Hotel and resold it to their own companies at a potential profit to themselves of more than \$8,000,000 had begun to get worried. On May 26, 1923, the contract of the Continental Trading Company, Ltd., with the Humphreys oil company was assigned to the Sinclair company and the Prairie company directly in consideration of a payment of \$400,000, and the affairs of the Continental Trading Company, Ltd., were wound up. The four men thus gave up a potential profit of about \$5,000,000. Liberty bonds worth \$3,080,000 had already been purchased for the Continental Trading Company and distributed to Sinclair, Stewart, Blackmer and O'Neil by the time the company was liquidated. The books and records of the Continental Trading Company, Ltd., were destroyed, and its charter returned to the State Department at Ottawa. Mr. Osler later insisted that this was done only because he was moving his law office, and as the company's functions had ceased he saw no reason for keeping its records. The last packages of Liberty bonds were delivered by Osler to Sinclair, Stewart, Blackmer and O'Neil in June, 1923.

The Senate committee appointed to investigate the leases to naval oil reserves began its sessions in October, 1923. In September, 1923, James

O'Neil, one of the most prominent figures in the oil world, suddenly resigned his position as president of the Prairie Oil & Gas Company. In December, 1923, after the Senate committee had begun to get information on the activities of Fall, Sinclair and Doheny, H. M. Blackmer, an equally prominent figure in the oil world, resigned his position as president of the Midwest Refining Company. In January, 1924, when Senator Walsh had got on the trail of Fall's sudden wealth, Colonel Robert W. Stewart, James E. O'Neil and H. M. Blackmer stopped cashing the coupons on the 3½ per cent Liberty bonds which Mr. Osler had given them. O'Neil and Blackmer left for Europe in February, 1924, and remained there for many years—far from Senate subpoena servers.

The government attorneys, having the information that bonds purchased for the mysterious Continental Trading Company, Ltd., had found their way into the bank accounts of Secretary Fall, tried their best to find out more about the Continental Trading Company. At the trial of Fall and Sinclair for conspiracy to defraud the United States government, which was held in Cheyenne, Wyoming, in September, 1924, an attempt was made to get Osler to testify concerning the company of which he was the president, but he refused to disclose the confidential relationship between attorney and client. Application was then made to the Canadian courts to compel him to testify, and it was ruled that he must testify. But in the meantime Mr. Osler had remembered a pressing engagement to hunt lions in Africa, and he refused to return to Canada. He remained abroad and resisted all attempts to get him to testify, or to pay an income tax on the \$60,000 he had received as his commission in the Continental transaction. The United States government sent officers to France to take depositions from Blackmer and O'Neil, but they declined to answer questions, and by French law they could not be compelled to do so.

On March 9, 1925, the government opened its suit at Cheyenne, Wyoming, for return of the lease to Teapot Dome. Meanwhile, in October, 1924, suit to recover the California reserve from Doheny had been started at Los Angeles. When the Teapot Dome trial began, an effort was made to subpoena Colonel Stewart, in order that the government might find out something from him about the Continental Trading Company. But Colonel Stewart had pressing business at the moment in South

America and Mexico and could not see his way clear to returning to the United States in time for the trial. John D. Rockefeller, Jr., whose interests owned about 15 per cent of the stock of the Standard Oil Company of Indiana, of which Stewart was the head, sent Colonel Stewart a cablegram urging him to return to the United States and testify. When Colonel Stewart finally did return to the United States at his convenience, he met Mr. Rockefeller and expressed considerable resentment at the latter's interference and the implication he felt was in Rockefeller's telegram that Stewart was absenting himself from testimony.

At the trial in Cheyenne, Judge Kennedy refused the government's request for a continuance of the trial until Osler could be found in South Africa. Since Sinclair was under indictment, he could not be compelled to testify against himself concerning the Continental Trading Company; the other participants, as we have seen, had gone abroad. Judge Kennedy dismissed the government's suit to break the Teapot Dome lease, and this first legal skirmish ended in victory for Fall and Sinclair, with the government knowing nothing more about the purpose and activities of the Continental Trading Company, Ltd.

The government had better luck in its suit against the Doheny company at Los Angeles. Judge Paul J. McCormick decided in the United States District Court of California: "That the payment of \$100,000 by Edward L. Doheny to Albert B. Fall, under the circumstances under which said payment was made in this case, was *contra bonos mores* and against public policy." It constituted, Judge McCormick said, a fraud and made void all contracts between the government and the Pan-American Petroleum & Transport Company for these transactions.

In May, 1925, while the government's suit to recover Teapot Dome was still going on, James E. O'Neil came secretly to Canada. In the previous November, Mr. C. H. Kountz, a vice-president of the Prairie Pipe Line Company, who had been O'Neil's secretary, had visited him at the home O'Neil had established in the Villa San Antonio at Cannes, France. When Mr. Kountz returned to the United States, he told Mr. W. S. Fitzpatrick, chairman of the board of the Prairie Oil & Gas Company, that Mr. O'Neil wanted to see him about something personal. In May, 1925, Mr. O'Neil arrived at Montreal and sent Mr. Fitzpatrick a telegram asking him to meet him there. Mr. Fitzpatrick went to Mon-

treas, accompanied by Mr. Kountz and Judge Flannelly, general counsel of the Prairie Oil & Gas Company.

Mr. O'Neil told the three officials of his former company that he possessed a share of the profits of the Continental Trading Company, that he had kept that share intact, except for some coupons on the bonds which had been cashed, "by some inadvertence or some slip." Mr. O'Neil had not made out an income tax return for these bonds, "because," Mr. Fitzpatrick testified later, "he did not believe it was his money and did not believe it belonged to him, and he wanted to make it right." Mr. O'Neil also told Mr. Fitzpatrick that the doctors had given him eighteen months to two years at most to live, "and he seemed to believe it, and he wanted this matter righted before the end came." But there was one thing Mr. O'Neil wished to be sure about, and that was that the Prairie Oil & Gas Company would do nothing with the Liberty bonds which would embarrass his friend Harry Sinclair, who was then on trial. Mr. Fitzpatrick agreed that the Prairie Oil & Gas Company would not cash the Liberty bonds at present, and then Mr. O'Neil arranged for Mr. Fitzpatrick and Mr. Kountz to go to New York and get from his son, Wayne O'Neil, the bonds O'Neil had received from Osler and turn them over to the Prairie company, where he felt, belatedly, that they belonged. Mr. Fitzpatrick testified later before the Senate committee:

"I asked Mr. O'Neil at that time when he made that request if the Teapot Dome was connected with this matter, and he raised his hand and said he would swear to God he never knew anything about Teapot Dome, and that it had no connection whatever so far as he knew with the Continental Trading Co."

Mr. O'Neil probably knew, since he was so anxious not to embarrass his friend, Harry Sinclair, that Sinclair had given Fall some of the Liberty bonds he had received as his share of the Continental deal. He may also have known, what very few people knew at the time and what the country only learned a few years later, that Mr. Sinclair had also given some of these Liberty bonds to Will H. Hays to help pay off the huge deficit which the Republican Party had contracted in the expensive campaign to elect Warren G. Harding President of the United States.

At any rate, Mr. O'Neil was worried, and he wanted to be rid of his Liberty bonds as fast as possible, what with Senate investigations into oil deals and criminal and civil trials going on.

Mr. Fitzpatrick received from O'Neil's son about \$800,000 in Liberty bonds and took them back to Independence, Kansas, the home of the Prairie Oil & Gas Company. He called a meeting of the directors of the company, told them of the two days he had spent in Montreal with their former president, that he had agreed to accept the bonds from O'Neil in settlement of any claim against him by the company, and that he had assured O'Neil that if the government claimed an income tax on the bonds, the Prairie company would either pay the government the tax or defend any suit for taxes. Mr. Fitzpatrick then turned the bonds over to the treasurer of the Prairie company and took a receipt for them. Mr. O'Neil went back to his Villa San Antonio at Cannes, where he remained, an exile from the United States, until he died on August 24, 1931. He was blind, and it was said that in his last years he was "wrapped up in the church."

The Prairie Oil & Gas Company did not cash the coupons on the Liberty bonds, because, Mr. Fitzpatrick told Senator Walsh, he had promised Mr. O'Neil that they would not embarrass anybody. The company, Mr. Fitzpatrick testified, "were very loyal to Mr. O'Neil. Mr. Kountz was to be his successor, and loved him like you love your wife." When Senator Bratton asked Mr. Fitzpatrick why the company had failed to cash the coupons on the bonds, Mr. Fitzpatrick answered:

"I presume that the reason they have not was because they did not want to volunteer any information to the public that might be dragged into this controversy, to be perfectly frank with you. We all loved Mr. O'Neil and love him yet and I would do as much for Mr. O'Neil—he made all of us, brought us up and gave us the positions we now have, he taught us the business and this is the only thing that anyone of us ever knew or ever heard of in connection with him that might be questioned and we love him and will do as much for him, all of us, as we would do for our own family."

Senator Bratton asked Mr. Fitzpatrick what he and Mr. O'Neil had talked about during their two days' visit to Canada. "Well," Mr. Fitz-

patrick answered, "we talked a good deal about his health but there was not much else said about this particular transaction, this particular matter. He showed a disposition not to talk about the details of this matter, and I certainly had a disposition not to want to know anything more about it than I had to."

In July, 1926, more than a year after his friend James O'Neil had made restitution of the Liberty bonds he had received from Osler, H. M. Blackmer also made a trip from France to Canada. Myron K. Blackmer, his son, who had visited his father in Paris in 1926, told the Senate committee in 1928: "He told me, when I saw him in Paris, that he thought that he would make frequent visits to the United States, but he thought he would live in Paris. He told me that he liked it there." Mr. Blackmer did not make frequent visits to the United States, but he did arrive in Canada in July, 1926.

Mr. Blackmer had requested Karl C. Schuyler, the Denver attorney who had represented Leo Stack in the negotiations with Sinclair, to meet him at the Mount Royal Hotel in Montreal. Mr. Schuyler and Mr. Blackmer had been acquainted since childhood. In November, 1925, one of Mr. Blackmer's attorneys, George E. Holmes, had told Schuyler that he had some of Mr. Blackmer's papers in a safe deposit box at the Equitable Trust Company in New York, that he preferred that the custody of the papers should be in the names of three attorneys rather than one, in case of absence, incapacity or death of one of them, and Mr. Holmes asked Mr. Schuyler to serve along with himself and George Gordon Battle as custodian of the papers. Schuyler had consented. Then in July, 1926, when he went to see Blackmer in Montreal, Blackmer told him that the papers in the safe deposit box were \$763,000 worth of 3½ per cent Liberty bonds, which Blackmer had received as his share of the Continental deal. He assured Mr. Schuyler that, so far as he knew, the Continental Trading Company had never dealt in public officials of the United States and had not been used in connection with the Teapot Dome transaction. Schuyler testified later before the Senate committee that he then asked Blackmer why he had not made a public statement of his position, and why he had not testified in the suit of the United States against the Mammoth Oil Company, to cancel the Teapot Dome lease. Blackmer replied that he was not legally bound to appear as a witness, and that he did not want

to volunteer to testify because his testimony would expose private affairs which might involve him in litigation.

Blackmer was afraid, Schuyler testified, that the Midwest Refining Company, or its parent, the Standard Oil Company of Indiana, might sue him for the bonds he had received from the Continental Trading Company on the grounds that he was not supposed to devote himself to "outside work" while president of the Midwest. Blackmer said he had not paid an income tax on the bonds, because he was afraid that if it were held later by a court that he was not entitled to them, he would not be able to recover the tax, which would amount to about \$300,000 on the \$763,000 worth of bonds. He said he had kept the bonds intact "awaiting developments." He had cashed some of the coupons, but since then purchased other Liberty bonds with the proceeds, except for one bond, which he had kept to reimburse himself for his expenses.

Schuyler advised Blackmer at their conference in Montreal that while he did not think either the Midwest Refining Company or the Standard Oil Company of Indiana had good cases against Blackmer, he would be wise not to take possession of the bonds himself. He advised creating a trustee for them, and Schuyler consented to act as trustee himself. He went to New York, got the bonds from the one safe deposit box, opened another in the same bank and deposited them therein. The bonds were still reposing in that box, "awaiting developments," in 1928 when Schuyler testified before the Senate committee.

After his conference with Mr. Schuyler, Mr. Blackmer went back to France and remained there for some years. In August, 1928, his passport was taken away from him, and in the same year he was charged with making improper income tax returns and assessed \$8,498,000 for additional taxes and penalties. He was also charged with perjury for making false income tax returns. France refused to extradite him in December, 1928. In February, 1929, \$100,000 in Liberty bonds were confiscated to satisfy judgments against Blackmer, and in September of that year he was fined \$60,000 for contempt of court because of his refusal to return to the United States and obey the subpoenas to testify in the cases of Fall and Sinclair. He appealed to the United States Supreme Court and in February, 1932, was held to be in contempt. In May, 1932, he paid the govern-

ment \$3,670,784 to settle tax evasion charges and his fine of \$60,000 for contempt of court.

Meanwhile, the government's suits against Fall, Doheny and Sinclair, and the cases to break the leases to the naval reserves were being tried in the courts. On September 28, 1926, the Circuit Court of Appeals reversed the decision of Judge Kennedy in Cheyenne, Wyoming, and held the Teapot Dome lease to be invalid. On October 10, 1927, the Supreme Court of the United States declared unanimously that the lease to Teapot Dome was made with fraud and corruption and branded Fall as a "faithless public officer."

The Supreme Court had previously decided that the leases to Doheny should be canceled, and in both the Teapot Dome case and the California case the lands were not only returned to the government, but the government was also reimbursed for all oil drilled from them under the contracts and received the tanks which Doheny had constructed and the pipe lines, tanks and other improvements which Sinclair had made at Teapot Dome. It was seven years from the time President Harding first transferred the naval oil reserves to the Interior Department until the Supreme Court turned them back to the government. On August 1, 1927, the oil lands became the property of the United States again and were once more put under the administration of the Navy Department. Since then private interests have made efforts to get leases to them, but these have not been successful.

The government also won a suit against Doheny's Pan-American Petroleum & Transport Company for recovery of \$9,277,660.17, but compromised with the Doheny company for \$5,001,000. In March, 1934, however, Attorney General Cummings filed suit to recover \$9,282,561.85 from the Doheny company on three canceled leases.

Fall and Doheny were tried together on a charge of conspiracy to defraud the United States government and were acquitted by a jury in the criminal court in Washington, D. C. The legal troubles of Fall, Sinclair and Doheny, however, were by no means over.

In March, 1927, Harry Sinclair was tried in the Supreme Court of the District of Columbia for contempt of the Senate. He was convicted and sentenced to serve three months in jail and to pay a fine of \$1,000.

In October, 1927, the trial of Fall and Sinclair for criminal conspiracy to defraud the United States government began in the Supreme Court of the District of Columbia. When court opened on Tuesday, November 1, 1927, Fall was in the room, surrounded by his counsel; Sinclair, whom the New York *Times* reporter described as "a fashion-plate in blue," was chatting with his lawyer, Martin W. Littleton. Beaman G. Dawes was waiting to testify, and so was Colonel Robert W. Stewart.

The government counsel, Owen J. Roberts and former Senator Atlee J. Pomerene, sat silent in their chairs, waiting for Justice Siddons to appear. They looked tired. At one minute after ten Justice Siddons was on the bench. Mr. Pomerene rose to his feet and told the judge that he had a matter of the gravest importance to offer in the form of affidavits and suggested that it be heard in chambers. The *Times* reporter noted that Harry Sinclair, who had been jaunty and confident during the two weeks of the trial, turned ashen pale.

The government's affidavits were sworn to by Assistant District Attorney Neil Burkinshaw, Assistant District Attorney Walter M. Shea, Donald T. King, a newspaperman on the Washington *Herald*, and a streetcar conductor, J. Donald Akers. They concerned the activities of Harry Sinclair and his associates in "shadowing" the jury during the progress of the trial by the use of detectives of the William J. Burns Detective Agency.

Between half past eleven and midnight of October 28, 1927, J. Donald Akers, a streetcar conductor on the F Street car line in Washington, telephoned to the offices of the Washington *Herald*. He asked if that newspaper would be interested in a new lead on the Fall-Sinclair case. He talked on the telephone to Donald T. King, a rewrite man, who told him the paper certainly would be interested. Then Akers told King that "they are going to hang the jury." King asked how he knew that, and Akers replied that one of the jurors had told him so. King asked the juror's name, and after some hesitation Akers answered, "Kidwell." Then King asked Akers for his own name, and after more hesitation, he finally gave it. That day Akers had heard Edward J. Kidwell, a juror in the Fall-Sinclair case, whom Akers knew, remark that the jury would disagree, and Akers said that Kidwell had added: "If I don't get an automobile as

long as this block I will be very much disappointed." Kidwell had also said that a detective had told him that Sinclair was "a fine fellow."

On the morning after this telephone conversation, Saturday, October 29, 1927, Donald T. King obtained Mr. Akers's address from the streetcar company where he was employed and visited him at his home. He asked Akers to make an affidavit concerning the statements he had heard Kidwell make. This Akers refused to do, but he offered to take King to a place which Kidwell frequented. That afternoon Akers and King met by appointment at a soft drink establishment at 411 Four and a Half Street, Southwest. King was introduced to Kidwell by Akers, who called Kidwell "Eddie." They started a conversation, and Akers drew out Kidwell for King. He remarked jocularly to his friend Eddie that, after all, he had no right convicting anybody of anything considering all the things he had done himself. Kidwell laughed and said modestly that he had never done anything. Akers then remarked that he didn't see how Kidwell had been picked as a juror, and Kidwell said that he was "a pretty good yes-and-no man," and that "none of the smart lawyers could make him say what he did not want to say." Kidwell remarked that he was getting his \$5 a day while serving as a juror and was just putting in his time without paying much attention to the evidence; he added that "he could not see any advantage to him in bringing in a verdict of conviction, while there might be some advantage in bringing in a verdict of acquittal." Kidwell added "that there was nothing wrong with this fellow Sinclair, that he was all right, and that he was a democratic fellow, and that he acted just like anybody else, and that he had so much money that he didn't have to put on airs."

Akers said to Kidwell that he supposed he would be riding around in a big car soon, and Kidwell answered: "Well, if I don't have one as long as this block, I will be very much disappointed." Akers then said that he supposed Kidwell was figuring on getting something out of this, and Kidwell answered that "Sinclair had plenty of money, that money was nothing to him, and that there was no limit to what he might do if he wanted to." Kidwell also told Akers and King that the members of the jury had had a game of cards on one occasion, and that he himself had suggested a game of dice, and "that he would get something out of the dice game if he didn't get anything else."

King brought back to the Washington *Herald* the statements of what Kidwell had said in the soft drink establishment, and the newspaper turned them over to the District Attorney's office in Washington. In the meantime, the District Attorney's office had information that the jury in the Fall-Sinclair case was being "shadowed" by Burns detectives, and government agents had been keeping watch on the detectives who were following the jurors. The government attorneys had planned to wait until they had all their evidence collected before presenting proof of these activities, but since Kidwell had talked of the jury's intentions, they decided to work fast. On Monday night, October 31, 1927, the government agents searched Room 111-E in the Wardman Park Hotel, occupied by Charles G. Ruddy and G. N. Robbins, detectives in the employ of the Burns Agency. They seized carbon copies of detailed reports which the detectives had made on their activities.

The government had received its information about the jury "shadowing" from one of the Burns detectives assigned to do the work. Operator L.36, a man named W. J. McMullin, who was known to his associates in the Burns Agency as Long, had furnished the information.

The federal authorities established later that the scheme to "shadow" the jury had been worked out carefully before the Fall-Sinclair case had begun. A clerk in Harry Sinclair's office in New York was waiting to get a telephonic flash from Henry Mason Day, vice-president of the Sinclair Exploration Company. If Justice Siddons ordered the jurors to be locked up, there could be no "shadowing," but if he permitted them to go to their homes each day after court sessions, the detectives were to be employed. When Justice Siddons did not order the jury to be locked up, the signal was flashed by telephone to the clerk in New York, who telephoned to Sherman Burns, son of William J. Burns, head of the detective agency. The clerk gave Sherman Burns a telephone number in Washington which he was to call and ask for Mr. Day. Sherman Burns telephoned to Henry Mason Day, who gave the order for the jury "shadowing" to begin at once. Then Burns telephoned to his Philadelphia agent, Charles Ruddy, who went to Washington together with fifteen other Burns detectives.

Next morning a detective was assigned to each member of the Fall-Sinclair jury. The operatives were all young men who did not look like

detectives. For the next ten days they never permitted a juror to get out of their sight after he had left the jury room, and they only left the jurors' homes when they felt certain that each juror was in his or her bed. They also investigated the financial condition and personal habits of each juror and got lists of his or her friends and neighbors. They tried particularly to find out which jurors might have mortgages on their homes. They learned whom the jurors saw and talked with and took down the license numbers of all automobiles in which the jurors rode. They followed the jurors into restaurants, and one detective took a room in a lodging house next to a juror's home. One of the reports on the jurors, which was typical of the others, read:

No. 5, J. J. C., 10-31-27—Special Report.

Washington, D. C., Sun., Oct. 30, 1927.

New York Operating No. 5023.

New York Investigator M-20 reports:

Continuing surveillance of ——— together with N. Y. Investigator 0-14, we proceeded to subject's home at 7 A.M., and saw car parked just where we left it the night before.

At 2:20 P.M. subject, an old man, a woman and two children drove to a private house in country at 412 Pine Street, Silver Springs, all entering the house at 3 P.M.

Subject looked at a house, picked some Autumn leaves and returned to his home at 5:15 P.M.

At 9:45 P.M. subject walked to a near-by store and got some malted milk.

We remained till 11 P.M., discontinuing.

Expense, \$9.70. Time 1½ days.

The report of the detectives on the talkative juror, Edward J. Kidwell, read:

Kidwell, Edward J., Jr.—White, aged 25, 1,637 U Street, S. E., works for Kneesi, leather goods. Protestant. Organizations, none. Single. This young man is the son of Edward J. Kidwell, who for thirty years has been employed (general labor) at St. Elizabeth's Insane Asylum. Juror has a brother who is a barber.

Since becoming of age he has worked for Kneesi Brothers (trunks and

leather goods), 409 Seventh Street. He was born in Anacostia, D. C. Education, local schools. As a boy he was pretty wild. He has quieted down now but is still a sport.

In addition to "shadowing" the jurors, the Burns detectives had a plan to make the jurors believe that government detectives were following them and thus antagonize them against the government's case. They also planned to get a mistrial declared, if necessary, by making it appear that the government itself had "shadowed" the jury. The Burns men obtained the license number of the automobile belonging to Assistant Attorney General H. R. Lamb and made false affidavits to the effect that one of the jurors, Norman L. Glasscock, had met Mr. Lamb at the Potomac Flying Field. It was this affidavit which McMullin, alias Long, was forced to sign, and as a result he became disgusted with the work of jury "shadower." He went to see Gifford Pinchot, who he felt was honest, and told him the entire story of the jury "shadowing" activities of the Burns detectives. Mr. Pinchot took him to see Owen J. Roberts, government attorney. It was decided that McMullin should go right on working with the Burns detectives every day and report to Assistant District Attorney Neil Burkinshaw every night. McMullin lived with the other men in a Washington hotel, worked with them at watching the jurors and investigating their affairs, and then at about one o'clock each morning he telephoned to Mr. Burkinshaw and reported the day's work. The government was carefully accumulating this evidence, when the streetcar conductor, J. Donald Akers, telephoned to the Washington *Herald*.

A mistrial was declared in the Fall-Sinclair case on November 2nd, and the grand jury began to investigate the jury "shadowing" activities of the Burns men whom Sinclair had employed. After the publication of the affidavits of Akers, King and the two United States district attorneys, more than twenty persons came forward and reported that they had heard rumors about the intentions of the Fall-Sinclair jury. William J. Burns justified the activity of his agency in the case by the false assertion that the government was also "shadowing" the jury.

On November 22, 1927, Harry F. Sinclair, Henry Mason Day, vice-president of the Sinclair Exploration Company, Sheldon Clark, vice-president of the Sinclair Refining Company, William J. Burns, his son,

Sherman Burns, and Charles L. Vietsch, manager of the Baltimore office of the Burns Agency, were cited for criminal contempt of court and charged with an attempt "to bribe, intimidate and influence" the jurors in the Fall-Sinclair conspiracy trial. After a trial lasting eleven weeks, during which more than 1,600,000 words of evidence were taken, they were convicted. Harry Sinclair was sentenced to serve six months in jail; Henry Mason Day was sentenced to serve four months in jail; William J. Burns was sentenced to serve fifteen days in jail, but was later relieved from serving; his son Sherman Burns was fined \$1,000; and Sheldon Clark was discharged by the court.

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WHILE Sinclair's trial for "shadowing" the jury was taking place in February, 1928, the Senate Committee on Public Lands held public hearings to investigate the activities of the Continental Trading Company, Ltd. At the court trials of Fall and Sinclair thus far, it had only been disclosed that there was such a corporate entity, that it had dealt in oil, and that it had bought $3\frac{1}{2}$ per cent Liberty bonds. It had not yet been possible to prove that the Liberty bonds which Sinclair had received from the Continental Trading Company had gone to Fall and other public officials, though it was known from their numbers that some of the identical bonds had been deposited to Fall's account at the First National Bank of Pueblo, Colorado.

In 1921 one of the first acts of Attorney General Daugherty had been to get Congress to pass a law extending the statute of limitations for all offenses against the United States from three years to six years. Daugherty had represented that Democratic officials during the war had been guilty of gigantic frauds, criminal in character, and that they would be likely to escape punishment unless the statute of limitations was extended, because the complicated nature of their transactions required much time to untangle. As a matter of fact, no gigantic frauds on the part of officials

of President Wilson's administration were ever proved, but Daugherty's act worked to the advantage of Fall and his friends for a time. Under the statute M. T. Everhart, Fall's son-in-law, who had deposited Liberty bonds for Fall's account, could not be compelled to testify, so long as he stuck to his contention that what he said might tend to incriminate him—and he stuck to that contention like dear life.

During the interruption of the Fall-Sinclair trial occasioned by the attempt of Sinclair to "shadow" the jury, Senator Walsh induced Congress to repeal Daugherty's act extending the statute of limitations, thus cutting away Everhart's immunity. He was called before the Senate committee in February, 1928, and compelled to tell how he had got the Liberty bonds he had deposited to the account of Fall. He told how Sinclair had given him the bonds in his private railroad car in Washington and at his office in New York. Everhart insisted, however, that Sinclair had given him the bonds for Secretary Fall in return for a one-third interest in Fall's ranch properties, which Sinclair intended to use as a gentleman's riding and hunting club. A new organization was created to hold Fall's property, with Fall and Everhart as its officers, and Everhart acting as trustee for Sinclair's one-third interest, so that Sinclair's name did not have to appear on the stock books of the Tres Ritos Cattle Company, which held Fall's ranch property, and there was nothing in writing to prove Sinclair's interest. Mr. Everhart also admitted on examination that the club was never established on the property.

The Senate committee now knew that Sinclair had given Fall \$233,000 in Liberty bonds which he had received from the Continental Trading Company. In addition Everhart testified that Sinclair had given him \$36,000 in cash as a loan for Fall; and Zevely had also given Fall \$25,000 in Liberty bonds and \$10,000 in cash in order to induce him to go to Russia with Sinclair. In all Sinclair had given Fall \$304,000. Fall had also received \$100,000 as a "loan" from Doheny, and Doheny had also paid their joint expenses when they were on trial together for conspiracy to defraud the United States government. Doheny and Fall had been acquitted of that charge by a jury in Washington on December 16, 1926. Fall had received from his two friends, who had received leases to the naval oil reserves, a total of \$409,000.

There were other things, however, which the Senate committee learned

about the activities of the Continental Trading Company besides the fact that Sinclair had given Everhart Liberty bonds for Fall. When the committee was directed to resume its work, it was the general belief that the Continental Trading Company had accumulated a fund which was devoted to corrupt uses, and that the Continental deal had something to do with Teapot Dome directly. Senator Walsh called as witnesses former Governor Thomas, of Colorado, who had been Colonel Humphreys's lawyer in the big oil deal, A. E. Humphreys, Jr. and Beaman G. Dawes, who were also present at the Vanderbilt Hotel conference in November, 1921. Colonel Humphreys himself had accidentally shot and killed himself at his home in Denver on May 8, 1927, while he was examining his shotguns. As the details were gradually unfolded, it appeared that the Continental Trading Company deal was primarily a shady business transaction on a colossal scale and not an attempt to establish a fund for bribery. Senator Walsh wrote in his report to the Senate:

It seems now, however, to have been the ill-gotten gains of a contemptible steal, the peculations of trusted officers of great industrial houses, pilfering from their own companies, robbing their own stockholders, the share of the boodle coming to one of the freebooters serving in part as the price of the perfidy of a member of the President's Cabinet.

Before the details of the transaction at the Vanderbilt Hotel could be extracted, Senator Walsh had to do a lot of drilling. Blackmer and O'Neil were still abroad and remained there. Stewart was in no hurry to return from Havana on his way from South America. Sinclair only consented to testify before the Senate committee after he was cited for contempt of the Senate and sentenced to three months in jail.

The effort to bring Colonel Stewart to the witness chair was a great one, and in that effort John D. Rockefeller, Jr. did the best he could with a truculent executive of a profitable Standard Oil company. Mr. Rockefeller was a witness before the committee, and he said:

"The situation, Senator, and gentlemen of the committee, is far reaching. It affects certain individuals, but far beyond that it affects the whole oil industry. The oil industry is under suspicion because of

the facts that have not yet been brought to light. The business structure of the country is under suspicion for these reasons. The cynic is saying: "Is there any such thing as basic integrity in business?"

Colonel Stewart finally arrived in Washington and testified before the Senate committee. He denied all knowledge of the Liberty bonds distributed by Mr. Osler and denied indignantly that he had ever received any share personally of the proceeds of the Continental Trading Company. He refused to answer questions on the grounds that he might be called to testify at Sinclair's trial. For his refusal to answer some of the Senate committee's questions, Stewart was cited for contempt.

Sinclair and Fall were acquitted on the charge of conspiracy to defraud the government by a jury on April 21, 1928. The jury deliberated only two hours. The defense had not denied the payments by Sinclair to Fall, nor had it denied that the lease to Teapot Dome was made in secrecy. The jury preferred to accept the story that Sinclair had bought an interest in Fall's ranch to use for a recreational club rather than that he had bribed Fall for a lease to Teapot Dome. The *New York Times* reported: "A man in the crowd said something about 'millionaires.' Another was overheard to tell his companion that had the case involved a poor man the result would have been different." Senator Norris, when asked for his comment, said: "We ought to pass a law that no man worth \$100,000,000 should be tried for a crime. That at least would make us consistent."

On the same day that Sinclair and Fall were acquitted Colonel Robert W. Stewart called the board of directors of the Standard Oil Company, of which he was chairman, to his office. He told them of the bonds he had in a safe; Mr. Barnett, whom Stewart had made trustee for the bonds, opened the safe; seven of the nine directors of the company stood in a group around Colonel Stewart and looked at the \$760,000 worth of Liberty bonds lying there so innocently. They came to the conclusion that the bonds should be turned over to the Standard Oil Company of Indiana and the Sinclair Crude Oil Purchasing Company jointly. The guilty bonds were thereupon placed chastely in a safe deposit vault in the First National Bank of Chicago.

After Sinclair and Fall were acquitted of the conspiracy charge, Colonel Stewart was called to testify before the Senate committee again, for now

he no longer had the excuse that he might be a witness at the trial. This time Colonel Stewart told his elaborate story of the receipt of the bonds from Osler and his trust arrangement through his employee.

"I have never had those bonds in my possession as the owner of them at all," Colonel Stewart insisted. "I have not been in possession of them, except as a mere conduit from Mr. Osler to the trustee, and those are the facts as far as I know them with regard to these bonds. I assume these bonds which Mr. Osler turned over to me must have been connected with the Continental."

Although he claimed to be merely a "conduit from Mr. Osler to the trustee," Colonel Stewart admitted that nobody else knew that he had the bonds. Also, he had cashed some of the coupons and deposited them in his own bank account, until December, 1923, when he suddenly stopped cutting and cashing the coupons. The first Senate committee investigating the oil leases was then in session and was beginning to get on the trail of Fall's sudden wealth. When Senator Bratton asked why Colonel Stewart had ceased to cash the coupons in December, 1923, he replied: "Largely on account of the desire to avoid publicity." "There was a great deal of newspaper notoriety about this proposition at that time, and I thought it was best not to do it," Colonel Stewart added after further questioning.

"Well, Colonel," Senator Bratton asked, "if the bonds were received in the ordinary course of business and turned over to the company, the two companies, or a trustee for the two companies, what reason did you have for objecting to the whole world knowing about it?"

"Oh, I don't know the reason, sir," Colonel Stewart answered impatiently. "I just did not do it. Maybe I made a mistake, Senator, I do not know."

Colonel Stewart had not been accustomed in the course of his long and successful business career to have his acts questioned, but he was destined to undergo much difficulty as a result of his attitude towards the Continental deal. He was indicted for perjury because of his denials when he first testified before the Senate committee, and he was also

indicted for contempt of the Senate. In June, 1928, he was acquitted of the charge of contempt of the Senate, and in the following November he was acquitted of the charge of perjury on a technicality. The technicality was that a bodily quorum had not been present when Colonel Stewart had testified before the Senate committee the first time.

Colonel Stewart's biggest fight, however, was still to come. John D. Rockefeller, Jr. owned 402,280 shares of the stock of the Standard Oil Company of Indiana, and Mr. Rockefeller was shocked at Colonel Stewart's conduct. Mr. Rockefeller did not believe that people should do things like the Continental deal, and Colonel Stewart did not care what Mr. Rockefeller believed. It was a dramatic situation. The austere moralist who headed the largest aggregation of corporations in the United States was pitted against the bluff freebooter who made profits for his stockholders, including Mr. Rockefeller.

Besides the shares of stock he owned himself, Mr. Rockefeller also controlled other large blocks of the Standard of Indiana stock. The Rockefeller Foundation owned 460,760, the University of Chicago owned 30,000, and a little more than 500,000 shares were held in trust by the Equitable Trust Company for Mr. John D. Rockefeller's two sisters. The combined Rockefeller control was just under 15 per cent of the capital stock of the corporation. Mr. Rockefeller, with the aid of his brother-in-law, Winthrop W. Aldrich, began early in 1929 a fierce and dramatic campaign for proxies held by stockholders throughout the country so that he might be able to oust Colonel Stewart from the chairmanship of the board of the Standard Oil Company of Indiana. Colonel Stewart had insisted to Mr. Rockefeller that his acts were legitimate, and that the Continental transaction was a proper one. He had also offered to resign if Mr. Rockefeller should ever lose confidence in him. After Colonel Stewart's second appearance before the Senate committee and his admission that he had received Liberty bonds from Osler, Mr. Rockefeller wrote to him:

Your recent testimony before the Senate Committee leaves me no alternative other than to ask you to make good the promise you voluntarily gave me some weeks ago that you would resign at my request. That request I now make.

But Colonel Stewart refused to resign. Then Mr. Rockefeller and Mr. Aldrich formed a committee on January 2, 1929, to get stockholders' proxies. A printed booklet was issued by the Rockefeller forces, detailing to the stockholders Colonel Stewart's relationship to the Continental Trading Company deal, and giving a chronological account of some features of the oil scandals. The employees and many stockholders of the Standard Oil Company of Indiana appealed to stockholders to support Colonel Stewart, and they hailed him as the man who had made profits for them on a large scale. Many of the employees were also stockholders. During the leadership of Colonel Stewart the Standard Oil of Indiana had declared enormous dividends. The Rockefeller forces charged that the employee-stockholders of the company had been coerced into voting for Colonel Stewart through fear of losing their jobs.

There were 9,232,000 shares of stock of the Standard of Indiana in the hands of 58,000 stockholders. The Rockefeller committee sent out its requests for proxies before the usual time for sending out proxies each year, and Colonel Stewart claimed that this was deceptive and gave the Rockefeller forces an unfair advantage. Colonel Stewart sent out his requests for proxies at the regular time with a clause permitting the stockholders who had already given them to Rockefeller to revoke them. Then both sides began to buy stock of the Standard of Indiana on the Curb market, and the stock gained more than four points in a day. On the first of February, 1929, John D. Rockefeller, Sr. broke the silence he had maintained since the fight began and announced publicly that he was opposed to Colonel Stewart. Until then Stewart's forces had claimed that the elder Rockefeller was in favor of their administration. Then on February 4th, Colonel Stewart's board of directors declared a stock dividend of 50 per cent and a regular cash dividend of 62½ cents a share as well as an extra cash dividend of 50 cents a share, in order to win the stockholders over to Colonel Stewart.

The annual meeting of the Standard Oil Company of Indiana took place in the white and gold auditorium of the Community Centre of Whiting, Indiana, a building which had been put up with the joint contributions of the Rockefellers and the company. Mr. Rockefeller was at the moment in Jerusalem on a tour of the Holy Land. He was represented by

Winthrop W. Aldrich. Colonel Stewart, who already knew that he was defeated, was genial and jovial as he presided over the meeting, which was attended by only a few hundred stockholders, some few spectators and newspaper reporters. Colonel Stewart and the directors sat on the stage with a background of gold draperies. A pickpocket got into the meeting and stole three wallets, including that of Melvin A. Traylor, of the First National Bank of Chicago, who was elected a new director.

Colonel Stewart reported to his stockholders that the net earnings of the company for the year 1928 had been \$83,437,166, as compared with \$33,179,456 in 1927; 8,446,120 shares of stock were represented by proxies at the meeting, and 5,510,313 were voted for the Rockefeller forces, as against 2,954,986 for Stewart. The small stockholders voted for Stewart. One large block of stock owned by the National City Bank, with which institution Percy Rockefeller was associated, was voted for Stewart. For many years William Rockefeller and his son Percy Rockefeller had held different ideas of finance from those entertained by their kinsmen, John D. Rockefeller, Sr. and John D. Rockefeller, Jr.

Then the stockholders whom Colonel Stewart had been accused of depriving of 25 cents a barrel on 33,333,333 $\frac{1}{3}$ barrels of oil in the Continental deal voted Colonel Stewart a pension of \$75,000 a year. His salary had been \$125,000 a year. Colonel Stewart was retired, but his son, Robert C. Stewart, remained as president of the Pan-American Petroleum & Transport Company, formerly controlled by Doheny and then owned by the Standard Oil Company of Indiana. Another son, James Stewart, was vice-president of the Pan-American company.

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THE USE which Sinclair had made of some of the Liberty bonds which he had received from the Continental Trading Company was the subject of careful inquiry by the Senate committee when it took up its investigation again in 1928. Sinclair was called as a witness, and this time he was com-

pelled to answer questions, for he had already been sentenced to jail once for contempt of the Senate. But he still remained rather uncommunicative.

At the trial of Sinclair and Fall in Cheyenne, Wyoming, Sinclair's lawyer, Martin W. Littleton, addressing the jury, made this statement concerning his client:

"He had never had a bond which the Continental Trading Co. (Ltd.) distributed. It will be made clear that he never passed a bond of the character mentioned here, or anything else. It will be made clear that he was never the owner of bonds of the description mentioned here, and that he never passed the bonds to Fall or anybody else on behalf of Fall."

When he was questioned by Senator Walsh about his attorney's statements at the trial, Mr. Sinclair insisted that he did not know that the bonds he had received had come from the Continental Trading Company. All he knew, he said, was that they were coming to him from Mr. Blackmer. "Mr. Blackmer," Sinclair added, "is a very rich man as I understand." "Well," Senator Walsh asked, "he was not making any present to you, was he?" "I do not believe he offered me any present," Mr. Sinclair admitted. But he still insisted that he thought the entire arrangement by which the oil was purchased from Colonel Humphreys for \$1.50 a barrel and resold to the Sinclair and Prairie companies at \$1.75 by the Continental Trading Company was for the purpose of giving H. M. Blackmer a commission of 25 cents a barrel. He testified that he thought this an exorbitant commission and was only satisfied when Blackmer agreed to take care of Sinclair's company with a part of it.

"Well," Senator Cutting asked, "you thought when the arrangement was first put up that Mr. Blackmer was getting more than his share of the brokerage, or whatever you called it?" . . .

"I thought it was all his share, the 25 cents, but I felt it was a little exorbitant," Mr. Sinclair answered.

"That is what I mean. . . . Why did you guarantee a contract which gave him an exorbitant commission?"

"Because he had agreed to protect my companies in a fair way and a fair amount of this commission."

"And you left it to him what would be a fair amount?"

"I did."

"Is that a usual way of doing business?"

"It is. I do business that way with people I have confidence in and have known."

"But you could not have had much confidence in Mr. Blackmer if you thought he was putting something over, putting something exorbitant over on your companies."

"Not at all. I rather admired him if he could put it over."

Senator Nye wanted to know whether it had not struck Mr. Sinclair as unusual that he was receiving this share of Mr. Blackmer's commission in Liberty bonds instead of in cash. "I have always considered that Liberty loan bonds were practically cash," Mr. Sinclair answered. Finally, after fencing further with Senator Nye, Mr. Sinclair admitted: "Well, it was a procedure that we do not come in contact with daily." "Just so," Senator Nye said, "and perhaps a transaction, Mr. Sinclair, the like of which you never participated in before or since so far as a transaction in dollars and cents is concerned." "It would be very unusual," Mr. Sinclair answered, "to participate in the same kind of transaction day after day. I would say perhaps you are correct."

Mr. Sinclair also insisted to the Senate committee that he had regarded the bonds as belonging to his company and not himself, but he had to admit that he had never told anyone connected with any of his companies that he possessed the bonds in the private vaults at his home and in his banks. Some of the bonds also found their way into the treasury of his personal family corporation, the Hyva Corporation. When pressed by Senator Bratton as to why he had told no one in the oil company about the Liberty bonds he had received, Sinclair answered: "I had reasons for not advising them, and also I felt that they would be advised sooner or later about the matter." "Suppose something had happened to you, Mr. Sinclair, how would your company have learned all the facts about that transaction?" Senator Bratton asked. Mr. Sinclair answered that his company was not interested in all the facts that the investigating committee was interested in. He had made a pencil memorandum of the bonds, he testified, and he rather thought that that was sufficient to safeguard the company in case of his death. When asked to produce the pencil memo-

randum, Mr. Sinclair replied that he had destroyed it after he had received a subpoena to testify before the Senate committee again. Senator Bratton wanted to know why he had done that, thus destroying "the only writing made at the time the transaction occurred and the only writing that would tend to corroborate your statements that you have made here today." Mr. Sinclair replied: "Personally, I do not think it is necessary for my statements to be corroborated."

When he was asked why he had not turned over the Liberty bonds to his company as soon as he had received them, Mr. Sinclair replied that at the time there was too much newspaper publicity about himself and his companies in connection with the Teapot Dome investigation. He told Senator Walsh that he did not inform the directors of his company about the bonds just because he did not, and he would give no other reason to the committee. Mr. Sinclair had turned over to the Sinclair Crude Oil Purchasing Company \$757,000 in Liberty bonds and \$142,000 for the interest on those bonds only after the facts became public that he had received them and how he had received them. The delivery of the bonds to the company had been delayed for six years, and meanwhile Mr. Sinclair had acted as if they were his personal property, by cashing the coupons, by presenting Fall with \$233,000 of them, and by giving Will H. Hays \$100,000 of them to pay his stock market losses and also \$185,000 worth of them to be used to help pay the Republican campaign deficit for the Harding campaign in 1920.

"Well, Mr. Sinclair, do you mean to say that you really expect the public to consider that a legitimate transaction?" Senator Cutting asked concerning the entire Continental deal and Sinclair's part in it.

"I can not be responsible for the public's opinion," Sinclair answered.

"Well, no; I do not think you can. I was wondering if you could not shed some additional light which might make the public believe this was a legitimate transaction." . . .

"I do not know, Senator, how the public feels about it. I rather am inclined to leave that matter to the public."

"Without any additional assistance from you?"

"Yes."

"That is all."

Will H. Hays was an important witness at the 1928 Senate investigation. Mr. Hays had resigned from President Harding's Cabinet on March 4, 1922, to become moral arbiter for the executives of the motion picture industry. Piling platitude on platitude, Mr. Hays had fashioned the following statement during the Harding campaign of 1920, when he was chairman of the Republican National Committee:

There is no zone of twilight in politics or public affairs. Right is right, wrong is wrong, and the same strict standards of morals, equity and justice must obtain as in any private business or professional matter.

Mr. Hays's connections with Harry Sinclair had been close for many years. He and his brother, Hinkle Hays, had been attorneys for the Sinclair Consolidated Oil Corporation for a long time before Will Hays entered Harding's Cabinet, and Hinkle Hays remained one of Sinclair's lawyers after his brother became Postmaster General. Mr. Sinclair's secretary, Merritt Baldwin, testified in 1928 that Will Hays was a frequent visitor at Harry Sinclair's private office: "He would just stroll in, walk in and walk out; probably be in there 5 minutes or 10 minutes." In July, 1923, Will Hays had tried to induce Henry Ford to go into the oil business with Harry Sinclair.

At the first investigation of the naval oil leases in 1924 it had been brought out that Harry Sinclair had given Will H. Hays \$75,000 as a contribution to the Republican campaign fund of 1920. In 1924 the *New York Times* had printed a story that Hays had received 75,000 shares of stock from Sinclair for the campaign committee's deficit. Mr. Hays was called to testify on March 21, 1924:

"Mr. Hays," Senator Walsh had said, "a statement has been made before another committee of the Senate to the effect that with a view to making up the deficit of the Republican National Committee after the election of 1920 certain bonds of the Sinclair Consolidated Co. were delivered to you. Tell us about that, please."

"I can not tell you about that, Senator," Mr. Hays testified, "because it is not true. That story is as false in content as it is libelous in purpose. Really, it isn't true. Well, that is the fact about it."

On March 1, 1928, Mr. Hays was called as a witness again. In the four years which had elapsed since his flat denial a great deal had become public concerning Mr. Sinclair's activities, and the bonds of the Continental Trading Company had been traced. This time Will Hays admitted that Sinclair had contributed more than the \$75,000 Mr. Hays had said he had contributed when he was a witness in 1924. After examination by Senator Walsh, Mr. Hays admitted that in addition to the \$75,000 contributed in 1920, Mr. Sinclair had given Hays in 1923 \$185,000 worth of 3½ per cent Liberty bonds to help pay off the Republican deficit. The only explanation Hays had to offer of why Harry Sinclair had been so liberal was that Hays had asked him to help out. Hays also insisted that he had known nothing of the oil leases while he was a member of Harding's Cabinet, and that he knew nothing about the Continental Trading Company deal.

"Mr. Hays, by examining the testimony you gave when you were here before the committee before," Senator Walsh remarked, "I observe you did not say anything at all about any bonds."

"Well, I did not volunteer about these Government bonds," Mr. Hays said. "I was not asked about that."

"You were asked about contributions made by Sinclair."

"I was talking, in the other testimony, as you will remember, about the story of Sinclair having given 75,000 shares of stock, worth at that time from \$1,500,000 to \$2,000,000, and was negating that as hard as I could."

"Yes; and having disposed of that matter you were interrogated about contributions made by Mr. Sinclair?"

"Yes."

"And you told us that he gave \$75,000?"

"The maximum. I said I did not know. Then I did not know; I was not qualified on contributions and political situations, and I said I just did not know; but it was not to be over \$75,000, and that was the understanding with him."

Senator Walsh then brought out that all of Mr. Hays's financial transactions with Sinclair had ended in 1923, and he had testified in 1924.

"I am wondering, Mr. Hays," Senator Bratton asked, "why it was that in testifying about the \$75,000 that Mr. Sinclair delivered to you in New York, you failed to mention the \$185,000 that were given to you at the same time and as a part of the same transaction?"

"Well, it had been returned," Mr. Hays replied. "I was not asked about that. That whole context was on this other proposition, and I was not asked about that."

The "other proposition" was a very complicated and interesting piece of financial jugglery with Harry Sinclair's ill-gotten Liberty bonds, which involved some of the leading Republicans in the land. In the report which he wrote for the Senate in 1928, Senator Walsh pointed out that Harry Sinclair had given Will Hays \$185,000 in Liberty bonds for the Republican deficit in November, 1923, at the very time when the first Senate committee was hearing testimony from the witnesses from New Mexico concerning Fall's sudden affluence.

This synchrony [Senator Walsh wrote] suggests at once that the extraordinary sum yielded up at that critical time by Sinclair was not altogether voluntarily donated, and that either hope or fear, if not gratitude, stimulated his generosity and accentuated his devotion to the principles of the Republican Party. In the predicament in which he found himself at that juncture he stood in dire need of friends at court.

When Senator Walsh questioned Mr. Hays on this extraordinary synchrony, Mr. Hays could see no connection between Teapot Dome testimony and his peculiar transaction with Mr. Sinclair:

"These witnesses gave testimony which led everybody to believe that prima facie Albert B. Fall had been bribed in connection with that transaction by Sinclair," Senator Walsh remarked.

"This transaction by Sinclair was as far divorced from his dealing with the Government as it was possible to imagine," Mr. Hays said. "I had no reaction on that when I solicited him or when it was used."

"Very well."

"Never related them at all."

Though he claimed that the two transactions were not related, Mr. Hays was afraid to use Mr. Sinclair's Liberty bonds openly. It would have looked very bad if it had become public that Will Hays had taken \$185,000 from Harry Sinclair for the Republican Party at the very time when Sinclair's lease to Teapot Dome was being questioned and when it was being indicated that he had bribed Albert B. Fall. Therefore, Mr. Hays decided to use those bonds in a roundabout fashion. He sent some of them to Fred Upham, Treasurer of the Republican campaign committee, who lived in Chicago. Mr. Upham gave them in turn to Republicans in Chicago and received their checks for amounts of money equivalent to the value of the bonds they received. Then these checks were used to pay off the Republican deficit. Hays also gave some of the bonds to John T. Pratt, brother of Herbert Pratt, of the Standard Oil Company. On November 28, 1923, John T. Pratt took \$50,000 worth of the 3½ per cent Liberty bonds from Will Hays and on November 28, 1923, John T. Pratt sent Fred Upham his check for \$50,000.

Mr. Hays also tried to peddle Sinclair's bonds to Andrew W. Mellon, Secretary of the Treasury, but Mr. Mellon was too wise to accept them. Mr. Mellon preferred to make a direct contribution of \$50,000 of his own money rather than accept bonds which had once been in the possession of Sinclair. Mr. Mellon, dealing in bonds for many years, realized that they had serial numbers. Mr. Sinclair, according to his own testimony, had always, to his misfortune, regarded Liberty bonds as the same as cash, and when he was paying off a Cabinet officer, thought nothing of giving him Liberty bonds. Mr. Hays also peddled some Sinclair bonds to John W. Weeks, another wealthy Cabinet officer, who was to dispose of them in his home town of Boston. He tried, too, to get William M. Butler, chairman of the Republican National Committee which elected Coolidge, to take some of the bonds, but Mr. Butler was also too canny to have anything to do with Sinclair's money.

Both John T. Pratt and Fred Upham were dead in 1928 when the Senate committee inquired into Will Hays's use of Sinclair's bonds, but from their files and their secretaries the method Hays had used was pieced together. On Saturday morning, March 10, 1928, some small slips of paper found in the personal files of John T. Pratt were brought into the Senate

committee room. The chairman, Senator Gerald P. Nye, had in his hand a large magnifying glass. V. E. Hommel, cashier of Charles Pratt & Company, which handled the late John T. Pratt's estate, was the witness. One scrap of paper had on it in Mr. Pratt's handwriting in pencil the figures "\$50,000" and then some names which it was difficult to decipher. Senator Nye handed Mr. Hommel his magnifying glass:

"Take that first notation on the slip there and see if you can not translate it for us," Senator Nye requested. "The first one is, 'Weeks,' that is clear enough."

"'Weeks'; yes, sir," Mr. Hommel answered.

"What is the next one?"

"I am trying to read it; see if that is 'Candy.'"

"Candy?" Senator Nye asked.

"That is what it looks like," Mr. Hommel said.

"Might it not be 'Andy'?"

"Possibly."

"Possibly, you say?"

"That is quite possible, from his writing here."

"And just what might the notations of those names mean there?"

"I have not the slightest idea."

"Might it be to write a letter to the individuals named on there, addressing a letter to each of them of what he had done?"

"I would not presume to say what a notation of that kind would mean."

"You think it quite possible, though, that that second name is Andy?"

"It is quite possible."

"You would not venture to say who Andy was?"

"I have no idea."

The crowd roared with laughter, for it was obvious that "Andy" referred to the venerable Andrew W. Mellon, Secretary of the Treasury.

"If it were 'Candy,' would it have any added significance to you?" Senator Nye asked.

"None, whatever."

"You have no recollection of a name of that kind?"

"No."

"You said it was quite likely that it was Andy?"

"It is quite likely that that is the name; yes."

On Tuesday morning, March 13, 1928, Mr. Mellon, the Secretary of the Treasury, was a witness before the committee. He told how Will Hays had telephoned to him in Washington from New York and said that he was sending him a package with valuable contents, that he was coming to Washington soon and would talk to Mr. Mellon about the contents of the package. A messenger brought the package to Mr. Mellon's office. He was busy at the time and did not think of it again until he was walking home that night. Next morning he opened the package and found that it contained \$50,000 worth of 3½ per cent Liberty bonds. As Will Hays did not appear that day to explain the package, Mr. Mellon took it to his home and put the bonds in a safe. Soon afterwards Hays arrived in Washington and explained to Mellon that he wanted him to take the bonds and give his personal check for \$50,000 in return for them to the Republican campaign committee. Mr. Mellon declined. He would, he said, give Mr. Hays his check for \$50,000 made out to the Republican campaign committee, but he would not accept any bonds in return. "They had come for a purpose which did not suit me so far as I was concerned, and I returned them," Mr. Mellon told Senator Walsh.

Although the Teapot Dome investigation had begun in October, 1923, and Mr. Hays had visited Mr. Mellon in November to discuss the package he had sent him, Mr. Mellon testified that he did not connect the two things. Senator Walsh pointed out to Secretary Mellon that the Senate committee's investigation had been going on while Mr. Hays and Mr. Mellon were discussing Mr. Sinclair's Liberty bonds. "That may well be," Secretary Mellon answered, "but I do not follow all the investigations that are started. I have plenty of troubles of my own there to keep me busy and I had no knowledge of it personally at the time."

Mr. James Patten, of Chicago, a retired grain speculator, had taken \$25,000 of the Liberty bonds Hays had got from Sinclair and had given Mr. Upham his check for \$25,000. Reflecting on the matter, Mr. Patten told the Senate committee, he came to the conclusion that the transaction was indecent. He could not do anything about it then, so, to ease his conscience, Mr. Patten testified, he had donated \$25,000 to a Chicago hos-

pital. When Mr. Patten was first approached on the proposition that he give \$25,000 for \$25,000 worth of Sinclair's bonds, he had become incensed, but he had agreed to do it. Telling Secretary Mellon of Mr. Patten's experience, Senator Walsh asked:

"And Mr. Patten told us he became very much incensed at the proposition and indulged perhaps in some language that he thought would not be appropriate to put in the record. Did the proposition strike you in pretty much the same way?"

"I do not know that I am of that temperament," Secretary Mellon answered, "and I do not become incensed. If you take things in this world as they are, and according to your own conscience, I do not see that there is much use in getting incensed. At least I do not recall anything of that nature particularly."

Neither Mr. Mellon personally nor his department had been interested in helping the Senate committee to discover the malfeasance of their Republican associates. Mr. Mellon did not offer to tell the committee about the proposition put to him by Mr. Hays until the name "Andy" was deciphered with the aid of a magnifying glass on the scrap of paper left in his personal file by John T. Pratt. When asked why he had not told the committee of Hays's proposition before, Secretary Mellon answered that he did not think it important to bring the matter before the committee, and that he did not believe it would have altered the situation at all.

"Except," remarked Senator Dill, "that we are getting more and more of the patchwork by which we are putting this quilt together."

"Yes," said Mr. Mellon.

"And I suppose you do know," Senator Wagner said, "that the committee has been in pursuit of this information for some time, particularly with relation to the transaction of Mr. Sinclair with the national committee, and there has not been any information volunteered to the committee on that point."

"Was it my responsibility?" asked Secretary Mellon. "I was not connected with the national committee."

The Treasury Department under Secretary Mellon had known of the Liberty bonds purchased by the Continental Trading Company as early

as 1925, when the secret service branch of the Treasury had made investigations for the government prosecutors of Fall and Sinclair, but no attempt was made by Secretary Mellon to collect taxes on the Continental's Liberty bonds until after the Senate investigation had concluded its testimony in 1928. Senator Walsh in his report commented on this laxity:

A suit brought against the distributees would have brought out all the essential facts developed by the committee, affording as it would, an opportunity to examine under oath the participants in the unsavory affair, including Blackmer and O'Neil before they fled beyond seas.

Even after Secretary Mellon had been informed by the Senate committee of the probability that taxes had been evaded and asked what legislation would be required to help him to collect them on the Continental bonds, he had replied that he had no legislation in mind at the moment, but that if he thought of any that would be helpful in the future, he would advise the committee. He never thought of any legislation that would be helpful. Senator Walsh asked Mr. Sinclair:

"Mr. Sinclair, when Mr. Hays was on the stand he was unable to recall any sum of money contributed by anybody approximating even the amount that you have contributed, and we are told by Mr. Andrew Mellon, who is reputed to be the third richest man in America, that he gave only \$50,000. How came it that you gave more than three times as much as Mr. Andrew Mellon?"

"I can only answer your question," Mr. Sinclair said, "by saying that Mr. Mellon was much more sensible than I was."

Sinclair refused to admit that he had any interest other than personal in the success of the Republican Party, or that he had any need for the influence of Republican politicians.

Will H. Hays was called to the witness chair again after the testimony of Secretary Mellon and Senator William M. Butler of their refusal to accept the bonds he proffered them. He had been caught in so many evasions that now Mr. Hays wriggled under the lash of Senator Walsh's pertinent questions. His language became befuddled, and he groped for words, so that frequently his answers were broken off by his inability to

express himself properly. He continued to evade as much as possible, but this time it was hot and uncomfortable work, and his mind seemed to squirm to avoid the traps his own conduct had set for him.

When asked by Senator Walsh whether he cared to say anything as to why he had not told the committee about the transactions with Secretary Mellon and Senator Butler when he was last on the stand, Mr. Hays offered the lame excuse that because they had not accepted his Sinclair bonds, he had considered the matter "entirely irrelevant."

"If you had attempted to bribe a public official with the bonds, and he had rejected your offer, you would not have considered that relevant either, would you?" Senator Walsh asked scornfully.

"Certainly; and that is not a fair question, Senator, really," Mr. Hays replied.

"This committee conceives," Senator Walsh told him, "that an effort to make use of the bonds for any purpose is just as relevant to this inquiry as a successful effort to use the bonds, Mr. Hays, I might say to you."

"Well, I do not," Mr. Hays insisted.

Senator Walsh read Mr. Hays his 1924 testimony, when, asked whether Mr. Sinclair had given him Sinclair Consolidated Corporation securities, he had answered: "I can not tell you about that, Senator, because it is not true. That story is as false in content as it is libelous in purpose. Really, it isn't true. Well, that is the fact about it." Senator Walsh then asked if the only particular in which that story was not true was "that instead of getting Sinclair Consolidated bonds you got Government bonds." Mr. Hays then proceeded to quibble ineffectually. He said that the story published in the *New York Times* that he had received from Sinclair 75,000 shares of the stock of the Sinclair Consolidated Corporation was what he had intended to brand as "false in content as it is libelous in purpose."

"But you successfully get away from my question, Mr. Hays," Senator Walsh said, "but you won't get away from it. I am going to have an answer to that question. . . . The *Times* story is not in relation to stock at all."

"Yes," Mr. Hays answered excitedly, "it is stock, and that is where you are wrong."

"It is not in relation to stock at all," Senator Walsh insisted. "It is in relation to bonds. But that is neither here nor there."

"Yes, it is," Hays said. "It is the whole gist of the matter."

Like a slippery insect, Mr. Hays found himself entangled in the broken strands of the web he had himself woven, and he became so rattled and excited that he jumped up from his chair, until Senator Walsh had to order him to sit down. The fact remained that Mr. Hays had said nothing about \$185,000 worth of Liberty bonds which he had taken from Sinclair. Senator Walsh kept after him relentlessly, though he tried his best to slide out of his previous evasions and misrepresentations. Hays had previously testified that he did not know to whom Sinclair had given money for the Republican deficit, and then four years later, after the facts had come out at court trials, he had been forced to admit that Sinclair had given the \$185,000 worth of Liberty bonds to him. When confronted with this obvious inconsistency, Mr. Hays replied: "Let us not get technical about it." He himself, however, had used every available technicality, drawing a fine distinction between stocks and bonds when asked for truth.

The point was that there was to be a meeting of the Republican campaign committee in Washington on December 8, 1923, and Mr. Hays did not wish the members of the committee, which was meeting to plan the Coolidge campaign of 1924 and to clean up the debts of the Harding campaign of 1920, to know that Mr. Sinclair had been dunned for \$185,000. At the time Senator Walsh was hot on the trail of Fall's sudden wealth, and the public already knew that Sinclair had visited Fall in Three Rivers and that Sinclair had received secretly a lease to Teapot Dome, which he estimated to be worth more than \$100,000,000.

"Would you have ventured to go before your committee on the 8th of December and tell them about this transaction with Mr. Sinclair that you have detailed to us?" Senator Walsh asked Mr. Hays, after he had dragged the truth out of Mr. Hays with much effort.

Mr. Hays became incoherent:

"I don't think that that situation would have—I hardly know. I don't know whether that would have—the status of that investigation would

have involved, if there had been a big contribution at that time, as you say—\$135,000, I don't assume that the status of that investigation was such as that it would have affected the minds of the committee. I don't know. Sinclair was regarded, I think, as a rich man."

"Yes," Senator Walsh remarked, "he would also be remembered, however, as having sold [bought?] the Teapot Dome lease, and he would also be remembered as having paid a visit at that time to Three Rivers with Secretary Fall, and it would be disclosed that Secretary Fall had suddenly arisen from the state of being absolutely broke to a condition of reasonable affluence and opulence. That testimony was then public, made public by this committee, and are you undertaking to assert that under those circumstances the declaration before your committee that you were indebted to Sinclair to the amount of \$135,000 or \$185,000 would not have been a sensation?"

"Are you undertaking to assert that the committee [Republican campaign committee] had this knowledge of all these things you have said?" Mr. Hays asked.

"They were all published," Senator Walsh replied. "The newspapers were full of the testimony every day."

"The committee's members' minds were not on that as yours was," Mr. Hays said. "They did not regard it then as you did. I assume that must be so. I think that time—but this is far-fetched, guessing at the minds of men, as Mr. Mellon said, but at that time I rather think, as he said, that the state of mind of the committee would probably have been one, while not of indifference, but not of great concern, because I don't think they knew much of about what you recognized or you thought was fact."

"Some of them have been established pretty conclusively since," Senator Walsh remarked. "However that may be, Mr. Hays, you did not, as a matter of fact, or no one for you did disclose to your committee at this meeting here the actual state of affairs?"

"I did not attend the meeting," Mr. Hays replied. "I don't know what was done in the Finance Committee. I don't know." . . .

"It was not really intended, Mr. Hays, that the committee should know anything about it, was it?"

"Well, there was no intention on my part that it should not."

However, Mr. Hays was finally forced to admit that he had told of his jugglery of Sinclair's bonds only to those members of the Republican

Finance Committee to whom he had tried to dispose of the bonds.

When Will H. Hays left the office of Postmaster General in Harding's Cabinet on March 4, 1922, to become the benevolent czar of motion picture morals, he made this statement:

"We must have toward that sacred thing, the mind of a child, toward that clean and virgin thing, that unmarked slate—we must have toward that the same sense of responsibility, the same care about the impression made upon it, that the best teacher or the best clergyman, the most inspired teacher of youth, would have."

After Mr. Hays's testimony before the Senate committee in 1928, Senator Caraway rose on the floor of the Senate and said:

"The most that can be said for Mr. Hays is to say that he was a fence; that he knew that certain goods were stolen goods and he was trying to help the thief find a market for them; that the Secretary of the Treasury, although he declined to aid in the marketing of the goods, after he had knowledge of what they were, refused to disclose this information, but handed them back so that the fence could find somebody else who would act for him."

12

THE SENATE investigations paid for themselves in money many times over. Not only were large sums collected from Doheny's company and valuable improvements collected from Sinclair when the leases to the naval oil lands were declared void, but the four oil brothers, Sinclair, Stewart, Blackmer and O'Neil had to pay heavy penalties for not making income tax returns on the Liberty bonds they had received as a result of the Continental Trading Company deal. Blackmer alone had paid the government \$3,670,784 for tax evasions. The penalties and taxes assessed against the four men amounted to \$606,097.19, and the government received \$1,398,910.09 in other income taxes as a result of the disclosures brought out by the committee. Senator Walsh reported the total expense of the 1928 investigation as \$14,165.

In addition to the money penalties, some of the principals received punishment as a result of their designs on the naval oil reserves. It was found impossible to get juries in the District of Columbia to convict any of them of conspiracy to defraud the government, but Harry Sinclair served nine months in jail for contempt of the Senate and for attempting to "shadow" the jury in the Fall-Sinclair conspiracy trial. Doheny was acquitted of conspiracy by a jury.

Fall was placed on trial in October, 1929, charged with accepting a bribe. In the meantime Doheny's son had been shot and killed by his secretary, Robert Plunkett, who thereupon had killed himself, and when Mr. Doheny told of the part of his dead son as messenger of the cash, he wept on the witness stand. He insisted to the jury that the payment of \$100,000 to Fall was a loan and not a bribe, and he reiterated the war scare motif which Fall's attorneys had tried hard to inject into the case in the effort to make Fall a patriot rather than a crook. Both Doheny and Admiral Robison tried to make the jury believe that the leases were a patriotic effort to prepare for an imminent war with Japan.

Admiral Robison was retired from the Navy as a captain instead of a rear admiral. His name had been sent to the Senate for promotion to rear admiral by President Coolidge, but was withdrawn. After his retirement he became a consultant for the Sinclair Navigation Company, a subsidiary of the Sinclair Consolidated Oil Corporation.

In 1926 the New York *World* discovered that Mr. Doheny, who had been a lifelong Democrat, and who had been a candidate for office on the Democratic Party's ticket in years past and a contributor to its campaign fund, had turned Republican after the Senate investigations. Both he and his son were registered with the Republican Party in Los Angeles in April, 1926.

As soon as the time came for his bribery trial, Fall became very ill once more. He refused, however, to be examined by Dr. Sterling Ruffin, whom the court designated to examine him, on the grounds that Dr. Ruffin had been one of President Wilson's physicians at the time Fall had gone with the Senate committee to investigate the President's condition, and that therefore Dr. Ruffin was prejudiced against him. On the first day of the trial Fall was half carried into the courtroom and collapsed dramatically, and on the second day he did not show up at all. Four physicians were

sent to examine him and reported that he was ill. On the following day Fall appeared melodramatically in court in a wheel chair. On one side of him was a physician and on another a nurse, and he was entirely surrounded by his womenfolk. He sat in his wheel chair wrapped in a large blue automobile rug. Mr. Roberts and Mr. Pomerene, government counsel, asked that a mistrial be declared because of the effect on the jury of Fall's scene, as well as his melodramatic collapse in front of them on the first day of the trial. As they were arguing the matter with the judge and Fall's attorney, Frank J. Hogan, who insisted on going on with the trial, Fall appeared suddenly in his wheel chair and was lifted into a great green morris-chair, which he occupied during the entire trial. The jury, however, were not in the courtroom at that moment. Later in the trial, while Fall's attorney was summing up to the jury, Mrs. Fall brought into the courtroom a little girl, Fall's grandchild.

Senator Atlee Pomerene, referring to the defense set up for Fall of patriotism, and the contention that the leases were important to prepare the United States for war with Japan, quoted Dr. Johnson to the effect that "patriotism is the last refuge of a scoundrel." When it came time for him to sum up, Fall's attorney, Frank J. Hogan, began his plea by denouncing Dr. Johnson as the man who had slandered George Washington and vilified the American Revolution.

Owen J. Roberts told the jury that Fall's physical condition was not their concern, and that they must ignore it. "It is all simple," he was reported by the *New York Times* to have said. "There are four things of a controlling nature for you to remember. One is that Doheny wanted the lease of the Elk Hills. The second is, Fall wanted money. The third is, Doheny got the lease, and the fourth is, Fall got the money." Mr. Roberts also denied that the oil reserves were in danger of drainage and remarked: "The only drainage in this case was from Doheny's to Fall's pocket."

One of Fall's counsel, Mark Thompson, of Phoenix, Arizona, addressed the jury with a sentimental plea for "two old men," Fall and Doheny, who had met "on the deserts of the Southwest." "One," he said, "was a red-haired young man, the other a black-haired young fellow from Kentucky." Justice Hitz interrupted to remark: "The color of Mr. Doheny's hair is not in evidence."

On October 25, 1929, after deliberating for one whole day and night, the jury declared Fall guilty of accepting a bribe. Doheny was heard by a New York *Times* reporter to mutter: "That damn court," referring to the judge's charge to the jury. One of Fall's lawyers fainted; Mrs. Fall wept; and Fall's daughter sobbed aloud. The jury recommended mercy. Justice Hitz sentenced Fall to serve one year in jail and to pay a fine of \$100,000. The maximum penalty he could have imposed was three years in jail and a fine of \$300,000, and in sentencing him he told Fall that he would have given him the full penalty if he had been in good health.

Fall finally went to jail at Santa Fe, New Mexico, in July, 1931. President Hoover received a petition for his pardon, which was signed by every member of the New Mexico State Legislature, by Governor Seligman, of that state, and by Senators Cutting and Bratton, but he declined to pardon Fall. In May, 1932, Fall was released from jail after serving his time with allowances for good behavior. It was the first time in the history of the United States that a Cabinet officer had served a term in prison.

Five months after a jury had declared Fall guilty of taking a bribe from Doheny, another jury in the Supreme Court of the District of Columbia acquitted Doheny of the charge of giving Fall a bribe, after taking only one ballot and deliberating about one hour.

Of the minor characters in the Teapot Dome spectacle, Fall's son-in-law, C. C. Chase, was impeached as Collector of the Customs at El Paso, Texas, and Fall's friend, Edward B. McLean, who had been willing to say that he had lent Fall \$100,000 but not to swear to it, had a succession of severe troubles. He lost control of his newspaper property, the *Washington Post*; his wife and he fought each other in courts here and abroad for the right to divorce each other; and in October, 1933, a lunacy commission was appointed to determine "Ned" McLean's sanity. He was then in the Sheppard-Pratt Hospital, and the doctors declared him "of unsound mind and incapable of governing himself," due to excessive use of alcohol. The doctors added that he had "delusions of grandeur, feelings of persecution, emotional and aggressive outbursts and misidentification of those around him." He was declared insane by a sheriff's jury in Towson, Maryland, on October 30, 1933.

Senator Gerald P. Nye in his report on the 1928 investigation of the activities of the oil men wrote:

The investigation thus far discloses that the leasing of the naval oil reserves constitutes criminal conspiracy against the rights, interests, and properties of the United States Government unparalleled in the history of this or any other civilized nation.

Never has the world known a case involving a degree of fraud, quite evident bribery, thievery, conspiracy, and corruption to compare with what has come to be known as the Teapot Dome-Elk Hills-Continental Trading Co. case. The leases involved in the case are estimated to have been worth not less than \$500,000,000, and were consummated, to use the language of the Supreme Court of the United States, "by conspiracy, corruption, and fraud."

The investigation has uncovered the slimiest of slimy trails beaten by privilege. The investigation has shown, let us hope, privilege at its worst. The trail is one of dishonesty, greed, violation of law, secrecy, concealment, evasion, falsehood, and cunning. It is a trail of betrayals by trusted and presumably honorable men—betrayals of a government, of certain business interests and the people who trusted and honored them; it is a trail showing a flagrant degree of the exercise of political power and influence, and the power and influence of great wealth upon individuals and political parties; it is the trail of despoilers and schemers, far more dangerous to the well-being of our Nation and our democracy than all those who have been deported from our shores in all time as undesirable citizens. And in the end the story is one of the crushing of brilliant careers when finally the light is played upon those who schemed those unhealthy schemes born in darkness.

Slow to unfold itself, and slow in being unraveled, the tale of those who engineered, aided, and abetted in the naval oil-reserve leases and the affairs of the Continental Trading Co. goes beyond the most fertile imagination.

Mr. W. W. Tarbell, independent oil operator, told the Senate committee investigating the oil leases:

"The men who handle the levers of the great marketing machines, must have brains of steel. If, in the bearing of their great burdens, they seem to lose something of their humaneness and, guided only by the light that leads to dividends, they sometimes take, from them who give it easily, that which seems unfair to the donors; remember that there are

not many of us who would not do the same, that these same men won your war for you in a way, for without them you would have failed, and remember, too, that their integrity among their business associates, with some exceptions, stands the highest."

After the startling, dramatic revelations had been made to the American public in 1924 and 1928 about the activities of the oil men and government officials, there was, by and large, a reaction of indifference. The Stavisky scandal in France in 1933 was productive of far more public fervor and political action than the far more important oil scandals in the United States between 1924 and 1928. But the country was feeling inordinately prosperous at the time. Senator Walsh was blamed for revealing what the average businessman did not wish to know, and those who were indignant at the corruption in the Republican administration were regarded as irresponsible agitators or politicians in search of office. The effect of the Teapot Dome scandal on the political situation was almost nil, and the Republican Party elected Coolidge overwhelmingly in 1924 and Hoover by a huge majority in 1928. "Don't Rock the Boat" was still the slogan of those who believed that rugged individualism must thrive at all costs.

CHAPTER THREE

Colonel Forbes and the Veterans

WHILE Secretary Fall was engaged in leasing the Navy's oil reserves at the Department of the Interior, Colonel Forbes, Harding's genial companion in Honolulu, was having a gay and profitable time in the Arlington Building in Washington, where the offices of the Veterans' Bureau were located.

When the war ended, the politicians of the United States indulged in an oratorical orgy over the graves of the dead and the bodies of the disabled. America, it was said, would never neglect her heroes. During the two years between the Armistice and the election of President Harding there were no adequate facilities for taking care of the men who had been wounded or disabled by disease in the war. They were kept in inadequate Public Health Service Hospitals, in old army cantonments and in nondescript buildings which had been hurriedly converted into hospitals during the war. In the closing hours of the Congress which was in session until President Harding's inauguration, a bill was passed appropriating \$18,600,000 for the construction of veterans' hospitals. The construction of the buildings was placed in charge of the Treasury Department, and the Secretary of the Treasury appointed the White Committee to advise concerning the selection of sites for hospitals and the construction of them.

Meanwhile, President Harding had appointed his acquaintance and

loyal campaign worker, Charles R. Forbes, to be director of the Bureau of War Risk Insurance. The Veterans' Bureau had not yet been organized, but it was planned to consolidate the Bureau of War Risk Insurance, the Public Health Service and the Federal Board for Vocational Education into the Veterans' Bureau, with Colonel Forbes at its head.

Charles R. Forbes took office on April 28, 1921. He received a salary of \$10,000 a year, and he was soon to be placed in charge of work which would entail expenditures of almost \$500,000,000 a year. In August, 1921, Congress passed the Sweet bill, creating the United States Veterans' Bureau, and on April 20, 1922, the Langley bill, providing for an appropriation of \$17,000,000 to be used to build hospitals for veterans, was passed to supplement the previous appropriation of \$18,600,000. Colonel Forbes had promised a committee of Congress that he could build hospitals faster and cheaper than the Treasury Department. On April 29, 1922, President Harding issued an executive order transferring the control and management of all veterans' hospitals from the United States Public Health Service to the new Veterans' Bureau, and on the same day he issued an executive order transferring the huge supply depot at Perryville, Maryland, from the Public Health Service to the Veterans' Bureau.

Colonel Forbes was now in complete control of the construction of hospitals for veterans, for which he had large appropriations, and of the disposal of medical stores and hospital supplies, of which there were large quantities left over from the war purchases. There was, however, one little difficulty which Colonel Forbes soon discovered after he began to exercise his large powers of expenditure and administration. President Harding had appointed his friend and family doctor from Marion, Ohio, Charles E. Sawyer, to be head of the Federal Hospitalization Board; Colonel Forbes and Brigadier General Sawyer soon indicated that they were jealous of each other's authority. Colonel Forbes later maintained that General Sawyer wanted to run the Veterans' Bureau to suit himself, and that he did not wish to have any specialists consulted on the care of disabled veterans. He also claimed that General Sawyer, who had run a small private sanatorium at Marion, was a homeopathic physician and wanted Forbes to employ only homeopaths, so that his theories might have a good chance to be tried out on the veterans. General Sawyer occupied four rooms on the tenth floor of the Veterans' Bureau building, and in his

office he had a card, framed, which granted him the privilege of entering any public building in Washington at any time; he also had a letter signed by his friend President Harding giving him authority at the Veterans' Bureau. Whenever he felt like it, Colonel Forbes maintained, General Sawyer sent for employees of the Veterans' Bureau and gave them arbitrary orders to carry out.

When he was young, Charles R. Forbes went to sea, and then became a drummer boy in the Marine Corps. At that time he was stationed at the Washington Navy Yard and used to play baseball with the other boys, including Sidney Bieber, whose father had a shop near the Navy Yard. Bieber later became Republican National Committeeman for the District of Columbia, and when Forbes came to Washington they met again and renewed their acquaintance. After his service in the Marine Corps, Forbes had enlisted at Boston as a private in the Army in 1900. Two months later he was charged with desertion, was located and restored to duty without trial. He completed his enlistment, serving in the Philippine Islands, and was discharged from the Army as a sergeant first class, with an excellent character. When he left the Army, Forbes engaged in construction work and in ward politics in the Pacific Northwest. He then went to Hawaii and remained there for five years, becoming Commissioner of Public Works, chairman of the Public Service Commission, chairman of the Harbor Commission and chairman of the Reclamation Commission. During the war Forbes joined the Army again, was commissioned a major in the Signal Corps and served in France with the 41st and 33rd Divisions. He received the Croix de Guerre and the D.S.M. for his war work and was promoted to be a lieutenant colonel. After he returned from France, Forbes took up construction work again, and he became associated with Charles B. Hurley, of the Hurley-Mason Construction Company, of Tacoma, Washington. At the time of his appointment as director of the Veterans' Bureau, Forbes was a vice-president of that company.

Colonel Forbes as director of the Veterans' Bureau had in his gift a large number of appointments to office, and the bureau soon employed 30,000 men and women. Forbes appointed as his subordinates men who had been personal friends or men who had been good Republicans, and he listened carefully to the recommendations of Republican Congressmen

and acted on them. It was not long before the veterans' administration was overstaffed, and it was to the interests of the staff to place as many men as possible on veterans' relief, so that they might demonstrate the need for their own services. Doctors were accused of permitting men to remain in veterans' hospitals long after they had been cured, and it was discovered later that at the Speedway Hospital in Chicago more than 80 per cent of the patients spent their time in town. In the tuberculosis hospital at Greenville, South Carolina, one-third of the patients were not suffering from tuberculosis, and similar irregularities were discovered elsewhere. Other veterans who needed attention badly found it difficult to get it.

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IN FEBRUARY, 1922, Colonel Charles R. Forbes first met Elias H. Mortimer. Mr. Mortimer was staying at the Wardman Park Hotel in Washington and was the representative of the Thompson-Black construction companies. Mrs. Mortimer, who was an intimate friend of Mrs. Heber Votaw, President Harding's sister, was doing social welfare work for the war veterans, and it was she who first met Colonel Forbes. She introduced her husband to Forbes at the entrance to the Veterans' Bureau in February. It was Mortimer's aim and job to get contracts for the Thompson-Black companies for the construction of veterans' hospitals.

Colonel Forbes soon became intimate with the Mortimers. He himself lived near the Wardman Park Hotel, and he used to come to their apartment every night. He dined with the Mortimers every Sunday regularly and several times during the week. In the latter part of March, 1922, Colonel Forbes told Mr. Mortimer that he wanted to go away for a rest and asked his advice about where he should go. Mortimer told him that usually he himself went to the Traymore Hotel in Atlantic City, and he offered to accompany Forbes. Colonel Forbes, his secretary, M. L. Sweet, and Mr. and Mrs. Mortimer went to Atlantic City for four days. Mr. Mortimer paid all the bills.

Previously in their conversations Colonel Forbes and Mr. Mortimer had spoken vaguely of the possibility that Mr. Mortimer's company might get some of the contracts to construct hospitals. Colonel Forbes had known the head of Mr. Mortimer's company for twenty years. The day before they left Atlantic City Mortimer and Forbes had a conversation about the letting of the contracts for the hospitals. According to Mortimer's testimony later, Forbes told Mortimer that he had absolute power to let the contracts, and that he was going to let them on a cost-plus basis, a system which had proved a paradise for contractors during the war, for costs could be padded easily and extravagantly. Colonel Forbes had been a contractor himself, and he remarked to Mortimer that when he had been Commissioner of Public Works of Hawaii, he had worked with a representative of the Twin City Iron Works of St. Paul. "We fixed things," he added, "so that no one lost any money," and he left Mr. Mortimer to draw his own conclusions, Mortimer testified later.

In April, 1922, Mr. and Mrs. Mortimer accompanied Forbes on a trip to New York; they stopped off at the Ritz Hotel in Philadelphia, and again Mr. Mortimer paid the bill. In New York, Mr. Thompson and Mr. Black, Mortimer's bosses, visited Forbes and Mortimer. They were also joined by Charles F. Cramer, general counsel of the Veterans' Bureau, and one of Colonel Forbes's leading associates. The purpose of the expedition was to inspect possible sites for veterans' hospitals, but Mortimer testified that drinking parties started in the afternoon and ended early the following morning. "Well, they didn't do very much inspecting," Mortimer told the committee which later investigated the affairs of the Veterans' Bureau. "The inspecting was done by just getting out—everybody would get out and look over the sites, and probably would stay 15 or 20 minutes there and go on to another place." Officials of the Thompson-Black company were present on these inspection tours of prospective sites, and in New York Colonel Forbes held a private conference with J. W. Thompson.

Mortimer then arranged to give a party at the Ritz in Philadelphia for those who had been present in the gay group in New York, and it was after this party that Colonel Forbes told Mortimer that he would give him a list of the prospective sites for veterans' hospitals, so that Mortimer, Thompson and Black might have the advantage over other

contractors of inspecting them in advance. Representatives of other contracting firms found it impossible at this time to find out where veterans' hospitals were going to be located. Mortimer, Black and Thompson then inspected the proposed sites for hospitals at Chillicothe, Ohio; Columbus and Cleveland, Ohio; Liberty, New York; and Northampton, Massachusetts. They decided that they wanted the contract especially for the hospital at Northampton, Massachusetts, and when Mortimer told Forbes this, he answered: "All right." Forbes gave Thompson the plans for the Northampton hospital ten days before they were made public.

Forbes's plan to let all the contracts on a cost-plus basis was thwarted when President Harding insisted that advertisements for bids be issued, but, Mortimer testified, Forbes said to him: "Don't worry; if you are anywheres in line at all, I will see that you get the work." Mortimer also testified that Forbes had arranged with him, Thompson and Black to make the time limits in their bids as short as possible.

"Why?" Senator Walsh, of Massachusetts, asked.

"Because then, if we were high in our bidding, the time was the essence of the contracts, and Forbes could manipulate things then so that we could get the work; we would have a better opportunity and a better show."

Later in the spring of 1922, Mortimer met Forbes at Forbes's apartment, where a conference was going on with the two contractors, Thompson and Black. Forbes told Mortimer on that occasion that he was going to make a trip to the West, and that he would like Mortimer and Mrs. Mortimer to go along with him.

"'You can look over things at Chicago,' he said. 'We are going to put up a \$5,000,000 hospital at Chicago. We are going to put up a hospital at Livermore, California, and one at American Lake, which is just outside of Tacoma.' And he said, 'On your way back you can stop off at St. Cloud, Minnesota, and in that way have advance information over everybody.' . . . He said, 'I want you to work with me.' He said, 'You arrange to have Black and Thompson there [in Chicago] too.' And I had a conversation with Black, and he agreed to go out there."

Then Forbes called Mortimer into the apartment. Thompson and Black were sitting on the veranda outside the rooms.

“He said that his wife had gone abroad; he was very hard up and wanted to know if it was possible for me to loan him any money. I asked him what he wanted—that was the first time that he mentioned anything to me about money. I said, ‘What do you want, Forbes?’ He said, ‘I need about \$5,000.’ I said, ‘Personally, I haven’t got it, but I will see what I can do toward getting it for you.’”

Mortimer then went out to the veranda and talked with Thompson and Black alone. He told them that Forbes wanted him to go west with him, and that Forbes needed money. Mortimer returned from the veranda and told Forbes that he had arranged with Thompson and Black that when all of them got to Chicago, they would see that Forbes got \$5,000.

In June, Forbes and the Mortimers left for Chicago and took suites of rooms at the Drake Hotel there, where they were met by Thompson and Black. Mortimer testified that their suite at the Drake Hotel cost \$50 a day, that meals averaged \$3 or \$4 a person, and that there were usually from five to ten persons at each meal except breakfast. Drinking parties continued throughout the trip to the Pacific Coast, and he stated that they “were simply having one royal good time all the time we were on the trip from the time we left Chicago.” And before they left Chicago there was one interesting scene:

“I want to turn your attention to the party of which you spoke at the Drake Hotel in Chicago. You stated then that there was quite a party in that suite?” Senator David A. Reed asked Mortimer.

“Yes, sir.”

“That you and Colonel Forbes had at the Drake Hotel. What was the nature of that party?”

“We had, as I explained before—Colonel Forbes’s room was off to the right of our apartment, connecting with this living room. Ours was off to the left, connecting with this living room. Colonel Forbes, when I came in there about 4.30 in the afternoon was shooting craps with Mrs. Mortimer on the bed.”

"In whose room?"

"In my room."

"At what time was that?"

"About 4.30 in the afternoon. There was a bottle of Scotch there, and he had his coat off, and he was—well, I think he had won \$220 from Mrs. Mortimer, or something like that, because I know I gave her the money. I don't know whether she ever gave it to him or not. I gave it to her to pay him."

"You stated that there were 15 or 20 people present in the living room at some time during the day. What time was there such a crowd there?"

"That was between—about 4.30 to 6 o'clock. There was a lot of drinking going on out there, also."

"You mean these people were out in your living room while Colonel Forbes and Mrs. Mortimer were there shooting craps?"

"Forbes was in and out. There were other people shooting craps in the room also."

"They were not alone, the two?"

"No, sir; they were not alone."

"Was Thompson shooting craps?" Senator Walsh, of Massachusetts, asked.

"He was. He was pretty good."

"Were Veterans' Bureau employees there at the time while this performance was going on?" Senator Reed asked.

"I cannot say whether they were connected in any way with the Veterans' Bureau."

"What time of day was it that you gave him these ten \$500 bills that you spoke of?"

"Five o'clock. I had not been in that place more than 15 or 20 minutes before Thompson gave them to me."

"Where did Thompson give you those bills?"

"He gave them to me in the bathroom, off the living room."

"Where did you give them to Forbes?"

"In the same place."

"That is, in the same bathroom?"

"Yes, sir. Forbes was in with Mrs. Mortimer when Thompson and I were in this bathroom. I got the money. Thompson came out and went in with me into our room, and I said, 'Forbes, I want to see you.' He said, 'All right, Mort.' He came out and we went in there and I counted

them out. He put them in his pocket and didn't do anything more, only just laughed and went back into the room and started shooting craps. After that we dressed for dinner, and Thompson took us out to a club, one of the country clubs there."

Mortimer testified that Thompson gave him \$15,000 in new \$500 bills, and that he gave the Thompson-Black company his personal note for the money; that he gave Forbes \$5,000 and used some of the rest of the money for the expenses of their joint journey to the Pacific Coast. He said that he had never received a note from Forbes for the \$5,000, nor had he received anything in writing acknowledging any debt; Forbes never repaid the \$5,000. He said that he also loaned Forbes money on later occasions. On the trip west Mortimer paid all of Forbes's expenses except his railway fare, which he received from the government, as he was supposed to be traveling on government business.

When it came time for Colonel Forbes to testify in his own behalf, he insisted that Mortimer had never given him any money, and that on the day of the scene in the Drake Hotel mentioned by Mortimer he had been very busy inspecting hospitals for veterans in Chicago until late in the day. He denied all business relations with Mortimer, and any carousing on the trip; he insisted that the only drunkenness during that journey was Mortimer's drunkenness. When his counsel, Colonel Easby-Smith, mentioned to Forbes for his comment the fact that Mortimer had testified that in addition to the loan of \$5,000, he had subsequently loaned Forbes \$1,500 and given him a check for it, Forbes answered: "Produce the check." Colonel Forbes was a difficult, disorderly witness, and even his own counsel had to call him to order on several occasions. "Produce the check?" Colonel Easby-Smith repeated the words of his client. "Now, answer my question. Did he ever lend you—we have disposed of the \$5,000—did he ever lend you \$1,000 or \$1,500?" "He never loaned me a bean, nor did I ever ask him for any," Colonel Forbes testified.

Major General O'Ryan, counsel for the Senate committee, cross-examined Colonel Forbes concerning the day when Mortimer testified he had given Forbes the \$5,000 in bills in the bathroom, and when Forbes insisted that he was busy all afternoon inspecting veterans' hospitals:

"Now, as I recall your testimony, you stated after breakfast you left immediately and went out on inspection?"

"Shortly after breakfast."

"Did you see Mortimer between the time you had your breakfast and the time you left the hotel?"

"Yes, sir."

"Where?"

"I was going down the hall, and I heard a woman scream, and I went in and this man [indicating Mr. Mortimer] was beating up his wife."

"That is when you saw him?"

"That is when I saw him, and when I last saw him."

"How long did that incident delay you on your departure from the hotel?"

"How long?"

"Yes."

"I just spoke to him."

"How many minutes? You just spoke to him?"

"I said, 'That is no way to do.'"

"You admonished him, did you?"

"Yes, sir."

"And then you walked on?"

"Yes; I walked on."

"And that is the only conversation you had with him then?"

"Yes; that is all." . . .

"Your claim is, Colonel," General O'Ryan asked, "that all of your relations with Mortimer were honorable, and that you never received any bribe from him directly or indirectly?"

"Absolutely." . . .

"Colonel, in that connection, do you expect this committee, who have seen Mr. Mortimer and heard his testimony and observed his intimate knowledge of the details of so many of the various contracts, to believe that Mortimer was spending his time running around the country with you and spending his money on you month after month and making these inspection trips in connection with these contractors without any business purpose connected with you?"

"Absolutely. If he was not with me he would have been with somebody else," Colonel Forbes answered.

"That might be; but do you believe now, as you look back at it, that

he did not have some ulterior purpose in accompanying you on these trips?"

"I do not know what he had in his mind."

John B. Milliken, an official of the Veterans' Bureau, who accompanied Forbes on this official business trip to the Pacific Coast, also wondered what Mortimer and Mrs. Mortimer were doing in the party. He asked Forbes why the Mortimers were there, and, he testified, Forbes told him that they were friends of his who stayed at the same hotel in Washington, and that they happened to be going to California at the same time and had joined him. Before they had left Washington in June, Forbes had moved into the Wardman Park Hotel, where Mortimer and his wife had an apartment. Daugherty and Jess Smith had an apartment there also; William J. Burns lived there; and Fall and Sinclair when they came to Washington usually stayed at the Wardman Park. Mortimer testified that he had paid all Forbes's hotel bills and other expenses on the trip to the Coast, except transportation, and that the trip of a little more than a month had cost \$5,400.

When the party reached San Francisco, they inspected a proposed site for a tuberculosis hospital at Livermore, California. The land had been sold to the government by Lucien Johnson, of the Casa Blanca Vineyard, who wanted construction work to be put off until the fall crop of grapes could be harvested. Mortimer testified: "I told Forbes it was too bad to have all those grapes cut down, and he said, 'Don't you worry; we will get all the wine we want there, anyway.'" Two dozen quarts of wine were brought from Livermore in suitcases to Forbes's suite at the Fairmont Hotel in San Francisco.

The head of the American Legion, Major Quinn, and Judge Graupner, of California, called on Forbes at the Fairmont Hotel, as did several others, to protest that the sale of the land at Livermore had been corrupt. The owner of the land, Lucien Johnson, had been heard to say after he had received his check for \$105,000 for his land, that \$25,000 was to be split between Forbes and his general counsel at the Veterans' Bureau, Charles F. Cramer, who was from California, and who had helped to sell the land to the government at a high rate, in collaboration with Forbes.

Johnson was also alleged to have made the statement that he had to send one hundred cases of his wine to Washington, which was to be split between Forbes, Cramer and another person, whose name was not mentioned. Judge Graupner made the following memorandum of his visit of protest to Colonel Forbes:

During the time that these charges were being presented Director Forbes exhibited neither concern, anger, or particular interest, and at the conclusion of the statements above made Director Forbes made no denials of any of the charges made. His reply was an interrogation as to whether or not the property was suitable for a tuberculosis hospital, and, upon an affirmative answer being given by the writer, Director Forbes then asked what it mattered to me what price was paid for it as long as it was a good site.

The land which Mr. Johnson sold to the government for \$105,000 had cost him \$19,257.

In California Forbes and Mortimer had some intimate conversations. Forbes confided to him that Mrs. Forbes had gone away to Europe with all of his securities; Mrs. Forbes divorced Colonel Forbes. He also confided to Mr. Mortimer that he was going to succeed Albert B. Fall as Secretary of the Interior as soon as Fall resigned that post. This conversation took place in July, 1922, while Fall was still busy putting the finishing touches on the leases to the naval reserves. He did not resign until March, 1923, and by that time Colonel Forbes was in trouble. But, sitting on the porch of the Coronado Beach Hotel, Forbes expanded and told Mortimer and another friend, Mr. Lindley, of his ambition; Mr. Lindley was in politics in California, and Forbes and he were discussing the large amount of money that would be appropriated for reclamation work in the Northwest. Mortimer testified that they mentioned "that the Secretary of the Interior would have the giving of this work to anybody that they wanted."

"And at that time," Mortimer added, "Forbes came out with the assertion that he was going to be the next Secretary of the Interior; that he had everything all fixed with President Harding to that effect;

and that the work could be handled very nicely. . . . Well, he said that it was practically an admitted fact that he would get it."

"Yes, but having gotten it, what, if anything did he say that he was going to do with it?" General O'Ryan asked.

"That he was going to see that we got the work. . . . Well, that we would all make a big clean up is the expression that he always used in regard to any contract. From that time on we were very intimate on the trip, naturally, traveling together from Washington to the coast and being together all the time. His suite was adjoining our suite, and we were just about as chummy as two people could be; that is all." . . .

"Did you express concern about the possibility of Colonel Forbes leaving the Veterans' Bureau before these deals were put through?"

"Yes; I did. I asked him—I said, 'We have gone to a lot of time and expense on this,' and I said, 'Colonel, when do you think this thing will happen?' He said, 'It will take some time yet before anything like that will happen, and all these contracts will be placed.'"

Perhaps Colonel Forbes realized that Secretary Fall would not resign until he had all of his contracts placed too.

Before leaving Washington, Colonel Forbes had arranged with Charles F. Cramer, his legal adviser at the Veterans' Bureau, to open all bids of rival contractors for the hospital contract at Northampton, Massachusetts, which the Thompson-Black company wanted. If any bids were more favorable than that of the Thompson-Black company, Cramer was to telegraph Forbes at once, and he was also instructed to hold up the letting of the contract until he heard from Forbes. For their convenience, Forbes and his contracting friends and their associates in the deals for hospital construction work had a special telegraphic code and special code names. In this code Forbes was known as "McAdoo," his secretary, M. L. Sweet, was referred to as "Pickles," and Mortimer was called "Moxey."

In San Francisco Forbes and his party were joined by Forbes's old friend and former partner in the construction business, Charles Hurley. Forbes introduced Mortimer to Hurley and said that he wanted him to know Hurley "intimately." Hurley and Mortimer got together at once and arranged a secret telegraphic code.

From San Francisco the party went to Tacoma on the *S. S. Alexander*, which was making its maiden voyage. H. F. Alexander, head of the

steamship company which operated the ship, gave up his private suite to Forbes and the Mortimers. And in return Forbes gave an extraordinarily brazen performance. He had with him some copies of the inauguration medal which had been struck for the inauguration of President Harding, and which could be purchased by anyone inexpensively. In the course of his journey across the country Forbes had presented copies of these medals to various people, but on board the *S. S. Alexander* he was feeling especially exuberant, and he got up at a dinner of five hundred people and presented Mr. Alexander with one of the inauguration medals, accompanied by a speech in which Colonel Forbes said that President Harding had asked him to present it. This was too much, even for Mortimer, and he testified to the following conversation with Forbes afterwards:

“Why, I asked Forbes—we were all sitting around laughing, and I said, ‘Charlie, tell me, did the President ask you to present that?’ And he said, ‘No,’ he said, ‘I just wanted to make him feel good.’ He said, ‘He was pretty good to us and put us in his private suite on the boat,’ and he said, ‘I knew him when he did not have any money,’ he said. ‘And he is going up in the world now, and he is a big man in Tacoma.’ . . . It was just an impulsive thing on the spur of the moment. He had no more intention of doing it when he started off to speak than we have of presenting a medal here. But he is very spontaneous. I was never so surprised in my life. I was sitting down at his table and he was standing right next to me, and when he presented the medal it was like a thunderbolt out of the sky.”

Mortimer also said that the newspapers were full of the incident, and that Colonel Forbes, when he got back to Washington, “was called on that particular item.” When the party reached Spokane, according to Mortimer, Colonel Forbes received a telegram from President Harding, “asking if there was any truth in the report that was being circulated that he was going to resign his position.”

It was at Spokane, on the shores of Hayden Lake, that Forbes, Mortimer and Hurley came to an arrangement concerning the profits on the construction of veterans’ hospitals. The three men took a walk in the morning along the lake, and when they had got out of hearing of any-

one else, arrived at an agreement. One-third of the profits on all hospitals constructed by Mortimer's employers or by Hurley's firm was to go to Colonel Forbes; one-third was to go to Mortimer's company; and one-third to Hurley's company. They estimated, Mortimer testified, that the profit would be about \$150,000 on each hospital costing \$1,500,000. In San Francisco, Charles B. Hurley, Forbes's former partner, had agreed with James W. Black, Mortimer's employer, that the two construction companies would share the profits on all construction work which they did for the Veterans' Bureau west of the Mississippi River, except for the project at American Lake, which was to be in the control of the Hurley company and the project at Northampton, Massachusetts, which was to be in the control of the Thompson-Black company. Hurley's company received a contract for the hospital at American Lake, in the State of Washington, at a cost of \$1,397,000 though there were two lower bids submitted, according to Mortimer.

In May, 1922, before he left for the West with Colonel Forbes, Mortimer had arranged with Thompson and Black that he was to get 35 per cent of the profits on all construction work which the company might do for the Veterans' Bureau. J. W. Thompson also said that if he received any work from Colonel Forbes, he would give Mrs. Mortimer a single-six Packard coupé. On the strength of the promises which Colonel Forbes had made to Thompson and Mortimer in regard to contracts, Mr. Thompson ordered the Packard motorcar for Mrs. Mortimer. Letters were introduced into evidence before the Senate committee investigating the Veterans' Bureau from the Packard Motor Car Company explaining the necessary delay in delivery. Then the party went West, and by the time they had returned, the relations of Colonel Forbes and Mr. Mortimer were strained, and the motorcar was never delivered to Mrs. Mortimer.

Colonel Forbes and Mortimer had their first quarrel at Spokane. Mortimer claimed later that he was disgusted when Colonel Forbes and one of the ladies jumped into Hayden Lake with their clothes on, and that he and Colonel Forbes had words over this incident. They also quarreled about Mrs. Mortimer, according to Mortimer's testimony.

"Out at Hayden Lake," Mortimer told the Senate committee, "when I decided to come in and not tolerate any more of the situation as it

was going along, I had quite a talk with Mr. Hurley, and Mr. Hurley explained several things to me in reference to private matters affecting the lives of other families Colonel Forbes had known favorably prior to that time."

But Charles B. Hurley reconciled Forbes and Mortimer this time, saying that things had gone too far on the contracts now for them to be falling out with each other.

The reconciliation, however, was only temporary, and when the party returned to Washington, further quarrels, both personal and financial, took place. Colonel Forbes learned that at the Drake Hotel in Chicago Mortimer had received \$15,000 from his employers, and, according to Mortimer's testimony, he insisted that he should have got half of it instead of the \$5,000 Mortimer said that he paid to him. At this Mortimer's employer, James W. Black, became belatedly disgusted with Colonel Forbes and told Mortimer that he wished to have nothing further to do with him and wanted to show him up. "I think he is a double-crosser," Black told Mortimer. According to Mortimer's testimony, Thompson and Black advanced Colonel Forbes about \$30,000 altogether.

Then, on Labor Day, 1922, Forbes and Mortimer quarreled again at the Wardman Park Hotel, when Mortimer came into the apartment and found Colonel Forbes and Mrs. Mortimer alone. Questioned about this personal incident, Colonel Forbes answered: "He did, with the doors wide open." He also said that he and Mrs. Mortimer had only been in the room together for about two minutes. It was after this quarrel that Colonel Forbes was alleged to have told a representative of the Sutherland Company, which was interested in getting a contract for a veterans' hospital, that the company would get no contract so long as Mortimer had anything to do with it.

According to the testimony of some of her relatives, Mrs. Mortimer became estranged from her husband after the return of the party to the East, and Colonel Forbes was said to have made a great effort to get papers which Mortimer had in his possession in order to prevent Mortimer from using them to incriminate Forbes; he was also said by witnesses to have made great efforts to get incriminating evidence against Mortimer. Mortimer also testified that his apartment at the Wardman Park

Hotel was broken into twice and all the papers he had there were stolen; he claimed, too, that papers which he had in a trunk in Philadelphia were also stolen after the visit of someone from the Veterans' Bureau to the place where the trunk was kept.

James M. Williams, an ice cream manufacturer, in whose house at Philadelphia Mrs. Mortimer's sister lived, testified that one day he met Colonel Forbes and Mortimer at Staunton, Virginia. Colonel Forbes, both Williams and Mortimer testified, was trying at that time to interest the local druggist of Staunton, Virginia, in the large quantities of narcotics which the Veterans' Bureau had at the supply stores in Perryville, Maryland. But Mr. Hogshead, the druggist of Staunton, told Colonel Forbes that he did not handle narcotics. Subsequently, in the kitchen of Mr. Williams's home, Colonel Forbes, Williams testified, tried to interest him in carting away broken packages of liquor and narcotics in his empty milk cans. He also offered Mr. Williams, Williams said, the contract for supplying the hospital at Perryville with cream and condensed milk, but Williams told him that he was not equipped to handle hospital work. "We have a great many broken packages there," Williams quoted Forbes as saying to him. "I might make it interesting for you." Mr. Williams also testified that that same night in his house Forbes and Sidney Bieber had been talking about the surplus stores of narcotics and liquor at the Perryville supply depot and said that they had made arrangements to ship away the "straight packages," but that there were a great many broken ones which Forbes wanted Williams to cart away in his empty milk cans.

Lillian Henry, the maid at the Williams home, testified:

"I heard Colonel Forbes speak of liquor; that he had a deal with Mr. Mortimer; and I heard him say that Mr. Mortimer seemed—I don't know just the word he used, but he didn't take the deal. He said he had a million-dollar deal up with Mr. Mortimer, but he didn't take it, and it was liquor, I heard Mr. Forbes say."

Mortimer testified that Colonel Forbes had told him that at Perryville depot he had \$5,000,000 worth of drugs and 67,000 quarts of liquor, which he wanted Mortimer to sell for the Veterans' Bureau. Forbes also suggested to Mortimer, according to Mortimer's testimony, that he should

get an agency for supplies to be used in veterans' hospitals, "as he was going to buy complete new equipment for all of the hospitals; that is, the 12 they were going to put up out of the \$17,000,000 and I turned the matter over to my associate, A. N. McDonald." McDonald got numerous hospital supply agencies, Mortimer testified, but then Mortimer broke with Colonel Forbes, and they never sold any supplies to the Veterans' Bureau.

"Did you hear Forbes say that he was about to have Mortimer arrested?" Senator Reed asked Mr. Williams.

"Yes."

"By whose 'strong-arm' men?"

"Well, they talked a great deal about the Department of Justice men, and the 'strong-arm' men that they have in Washington. They even went so far as to say that they were going to have some of their 'strong-arm' men take Mortimer outside of Washington and flog him and turn him loose with the promise that he would leave Washington."

"Did you hear Forbes say that?"

"Yes, sir."

When Colonel Forbes was examined by the Senate committee, he testified that he had had information from the Department of Justice that Mortimer was "the social and professional bootlegger of Washington." Colonel Forbes made every effort to blacken Mortimer's character.

"During the time that you knew Mortimer previous to this, Colonel Forbes," Senator Walsh of Massachusetts asked, "did you suspect that he was a bootlegger?"

"No; I didn't suspect that he was a bootlegger."

"So while you were traveling with him and associating with him you saw nothing of his activities as a bootlegger?"

"Only what I suspicioned."

"It was after there had been a break in your relations that you learned from the Department of Justice that he was a bootlegger?"

"Oh, I learned it—well, of course I heard it off and on before that. And then the Department of Justice brought me the real information."

This would seem to indicate the possibility that Colonel Forbes had put William J. Burns's sleuths of the Bureau of Investigation on the trail of

Mortimer after the break in their relations. At this period in the history of the United States, Department of Justice agents were acting practically as private detectives for certain members of the administration in the effort to get material which could be used against their opponents. At the investigation into the administration of Attorney General Daugherty, Gaston B. Means testified that he had investigated E. H. Mortimer for the Department of Justice.

Colonel Forbes denied that he had ever been in the Williams kitchen, or that he had ever had any conversation with Mr. Williams about the narcotics and liquor at Perryville depot. Mrs. Williams testified that Colonel Forbes had been in her kitchen "quite a number of times when he was in my house." Colonel Forbes said that on the night mentioned by Mr. Williams when they had their conversation in the kitchen, they were in the living room all the time. "And he began talking about cheese," Colonel Forbes testified. "He talked cheese for about four hours and a half. Now that was the whole conversation at the Williams's house."

As for Mortimer, Colonel Forbes, naturally, did not have a good word to say for him. He was, according to Forbes, a wife-beater and a boot-legger, and he claimed that Mortimer and Williams had conspired against him.

"Now, Colonel," General O'Ryan asked, "for quite a time after you met Mortimer the first time you visited regularly and frequently at his apartment?"

"Yes."

"Now did you find his companionship so attractive to you?"

"Well, he seemed to be plausible."

"You like plausible people?"

"He seemed to be a fellow that was all right socially, and I wasn't going around any place in particular. I wasn't interested in him for any particular reason."

About the only truth Colonel Forbes credited Mortimer with was that he had said that White Sulphur Springs was a nice place, "and it was a nice place."

The chairman of the Senate investigating committee, Senator David A. Reed, asked Mortimer:

"Mr. Mortimer, you have testified to some matters here which are very incriminating to yourself. Do you realize that?"

"Yes, sir; I do."

"What is your motive in giving us such full testimony which incriminates you?"

"Well, you are touching on a very delicate point with me, Senator, and one which I would like to have the privilege of telling the committee personally rather than advertise it."

"I do not want you to go into details. It is a personal reason, is it?"

"Yes, sir." . . .

"As Senator Reed has said," Senator Walsh of Massachusetts remarked, "you have made a remarkable disclosure here. Do you not think that you have been somewhat actuated by feelings of hostility to Colonel Forbes by what you believe to be interference with your domestic life?"

"To quite an extent, Senator; yes, sir."

"Do you think that hostility and feeling that you have has somewhat warped your judgment?"

"No, sir; it has not. I have saved every paper on that western trip. I have heard enough, Senator, about his past to warrant me taking every precaution to safeguard my home, and I thought probably that some day something would arise, which has; and I have never had any trouble in my life before until I met this fellow Forbes."

Mr. and Mrs. Elias H. Mortimer had been married in 1920, and they had separated after three months of marriage; then they were reconciled, separated again, and had been reconciled again shortly before they met Colonel Forbes in February, 1922. Their final separation took place after the western trip with Colonel Forbes. According to Mortimer, on the night before he was to testify before the Senate committee, Mrs. Mortimer tried to bring Mortimer and Colonel Forbes together. Both Colonel Forbes and Mortimer came to the house of Mrs. Mortimer's father in Philadelphia, Dr. George B. Tullidge. She placed Colonel Forbes in one room and Mortimer in another and then begged her husband to talk with Forbes and not to testify against him. Mortimer testified later that he told her: "If I go into that room, only one of us will come out." Next day Mortimer went to Washington and told the whole story of his relations, financial and personal, with Colonel Forbes

The Senate committee happened to get in touch with Mortimer because he had told his story to General Drain at the Manufacturers' Club in Philadelphia. General Drain told it to General O'Ryan, and Mortimer was asked to testify. He had previously made an affidavit concerning his relations with Colonel Forbes on a hospital construction deal, and the affidavit had been presented to President Harding, he claimed.

The Senate investigating committee was not interested in the domestic affairs of Mr. and Mrs. Mortimer, and after the first testimony concerning their difficulties, and the part Colonel Forbes was alleged to have played in their lives, Senator David A. Reed, the chairman, announced that no more scandalous testimony about the relations of the Mortimers and Forbes would be admitted to the record. The committee heard Mrs. Mortimer in executive session, and her testimony was not made public. In view of the insinuations against her character, Daniel Thew Wright, her attorney, appeared before the Senate committee on Tuesday, November 20, 1923, and asked that she be heard publicly to protect her reputation. "A woman's character," Mr. Wright told the committee, "is a very fragile thing, as delicate as the frost upon the morning window, which a breath dispels, and it is forever gone. And yet, a woman's character is her most priceless possession."

To which Senator Reed replied: "We were not appointed to investigate the domestic affairs of Mr. and Mrs. Mortimer; and although we had knowledge of those domestic affairs, we, so far as possible, restrained Mr. Mortimer—and I believe he wanted to be restrained—from testifying about them, except where it was absolutely necessary to bring out matters that had to do with the bureau and its management."

After their last quarrel at the wedding of Mrs. Mortimer's sister, Colonel Forbes, who had previously awarded the contract for the foundation of the veterans' hospital at Northampton, Massachusetts, to the Thompson-Black company, gave the contract for the superstructure of the hospital to the Fuller Construction Company.

3

IN NOVEMBER, 1922, Colonel Forbes started negotiations for a big deal. He had let his contracts for hospital construction to firms whose bids were sometimes higher than other bids submitted for the same work, and he now turned his attention to the huge supply depot for medical stores, drugs, liquor and clothing at Perryville, Maryland. The goods at Perryville were stored in fifty buildings, which were crammed full to the ceilings. Besides sheets, towels, gauze, drugs, liquor, paraffin, paper, pajamas, thread, moleskin and other materials used by veterans in vocational training, there were thousands of grindstones and emery stones and hundreds of old trucks; there were also thousands of monkey wrenches and much other hardware. No proper inventory had been made of the goods, and some of them were being ruined because of the dilapidated condition of the roofs of the buildings. The approximate value of the goods stored at Perryville was between five and seven million dollars. On April 29, 1922, just about the time when Secretary Fall was selling the Navy's oil reserves to his friends, President Harding signed the executive order by which the administration of the supply depot and all its supplies was turned over to Colonel Forbes. The executive order provided, however, that 20 per cent of the supplies were to be the property of the United States Public Health Service for use in its hospitals.

On October 9, 1922, Colonel Forbes placed Lieutenant Commander Charles R. O'Leary, of the Navy Department, in charge of the supplies at Perryville. Lieutenant Commander O'Leary had had experience with Navy supplies. About a month later Colonel Forbes called Commander O'Leary to his office and introduced him to a Mr. Thompson and a Mr. Foster, of Boston, who were there to make an offer for the supplies stored at Perryville. Mr. Thompson was a member of the Boston firm of Thompson & Kelly, Inc. On November 10th, a committee at the Veterans' Bureau approved Colonel Forbes's plan to sell the supplies. On November 11th, Thompson & Kelly made their bid for the goods. There had been no public advertisement of the sale, but two other firms who had heard that

the goods were to be sold demanded a chance to bid; Thompson & Kelly got the contract.

Before the sale could be completed, the list of goods to be sold had to be approved for sale by the Co-ordinator of the Budget. Colonel Forbes telephoned to Colonel Smithers, of the Co-ordinator's office on November 14, 1922, and told him that Commander O'Leary was on his way over to the Co-ordinator's office with a list of damaged supplies which Forbes was anxious to sell as soon as possible. Commander O'Leary took a three-page list over to Colonel Smithers's office. In a few minutes Colonel Smithers approved the list, except for soap, for he felt that the Army and Navy could always use soap. After the approved list came back to the Veterans' Bureau, two other lists were attached to it, giving Forbes authority to sell more property than had been included in the original list. The second list was three times the size of the one which he had approved, Colonel Smithers testified. The next day, November 15th, Forbes signed a contract with Thompson & Kelly, Inc., for the sale, and on the following day goods began to move out of Perryville. Forbes's contract provided that Thompson & Kelly were to get the goods at 20 cents on the dollar of their cost to the United States government.

Meanwhile, Mrs. Lila Cramer, wife of Charles F. Cramer, Forbes's leading confederate in the Veterans' Bureau, sent her husband the following telegram to California, where he was at the moment:

Just finished talking with Koegel. Think it necessary you return at once; think colonel is a traitor. Has ordered Perryville cleaned out this week. I am seeing General S. in your behalf tomorrow. Koegel's advice. All my love.

LILA.

The next day, November 13th, she sent another telegram, this time to Frank Graham, Higgins Building, Los Angeles, California:

Get hold of Charlie [Cramer]. Have him telephone me or send word where I can telephone him at once. Things very wrong in bureau. Most important.

LILA CRAMER.

Other contractors who wished an opportunity to bid for the valuable government supplies were talking with their Congressmen and visiting Forbes. In his colloquial way, Colonel Forbes testified to the following scene in his office shortly after he had signed the contract with Thompson & Kelly:

"But two days later in walks a little fellow," Colonel Forbes replied to questions of his counsel, Colonel Easby-Smith, "and he said, 'I am looking for the guy that sells this property.' And he threw out a handful of canceled checks on my desk. And I told him to get out. He said Senator So-and-So had sent him; he was a friend of his, and that he was to talk to me. Well, I threw him out."

"Who was he, Colonel? Did you learn his name?"

"Silberman. The next day in walks this hombre sitting right over here (indicating), swinging a gold-headed cane like a drum major."

"What is his name?" General O'Ryan asked.

"This man here (indicating)."

"Mr. Anchester, do you mean," Colonel Easby-Smith asked.

"Yes; that is his name."

"Proceed, Colonel. What did Mr. Anchester want?"

"He says, 'I am a friend of W. J. Burns, of the Department of Justice, and I want to figure on this surplus property, and I am going to get some of it.' I said, 'You are going to get out.' And he got out. He walked up to the legal department and he started something up there. Then he went down to the Supply Division and started something down there."

"Colonel Forbes, in that connection did you receive any other bids or offers from any other ——"

"Let me finish with this hombre, will you? This man (indicating) went around the building making threats what he would do to me; and he came back in a week or two, and he was in the legal office again. I went back there and he wanted to make another proposition. I was quiet then and I said, 'You make your proposition and put it in writing.' He did make a proposition and put it in writing." . . .

"You may proceed as to the subsequent conduct of Mr. Anchester in respect to endeavoring to purchase supplies at other places."

"This bird ——" Colonel Forbes began.

"Now, Colonel," his counsel warned.

"Excuse me. I am sorry. He goes out to North Chicago and stirs

the people up there about sales and buying the stuff. He goes to New York and chases them around there, scaring those people down there with his importance as the representative of William J. Burns."

"To whom did he go—you mean, to your district managers?"

"Yes. He went all around to all of the departments there. So I went to see Mr. Burns about him, and what Mr. Burns said to me about him would not do to put on that paper there."

On November 15th, the day Forbes signed the contracts with Thompson & Kelly, Inc., fifteen empty freight cars rolled into the Perryville railroad yard, and the next day they were loaded with sheets, towels, gauze and other material and removed on their way to Boston. C. H. Bierman, purveyor of supplies at Perryville, testified to this haste and also informed the Senate committee that he had telephoned the Surgeon General of the United States at once and informed him of what was going on. Mr. Bierman also had appealed to the representatives of the Veterans' Bureau at Perryville to hold up the shipments, for the Public Health Service, of which Surgeon General Cumming was in charge, was entitled to 20 per cent of the supplies being shipped out. "The cars had been loaded, and they said they must be pushed out," Mr. Bierman testified.

Thompson & Kelly received 84,920 bed sheets for 20 cents each, which had cost the government more than \$1.00 each. The Chief Co-ordinator of the Budget had authorized the sale of 2,622 damaged and soiled bed sheets, but Thompson & Kelly got 72,000 new bed sheets in unbroken packages, and 12,000 damaged sheets. And while Colonel Forbes was selling new hospital bed sheets at 20 cents, he was buying new ones for the Veterans' Bureau hospitals at \$1.03½ each. General O'Ryan introduced into the record of the Senate investigation bills from Parker, Wilder & Company, for consignments of 5,040 sheets on August 15, 1922, 5,040 on September 15th, 5,040 on October 13th, and 5,040 on December 15th at \$1.03½ each.

Thompson & Kelly also purchased 1,169,800 towels. Hand towels costing the government 54 cents each were sold to Thompson & Kelly for a little more than 3 cents each. Also 98,995 winter pajamas, Red Cross type, made by the women of America during the war and donated to the Army by the Red Cross, new and unused, were sold to Thompson &

Kelly for 30 cents a suit; 47,175 packages of gauze were sold at one-fifth of their cost. It was new and could always have been used in Army and Navy hospitals. Then, the gauze supply having been depleted by the sale, the government had to purchase more gauze. There were 5,387 pounds of paraffin paper in excellent condition, which had cost the government about 60 cents a pound and were sold for 5 cents a pound. Thread which had been bought for \$1.05 a pound was sold for 21 cents. In a report to Surgeon General Cumming, C. H. Bierman, medical purveyor at Perryville, wrote:

To sell supplies at 20¼ per cent of their value that can be used in the next 5 or 10 years, and would have to be purchased at 100 per cent, should they be sold, does not appeal from a business standpoint. The difference between 20¼ per cent and 100 per cent in value of the supplies would cover a great many years of overhead expense in storage of same under proper conditions. Furthermore, the fact should be considered that the original cost to the service amounted, I believe, to only 9 per cent of their value, including all charges, as they were transferred gratis except as to handling and transportation charges.

Respectfully, C. H. BIERMANN.

Thompson & Kelly paid the government just under \$600,000 for supplies estimated to be worth between five and seven million dollars.

On November 20, 1922, Surgeon General Cumming wrote to Colonel Forbes protesting against the sale of goods, some of which belonged to the Public Health Service in his charge. He received no reply. He wrote again, and still received no reply from Forbes. Then he and Dr. Smith, of the Public Health Service, called on Brigadier General Sawyer, friend of Harding, and told him about the Perryville deal. The three men then called on Colonel Forbes at his office. Forbes admitted that he had sold the supplies, but only after a heated conference, according to the testimony of General Sawyer, would Forbes agree that the Public Health Service was entitled to any consideration at all, in spite of the terms of President Harding's executive order. General Sawyer then took up the matter with President Harding, who asked him to go at once to Perryville and find out what was going on there. The President arranged for swift military

conveyance to Perryville for General Sawyer, Surgeon General Cumming and Dr. Smith.

The three officials found great activity at the railroad yard in Perryville. Stores were being loaded rapidly into 155 freight cars and shipped away as fast as possible. Assuming the authority which President Harding had given him, General Sawyer ordered that the shipments be stopped at once. He then returned to Washington and reported to the President that the material sold and being shipped out so hurriedly was of great value to the veterans' hospitals and the Army, Navy, Marine and Public Health Service.

On November 24th, President Harding ordered that the shipments should be stopped, and he asked Colonel Forbes to come to the White House for a conference.

Colonel Forbes told President Harding that he had sold the Perryville supplies in order to cut down overhead and storage expenses, which he estimated would amount to \$650,000 to \$660,000, but the man in charge of supplies estimated that the cost of storing them would not have exceeded \$28,000. At President Harding's request an appraisal of the goods was made, but it was said to have been a false appraisal; in the meantime the President's order to stop shipments was disregarded, and shipments were still going out to Thompson & Kelly from Perryville. On December 12, 1922, Colonel Forbes, Lieutenant Commander O'Leary, and Major Carmody went to the White House and discussed the supplies with President Harding. They brought along with them selected samples of goods to show the President how inferior the quality of the material was. They did not tell the President that the sheets sold to Thompson & Kelly, with the exception of about 12,000 of the 84,000, were brand-new and unopened. After the others had left the White House, Colonel Forbes remained behind and had a private talk with the President. After this conference President Harding removed the embargo on the shipment of supplies, and more and more rapidly the freight cars were loaded and shipped out of Perryville.

Then further protests against the sale of the Perryville supplies were made to Harding by General Sawyer and by Senator Calder, of New York. President Harding then called Colonel Forbes to the White House

again and ordered him once more to stop the shipments. But still goods went out from Perryville to Boston. Four or five days after the President's second order on January 24, 1923, to cease the shipments, Colonel Forbes left suddenly for Europe. Attorney General Daugherty wrote in his book that Harding had asked for Colonel Forbes's resignation, but that the Colonel had refused to resign. In order to make it easier for him to do so, Daugherty wrote, President Harding permitted him to go abroad first on a minor foreign mission. But there was other evidence that Colonel Forbes had been trying to get President Harding to permit him to go on a junket to Europe for the ostensible purpose of attending to the training of disabled American veterans abroad, but that Harding refused and Forbes's trip was at his own expense.

In addition to the corruption charged against Colonel Forbes's administration, the construction of hospitals under his care was absurdly negligent. At the Neuropsychiatric Hospital at Palo Alto, California, for instance, no laundry was constructed, and the government had to pay \$5,000 a month for its laundry work; in the hospital at Excelsior Springs, Missouri, no kitchen had been provided. The Veterans' Bureau also purchased supplies and equipment in extravagant quantities and at exorbitant prices. For example the bureau bought 35,035 gallons of floor cleaner and 32,115 gallons of floor wax at 87 cents a gallon. The Bureau of Standards estimated that this material was worth 1.8 cents a gallon. The quantity was declared to be far greater than the Veterans' Bureau had any use for, and the contract for its purchase from the Continental Chemical Corporation at \$70,944.45 was later characterized by an investigator as fraudulent and collusive.

During Colonel Forbes's administration of the Veterans' Bureau dentists throughout the country were fixing teeth lavishly and charging large fees to the government. During 1921 the government paid dentists \$5,627,-851.54 ostensibly for fixing the teeth of war veterans, and one dentist in charge of veterans' work testified that local dentists were persuading citizens to get their teeth fixed and charge it to the government, whether the teeth needed attention or not and whether or no the patients had been disabled. Dentists also charged the government for gold used in their work and substituted copper, nickel and brass. Innumerable cases were discovered of charges for dental work which had never been done.

Frank Ross Chambers, Jr., a mechanical engineer, made an affidavit concerning his business and social relations with Colonel Forbes. Mr. Chambers owned a farm near Washington known as Featherstone Farms, which he was trying to sell to the government for use as an aviation field. Mrs. Chambers had met Colonel Forbes and introduced him to her husband. She also brought the Colonel down to Featherstone Farms, and the Colonel, Mr. Chambers testified, brought some whisky, and "after a few drinks assured me that he had sufficient influence to carry through this arrangement." Forbes also said that there were a number of young men in the Veterans' Bureau who would enjoy a picnic, and he asked Mr. Chambers if he might bring them to Featherstone Farms.

Mr. Chambers said that he was approached a few weeks later by a William G. Lipscomb, of the City Investment Company, of Washington, D. C., who told him that the Veterans' Bureau wished to lease a large farm near Washington for vocational training of disabled veterans in agriculture. Mr. Lipscomb told Mr. Chambers "that he had been approached by a man named Raidy—described by Lipscomb as a grafter—who said that he could put over such an arrangement for Featherstone Farms and could arrange to lease Featherstone Farms for that purpose. The rental suggested by Lipscomb was \$30,000 per year, and Lipscomb was quite frank in stating that there was included in this amount an allowance of \$15,000 to \$20,000 as commission or graft. He said Raidy was to pass it on."

Mr. Chambers heard no more from Lipscomb, and he decided "that the only sensible way to try to handle this plan was to go direct to Colonel Forbes, which I did." Mr. Chambers said in his affidavit:

Colonel Forbes sent three men down to look the farm over, probably about the middle of November, 1921. After their visit I called on Colonel Forbes a number of times in his office and found that the best time of day to see him was late in the afternoon when he was free from other visitors and when his assistant, whose name I believe was Major Fraser, would usually slip in with a bottle of gin. I remember one occasion very distinctly when I took but one drink because the Colonel appeared thirsty enough to finish the bottle, and did so.

It was impossible, Chambers stated, to get Colonel Forbes to commit himself about the sale of Featherstone Farms, but Colonel Forbes made it a habit to drop in at Mr. Chambers's apartment on his way home from the Veterans' Bureau, "but these visits," Chambers's affidavit stated, "when there was no Scotch in the apartment were very short; when there was Scotch there, which was most of the time, his visits lengthened out and there would be a good deal of talk about the use of the farm and a good deal of drinking of Scotch whisky done. He also came to the apartment one or two evenings after dinner accompanied by Cramer, who acted as a perfect shadow, and they would play poker and drink and sometimes talk of the farm. The day before Christmas, 1921, the colonel called on me and presented me with a bottle of Scotch as a Christmas present, and the day after Christmas he called on me and drank most of it up."

On New Year's Day, Forbes, his man Cramer and Chambers went to Featherstone Farms "to shoot ducks." They drank a great deal, however, and became sick on too much whisky and pork chops. On cross-examination Colonel Forbes admitted the pork chops. While Colonel Forbes was sleeping off his pork chops, Cramer, who was also drunk, Mr. Chambers stated, suggested that this deal on the lease of Featherstone Farms to the Veterans' Bureau "was big enough 'for all of us to get something out of it,' with the further suggestion that I leave the entire matter in his hands and he would put it over."

The next evening Colonel Forbes called at Chambers's apartment and asked about the rent of the farm. Chambers told him that that depended on how many people had to have commissions. "The colonel flared up and said he stood for no graft," Chambers stated. That same evening Cramer telephoned and asked Mr. Chambers to meet Tom O'Day, of California, who had had a part in the deal by which the land at Livermore, California, was sold to the government for a tuberculosis hospital. Mr. O'Day, Chambers understood, "was the man who was to get a commission which would go to some one in the bureau." When Chambers saw O'Day at the Willard Hotel, however, O'Day pretended to know nothing about the whole deal, "and talked to me about using the farm as a place on which we might collect a cargo of mules to be shipped to northern Africa for the use of the Spanish Army. Mr. O'Day suggested

that he could easily get the mules if I would make the necessary arrangements with the Spanish embassy for a commission to be paid them so that the mules might be passed. Promptly I decided Mr. O'Day was not the kind of man with whom I wished to do any business, so left him."

Mr. Chambers, however, still wanted to do business with Colonel Forbes, if he could rent his farm thereby, and he saw both the Colonel and Cramer again, but could never get a decision from them. He said that he was told by Mr. Raidy "that the whole trouble was that no commission had been figured. He proposed to put the deal through by paying a commission to what he called 'the right man,' but I never got any further information from Raidy and he did not state who the right man was."

Getting no further action, Chambers telephoned to Cramer and told him what he thought of him and of Colonel Forbes. Cramer answered that Forbes was away at the moment, "and that he was not Forbes's guardian." "I answered that he might not be his guardian, but he certainly was his wet nurse." Chambers saw Colonel Forbes again, but the most he could get from him was an introduction to his bootlegger, a captain, who brought Chambers a case of excellent Scotch whisky for \$125.

Colonel Forbes on examination admitted discussing the lease to the Chambers farm, but denied all drinking, except a few cocktails, and stated: "I never had a bootlegger in my life." Forbes also testified that he had given Mrs. Chambers a job at the Veterans' Bureau doing welfare work, at the request of Mr. Chambers. "He said," Forbes told the committee, "he wanted to do something to get her away from the place."

Colonel Forbes was lavish with jobs in the Veterans' Bureau for his acquaintances. He gave Mrs. Mortimer's brother, Tullidge, a boy of twenty-two, a job at \$3,500 a year, inspecting hospitals and sent him traveling about the country. Previously young Tullidge had driven a cream truck for Mr. Williams, Mrs. Mortimer's uncle.

While Colonel Forbes was director of the Veterans' Bureau, men traveled about the country at government expense and even went to Europe without any specific duties. In the record of the Senate investigation of the Veterans' Bureau is a ribald letter from an employee of the bureau, named Tripp, to his superior, named Black. Some of its sen-

tences were omitted because of their obscenity. Mr. Tripp, who was at the moment in Ohio attending to the sale of Veterans' Bureau property, started out by telling his friend what a fine time they were having on the job:

You are missing the *real old* times. Hunting season is on—rabbit dinners, pheasant suppers, wines, beers, and booze—and by God we haven't missed a one yet. Collins and I get invitations to 'em all. Last Wed. I was soused to the gills on rabbit, etc. Last Sat. wines—Oh, Boy! . . . We eat and wine with the mayor, the sheriff, the prosecuting atty.

To hell with the Central Office and the work. And the fun is in the field—'tis all the work I want—just travel around.

Fire hazards [Tripp wrote exuberantly about the grounds of the veterans' hospital], say, if Forbes could only see the "lovely" high (3') grass & if fire comes—boom! up she goes.

Concerning the difficulty in heating the buildings for patients, he wrote gayly: "Really, you know 'tis a big world to try & heat." He ended with:

Well, old Boss, 'tis a wonderful time—as happy as can be—as soon as we can lift the freight embargo we will be thru. You should see us—when we can't get a switch engine, we "swipe" the cars & take the crane to spot 'em or use a liberty truck—then the Jews—Oh, my, how they weep: "I got stung." Ha! Ha!

Let me know when Forbes is going to sell by sealed proposals, then's when I get a Rolls Roycc. Got a good drink coming, so here's back to you.

Respectfully, TRIPP.

In their report Senators David A. Reed, David I. Walsh and Tasker L. Oddie wrote:

But the disheartening truth is that many of the men who had charge of the bureau during that period flouted the sacred trust that had been reposed in them, and their treatment of disabled soldiers and sailors was harsh, unfair, and often brutal.

COLONEL FORBES sent in his resignation as director of the Veterans' Bureau to President Harding on February 15, 1923, from Europe. It was generally said that Harding had demanded the resignation to take effect at once. Congressman W. W. Larsen, of Georgia, had been trying as early as March, 1922, to get a resolution passed by Congress calling for an investigation of the Veterans' Bureau. He had heard of Elias H. Mortimer and his relations with Colonel Forbes, and he had tried to get a copy of the affidavit which Mortimer was alleged to have submitted to President Harding, but without success in both endeavors. Then in December, 1922, the "Disabled American Veterans" started an agitation for an investigation, and posts of the American Legion also took up the case against Colonel Forbes. In October, 1922, the American Legion had also demanded the removal of Brigadier General Sawyer from the Federal Hospitalization Board on the charge of his neglect of veterans' hospitals, but President Harding stood by his friend and physician. Gaston B. Means claimed later that he had investigated General Sawyer's actions for President Harding.

In February, 1923, after Colonel Forbes had resigned and his conduct was being discussed in Congress, Charles F. Cramer, legal adviser to the Veterans' Bureau, and Colonel Forbes's "shadow," as one witness expressed it, resigned his post. On March 14, 1923, Cramer, who lived in the house formerly owned and occupied by President Harding when he was a Senator, locked himself in the bathroom and put a bullet through his head. His body was found in the bathtub, and on his dresser was found a poem on death, which he had clipped from a newspaper. On March 2, 1923, the Senate had passed a resolution calling for a complete investigation of the affairs of the Veterans' Bureau.

"Did you ever suspect him of taking graft?" Senator Reed asked Colonel Forbes concerning Mr. Cramer.

"The man is dead, Senator," Colonel Forbes answered.

"I know he is dead, but there are a great many men who are disabled

and are still living who have suffered from what seems to have been maladministration, and I do not believe that the record of any dead man ought to be spared if he was responsible for that maladministration, so I will ask you to answer that question."

"Well, I have heard some very—very many things in connection with his association with the bureau."

"Well, let me ask you specifically: Cramer recommended very hard that you buy Livermore at \$150,000, did he not?"

"I believe he did."

"The records show that he did."

"Yes, sir."

"Now, the record also shows that the owner only got \$77,500, plus a small amount of grapes."

"Yes, sir."

"And the records show that O'Day, who was the agent, took down a commission of \$20,000. Did you ever suspect Cramer got a part of that?"

"I don't know. He had a lot of friends out there, and I think that most of those folks were his friends." . . .

"Do you know why Cramer committed suicide?"

"No, sir; I do not."

"Did you make any investigation to find out?"

"I have asked a great many people."

"What did you learn?"

"Oh, I learned domestic difficulties and financial difficulties and some oil lands."

"Any irregularities in the Veterans' Bureau?"

"Some have said so."

"Did you ever see the letters that he left when he killed himself?"

"No, I did not."

"Did you ever ask to see them?"

"No; I sent a wreath to his home at his death, and that was all."

The Senate committee assigned to investigate the Veterans' Bureau appointed Major General John F. O'Ryan as its counsel, and he was assisted by volunteer lawyers, physicians and other experts throughout the country, numbering more than 1,350 persons. From March, 1923, when the Senate passed its resolution, until October, 1923, the investigators sifted the multitude of rumors that came pouring into the committee

concerning the activities and maladministration of Colonel Forbes and his subordinates. On October 22, 1923, the day before the Teapot Dome investigating committee heard its first witness, Albert B. Fall, the Veterans' committee started its public hearings. Among the first witnesses was Elias H. Mortimer, with whose testimony we are already familiar. Colonel Forbes testified on November 13, 1923, and denied the incriminating evidence of witnesses who had testified against him. He maintained that he had performed faithful service.

"I worked sixteen long hours a day there," he told the committee, "and I have been charged with inefficiency; but I will stake my education against anyone who has made that charge of inefficiency against me and take any sort of examination that has to do with that particular work of the bureau; and no man loved the ex-service men any better than I did."

Colonel Forbes claimed that it was all a conspiracy against him on the part of Mortimer and Williams and General Sawyer. He also maintained vaguely that "politics" was responsible for the charges against him. "I regret exceedingly," he told the committee, "that the name of the late President has been injected into this investigation and it is my desire and intention to refrain from any mention of him except where it appears to be absolutely necessary for the production of the truth."

The material brought out in the course of the public hearings caused criticism of the administration throughout the country, and as soon as the Senate committee had finished taking its testimony in December, 1923, the evidence was presented to the Department of Justice, which asked for indictments in Chicago against Colonel Forbes and John W. Thompson, of the Thompson-Black company, because Mortimer's testimony had been that \$5,000 was paid to Colonel Forbes at the Drake Hotel in that city.

Colonel Forbes and John W. Thompson were tried at Chicago in 1924 for conspiracy to defraud the United States government. The trial lasted nine weeks, and the star witness against them was E. H. Mortimer. John W. H. Crim, Assistant Attorney General who prosecuted the case, branded Mortimer, his own witness, as "a crook and a fixer." In addi-

tion to his testimony concerning the payment of \$5,000 to Colonel Forbes in the bathroom of the Drake Hotel suite, Mortimer testified that he had bribed Forbes with \$1,000 for the hospital contract at Tupper Lake, New York, when Mortimer was acting as representative of the Sutherland Construction Company.

Meanwhile, in May, 1923, Mortimer himself had been indicted for bootleg activities. His attorney was Colonel Thomas B. Felder, former associate of Harry M. Daugherty, and the indictment was quashed. Mortimer was then appointed a special agent of the Department of Justice by Mrs. Mabel Walker Willebrandt, who had charge of liquor prosecutions during a part of the prohibition era. Mrs. Mortimer obtained a divorce from Mortimer in Philadelphia on June 15, 1925.

The jury in the Forbes-Thompson case found them guilty after deliberating for five hours. Neither of the two defendants had taken the witness stand in his own behalf. Judge George A. Carpenter sentenced each of them to two years in prison and to pay fines of \$10,000 each; the United States Supreme Court upheld the convictions.

Colonel Forbes began his prison term at Leavenworth Penitentiary on March 21, 1926. John W. Thompson was seriously ill with a bad heart and could not go to prison with Forbes. He died in St. Louis on May 3, 1926. Colonel Forbes was released from prison on November 26, 1927. When he came out of jail, he declared that he had two intentions: one was to clear the name of his late friend, President Harding; and the other was to clear the name of Dr. Frederick Cook, who was a cellmate of Colonel Forbes at Leavenworth Penitentiary and who, Forbes was convinced, had discovered the North Pole.

CHAPTER FOUR

Justice à la Daugherty

HARRY DAUGHERTY had been Attorney General of the United States for less than a year when the sinister nature of his administration began to cause open opposition to him, and before he had held office for two years impeachment charges against him had been presented to the House of Representatives. The Harding administration was indeed in trouble by the time the new year 1923 began. Colonel Forbes had been caught red-handed selling hospital contracts and hospital sheets; the naval reserves had been leased under scandalous circumstances; and now intimate and detailed revelations of the activities of Daugherty and his pals at the important Department of Justice were beginning to be made public.

In the apologia which Daugherty published in 1932 there are these bitter paragraphs concerning the atmosphere of Congress at the time:

The Senate became a caldron of filthy gossip and slanderous accusations. The destruction of the character of public officials became a national sport. Red Senatorial gas bags poured poison fumes into the air until an honest man could scarcely breathe within the walls of the Capitol.

Republicans were deceived and swept off their feet.

Democrats were deceived and swept off their feet.

Then he added that the Senate at the time was not the same body in which Clay and Calhoun had sat:

The rough riders who were making disgraceful speeches were now rarely seen in public offices. They never went to the Department of Justice to find the facts. They never went to the White House to get the truth. They listened only to the scandal mongers, and felt that they had accomplished something which entitled them to be called statesmen when the newspapers published their names!

Leaders?

There were no leaders.

It all began, Daugherty wrote sadly, with the direct primary, after which the Senate began to represent the masses instead of the states and degenerated from "big-brained men, removed from the threat of popular clamor." "I'll go further," Daugherty added, "and say that under present conditions the Senate is fast becoming a menace to national progress, if not a threat against the principles on which our Republic was founded." Gone were the days of such "big-brained" Senators as Boies Penrose, Jim Foraker, Mark Hanna and Tom Platt!

There were good reasons why men did not go near the Department of Justice for facts during 1922 and 1923, nor to the White House for truth. In the administration of Daugherty and Harding, the Department of Justice resembled the den of a ward politician and the White House a night club. Daugherty's Department of Justice was also something of a private detective agency with the melodramatic William J. Burns as chief of the spy system, which worked under the name of the Bureau of Investigation. Jess Smith, Daugherty's personal and confidential handyman, played the roles of go-between, district captain, valet and errand boy. Men who had tried to get information and facts from Daugherty's office became disillusioned quickly and gave up the futile effort.

The first public attacks on Daugherty began in 1922. Samuel Untermyer, well-known lawyer, branded Daugherty as the link between the Harding administration and the big business interests which wished to

thwart prosecution for war frauds and antitrust violations. Then Senator Caraway rose on the floor of the Senate and introduced evidence of Daugherty's past as an indication of his unfitness to serve as head of the Department of Justice. Senator Caraway's charges concerned Daugherty's activities in conjunction with Thomas B. Felder, a New York lawyer, in the effort to obtain a pardon for Charles W. Morse from President Taft. Daugherty and Felder had obtained a pardon for Morse, who had been sent to prison for financial frauds; in this endeavor they had enlisted the aid of John R. McLean, father of "Ned" McLean, who was influential with Taft, who also came from Ohio, as did Daugherty and McLean. It had been represented to President Taft that Mr. Morse would die if not released from prison, and it was charged that Morse had been given medicine to make his kidneys bleed before the physical examination which won him his release. Then Morse had refused to pay Daugherty and Felder the fee he had promised to pay them. Thomas B. Felder had written revealing letters in the effort to collect \$25,000 from Morse, who had paid Daugherty and Felder \$6,000 for expenses, although he had promised to pay them \$100,000 if he was released. Senator Caraway read Felder's letters into the *Congressional Record* in May, 1922. After their publication even the *New York Tribune*, loyal defender of all Republican administrations, demanded Daugherty's resignation.

When asked in 1922 whether he was going to resign, Daugherty told the reporters: "I wouldn't have given thirty cents for the office of Attorney General, but I wouldn't surrender it for a million dollars." Daugherty also tried to brazen matters out by accusing his accusers of being actuated by corrupt motives and of wishing to stop him from prosecuting war fraud cases. But as he never did anything to prosecute the war fraud cases, his answer was as embarrassing as the accusation.

Towards the first accusations against his administration Daugherty adopted the same attitude which he continued to maintain throughout his incumbency—he attacked his accusers publicly and tried to incriminate them and spy on them privately. Gaston B. Means, special agent for the Bureau of Investigation, and later private detective for President Harding, testified that he was directed by Jess Smith to investigate Senator Caraway after Caraway had attacked Daugherty and Harding on the floor of the Senate. Means hired an assistant from Caraway's home state

Arkansas, Miss Laura Jacobson, to help him on this job, and Miss Jacobson corroborated Means's testimony concerning the spying on Caraway. Means also testified that he had been instructed to rifle Senator La Follette's office after Senator La Follette had introduced his resolution calling for an investigation of the leases to Teapot Dome and the California naval reserves. At the investigation into the administration of Attorney General Daugherty's office, Gaston Means gave the following testimony:

"You have never gone through my offices yet, have you?" Senator Wheeler asked.

"If somebody will assign me to do it, I will do it, though," Means answered.

"Senator Moses suggests to me that I can save time by asking you what Senators you have not investigated," Senator Wheeler said.

"Oh, there are lots of them I haven't," Means replied. "They are a pretty clean body. You don't find much on them, either. You don't find very much."

"Now, Mr. Means, coming back to Senator La Follette, you investigated him at the instance of whom?"

"I investigated him in April [1922], right after he introduced his resolution."

"What resolution?"

"To investigate Teapot Dome."

"You went through his office then, as I understand it, for the purpose of ascertaining what information he had relating to the Teapot oil scandal; is that correct?"

"Anything he had where he could be stopped in what he was doing. . . . I got these orders from Mr. Jess Smith and Mr. Underwood. I didn't—investigating with me is—the man is a number; I never ask who he is. It doesn't make any difference. I would just as soon investigate a tramp as anybody else. It doesn't make any difference to me. I never ask who he is or what position he occupies. I designate the number and go ahead and get the facts if I can, and I get nothing but the facts, and report what I find. . . . I mean by that it doesn't mean anything about investigating a Senator. Thousands of people have been investigated. Bishops have been investigated without knowing it. And clergymen."

"When did this terrific spy system start in the United States," Senator Brookhart asked, "by what official authority, if you know?"

"I have been investigating since I was 21," Mr. Means replied. "It had been going on prior to that time. I never saw a candidate that loomed up, any little candidate for town marshal, that they didn't go out and make inquiry about him. One crowd makes it confidentially, and the other crowd——"

"What kind of crowds is it that make this kind of inquiries," Senator Brookhart interrupted, "financial crowds, big fellows?"

"I don't work for the church crowd because they haven't got any money," Mr. Means answered. "The financial crowd only finance and get investigations."

"You mean the financial interests investigate every one who is a candidate for office to get something on him so they can control him, is that the idea?"

"Well, yes; that would be my interpretation; yes; they would want to find out what he is up to."

"And that gang then that is behind those investigations of that nature is the same gang that I have denominated as the Non-Partisan League of Wall Street, is that the crowd?"

"I think that President Wilson gave them the best designation: 'Invisible Government.'"

"Well, that is the same gang."

"That is the best interpretation of them."

But the investigations of Senators which Means made were paid for not by "the financial crowd" but by Daugherty's friend Jess Smith. When asked whether Jess Smith had told him to investigate Senator La Follette for the Attorney General, Means replied: "Say, we don't do things that way. . . . A man don't have to knock me down with an idea."

"You would not have worked for Jess Smith, though, if there was nothing but Jess Smith?" Senator Brookhart asked. "You believed there was more behind him than his personality?"

"Oh, I would work for anybody if they had the money," Means answered. "Just like a lawyer. I would first ask him how much money he has got."

"You did not ever ask Smith how much money he had, did you," Senator Wheeler asked, "because you knew that it was coming from the

Attorney General and from those higher up? You knew that, did you not?"

"Well, I could look at Jess Smith and tell he had money," Means said.

"Yes; and you knew that he was living with the Attorney General of the United States, did you not?"

"Yes; I knew that."

"And you knew that he was occupying his house?"

"I knew that he was a close friend of the President of the United States. I think he was a closer friend of the President of the United States than he was of the Attorney General."

Means also testified that Attorney General Daugherty had said to him:

"'When Jess Smith comes to you, Gaston,' sometimes he called me Gaston and sometimes Mr. Means. He said, 'When Mr. Smith comes to you, that is a strictly confidential matter.' . . . He told me he liked me, because I didn't let my right hand know what my left hand was doing; I knew how to investigate. . . . They told me not to tell Burns. . . . No; Daugherty didn't—I wouldn't say that. But Jess Smith said, 'Don't tell Billy.' Of course, he was referring to Mr. Burns."

Means also investigated General Sawyer, Mrs. Cross, E. H. Mortimer, Colonel Forbes's friend, and Colonel Darden, President Harding's friend and Secretary Fall's enemy.

Gaston Means told Senator Wheeler of the kind of material he tried to get on Congressmen: "Well, if you were running for United States Senator out in Montana, and somebody hired you, and you had stolen a chicken, and I heard of it, and I was working for the crowd on the opposite side, I would try to ascertain all those facts, and let them spring it on you in some speech some night."

Congressman Woodruff had said on the floor of the House of Representatives on April 11, 1922, that unless the Attorney General of the United States took some action in the case of the government against the Lincoln Motor Company, he would move his impeachment on the floor of the House. That was the occasion for setting the sleuths on him, and his office was rifled of papers thereafter.

In September, 1922, Attorney General Daugherty had gone to Chicago

and obtained an injunction prohibiting railroad shopmen from going out on strike. On September 2nd, Judge James H. Wilkerson, of Chicago, had granted this injunction depriving organized labor of its right to strike, after Daugherty had argued the case passionately in person. This earned Daugherty the enmity of organized labor; he was already unpopular with those who had tried to get action against big business corporations and with various individuals who did not enjoy the favors which their competitors received from the Department of Justice, and it was hinted that favors from the Department of Justice required a consideration. On September 16, 1922, Congressman Oscar E. Keller, of Minnesota, presented charges calling for the impeachment of Attorney General Daugherty, and they were referred to the Committee on Judiciary of the House, which began public hearings on them on December 4th, with Andrew J. Volstead as chairman.

Eight minutes after the impeachment charges against Daugherty were off the typewriter of the Congressional stenographer, Means testified, he had a copy of them and started with them to the Department of Justice. He said that en route he picked up some bootleggers he was "roping" and then walked into the Attorney General's office and handed the impeachment charges to Paul Howland, of Cleveland, Ohio, who was Daugherty's lawyer. Means testified that Howland was eager to get the charges before they were made public, so that he might rush out an answer to them. Means also claimed that he had obtained for Daugherty and Howland a photograph of Congressman Keller's home, and that he was assigned to find out where Keller had got the money to buy the home. Paul Howland denied that he had ever had any relations with Gaston Means and said that he would not employ him "to clean cuspidors." Nevertheless, Means insisted that Daugherty and his associates used the photographs of Congressman Keller's Washington home in the effort to defeat him for re-election to Congress, even though he was a Republican; they supported the candidate of the Democratic Party against Keller, although ordinarily Daugherty and his friends were devout party men.

The public hearings on the impeachment charges against Daugherty began on December 4, 1922, and on December 5th, Jess Smith wrote to his former wife, Roxy Stinson:

My Dear Roxy: I have been so rushed since returning to Washington that I have scarcely had time to turn around.

There is a lot to do, but things are going at top speed. The Attorney General's answer to the charges was filed within 36 hours after receiving copy of the charges; it covered about 48 pages, and was wonderfully accomplished. I will keep you posted and will write you a letter tonight if I have time; am pretty tired.

Take good care of yourself and keep everything going. Hope your house will come along all right. Write me a long letter.

These are hard days; just like war. Everybody is full of fight, and that's what wins. . . .

Senator Wheeler asked Miss Roxy Stinson at the Daugherty investigation:

"Miss Stinson, let me ask you if it is not a fact that he [Jess Smith] told you about the time they filed impeachment proceedings against Mr. Daugherty—didn't this fear begin about that time?"

"Oh, yes; he was scared to death for Harry Daugherty, and he commented and remarked; he said he was a major; he said he never was so fearless in his life. It didn't bother Harry Daugherty. It slipped right off his back. And it worried him to death—the impeachment proceedings. It didn't worry Daugherty at all. The proceedings they had just like this instance."

"What did he tell you about the committee?"

"Yes; he said it was all arranged; that they wouldn't dare to go into the Senate, because the Senate was stacked, and they were going to bluff it in front of the committee; and, in fact, they didn't try him, but the man that was tried was the man that brought up the proceedings. He was the man that was tried instead. And just what Harry Daugherty is doing to me today, since you happened to use me first in this proceeding."

"Did Jess Smith tell you that before the hearings were opened?" Senator Ashurst asked.

"Yes. And they sent me one of these fine, nice bound copies that Mr. Daugherty has arranged containing all the statements. . . . He sent me one of Mr. Daugherty's bound copies of statements and clippings as to how he handled the situation, you see—that book. It was a beautifully bound thing. He sent it all over the United States. I have

one some place. . . . It was very well managed and arranged for Mr. Daugherty."

"That was prepared in the Department of Justice itself?" Senator Wheeler inquired.

"Oh, yes; absolutely."

The charges which Congressman Keller brought against Daugherty concerned his lack of activity in the prosecution of various trust cases and war fraud cases, but they could not be substantiated at the time by sufficient evidence to warrant impeachment, and the impeachment proceedings were quashed. Even if it had been possible to substantiate the charges fully, it is doubtful if the Committee on Judiciary of the House would have passed an impeachment recommendation against Daugherty, because at the time the committee was made up of partisan Republicans who supported the Republican administration at all costs. Daugherty claimed that he was being attacked and hounded by the labor lobby in Washington because of his fearless action in obtaining a blanket injunction against the railroad strikers, who, he maintained, would have destroyed property and undermined the foundations of American civilization, if they had been permitted to go on strike. Officials of the American Federation of Labor were witnesses against Daugherty, and the main prosecutor of the impeachment charges at the hearings before the Committee on Judiciary was the American Federation of Labor attorney. But it was difficult at the time to get anyone else to prosecute Daugherty. "There is," wrote Daugherty in 1932, "perhaps no parallel in the history of our Republic for the brazen attempt of the Labor Lobby to impeach and destroy a Cabinet officer for performing the duties of his position."

Gaston Means later testified that at the time of the impeachment proceedings the Department of Justice had men following witnesses against Daugherty and reporting everything they did and said. "The Attorney General," Means had remarked a few minutes before, "is kind of like myself; they have accused him of everything in the world."

2

THERE was plenty of which to accuse Attorney General Daugherty, and one of the most interesting phases of the investigation concerning him which was held a few months after the impeachment charges had been quashed was the extraordinary relationship between him and his friend Jess Smith.

At about 6:30 in the morning of May 30, 1923, the body of Jess Smith was found dead, with a bullet hole in it, at the suite which he and Attorney General Daugherty shared at the Wardman Park Hotel. Daugherty was spending the night at the White House with his friend President Harding and a group of friends; it was said later that the group included Sinclair and Doheny. He had asked his secretary, Warren F. Martin, to spend the night in his bed, because he was worried about Jess Smith, who had been "acting queer" lately. Early in the morning Mr. Martin heard a crash, but he paid no attention to it at first, thinking that a door had slammed or that a waiter had dropped a tray. But he could not get to sleep again and went into the sitting room. As he looked into the other bedroom, he saw Jess Smith's body on the floor, his head in an iron waste basket and a revolver in his right hand.

Mr. Martin informed William J. Burns, who also lived at the Wardman Park Hotel, and Burns took charge of the body. No autopsy was ever performed.

The Select Committee of the Senate on Investigation of the Attorney General began its dramatic hearings on March 12, 1924, in Room 410 of the Senate Office Building, with Senator Burton K. Wheeler, of Montana, conducting the inquiry and Senator Smith W. Brookhart as chairman. At the same time Senator Wheeler's senior colleague from Montana, Senator Walsh, was completing his extraordinary investigation of the Teapot Dome scandal in the large caucus room of the same building.

Meanwhile, Daugherty's old friend Harding had died suddenly and had been succeeded in the White House by the canny, taciturn Coolidge, of whom Daugherty remarked in his book: "He is a man of friendly, peaceful instincts." Calvin Coolidge had inherited a pigsty from the care-

less, jovial Harding, and he had to move warily in order not to splash filth on some of the most important members of his party, whose services he would need in his coming campaign for re-election in November, 1924. On February 8, 1924, Senator Walsh had demanded in the Senate that President Coolidge should ask for the resignation of Secretary of the Navy Denby, but the President refused to do so; the tractable Denby, however, had resigned voluntarily a week later. Daugherty was a much harder nut to crack. It was obvious that his presence in the Cabinet of Harding's successor was an embarrassment and a handicap, but he refused to resign under fire, and the problem of getting rid of him without accusing him of guilt which had not yet been established was a difficult one. And, after all, Harry Daugherty was a leader in Republican politics in Ohio, and Coolidge was a man of peaceful political instincts.

On January 29, 1924, Senator Wheeler had introduced a resolution in the Senate calling for Daugherty's resignation. On Sunday night, February 17th, there was a conference at the White House between President Coolidge, Senator Borah, and Harry Daugherty. Borah did most of the talking, and he suggested to Daugherty that he should resign. Daugherty refused to do so while he was under fire. Then two Republican brahmins took a hand in the negotiations; Borah was a Republican maverick, but Senator Lodge and Senator Pepper were regulars, and they called on President Coolidge and suggested that it would be well for the Republican Party if he were to ask for Daugherty's resignation. But Coolidge was still reluctant to make political enemies. Senator Borah then had another conference with the President and demanded that Daugherty be removed on the grounds that he could not be an impartial Cabinet adviser while he was being investigated and criticized in the Senate. Coolidge refused to remove Daugherty.

Towards the end of February, President Coolidge and Daugherty had three conferences within twenty-four hours, and the press correspondents noted that the Attorney General appeared to be "extremely nervous," but defiant. It was rumored at the time that, in these conferences with Coolidge, Daugherty was practically incoherent and that the meticulous President had a hard time keeping his spluttering Attorney General to the point. Then Daugherty suddenly rushed away from Washington, making a defiant statement first that he would not resign, and leaving

behind him at the Department of Justice another statement to be issued to the press in the event that President Coolidge dismissed him.

Daugherty went to Chicago, and he was reported to have ridiculed the Senate oil investigation in the smoking room of the train before crowds of travelers. It was said that he had gone to Chicago on Department of Justice business connected with the indictment of Colonel Charles R. Forbes for fraud in the Veterans' Bureau. But Daugherty did not remain in Chicago long and soon afterwards went to Florida for ten days on personal business. The newspapers reported that he continued to ridicule the Senate investigations in the smoking rooms of trains.

Meanwhile, on February 29th, the Senate had passed its resolution calling for an investigation of the Attorney General, and the Wheeler committee was getting ready to hear public testimony. The Republican politicians were in a panic, for the Attorney General was obviously their most vulnerable point; Teapot Dome was bad enough, but, after all, Fall and Denby were out of the Cabinet. The effort to get Daugherty to come to the aid of the party and resign went on all during March. Then on March 12th the Wheeler committee held its first public hearings and heard the startling testimony of Roxy Stinson, divorced wife of Jess Smith. A succession of bootleggers, go-betweens, detectives and businessmen were heard, and every day the revelations established more clearly the nature of the Department of Justice under Daugherty. Finally, on March 27th, President Coolidge wrote to Daugherty:

You have a personal interest in this investigation which is being made of the conduct of yourself and your office, which may be in conflict with your official interest, as the Attorney General. I am not questioning your fairness or integrity. . . . I do not see how you can be acting for yourself in your own defense in this matter and at the same time and on the same question acting as my adviser as Attorney General.

This letter came after Daugherty had refused to open the files of the Department of Justice to the Senate investigating committee on the grounds that government secrets would be revealed if he did so. This was the same kind of evasion Secretary Fall had clung to when he kept

repeating that he was not one to reveal the military secrets of the United States. On March 19, 1924, one week after the investigation of Daugherty began, the Department of Justice gave out the following statement to the press: "The constantly increasing amount of business which the Department of Justice is compelled to take care of makes it impossible for the Attorney General to give much personal attention to the various investigations now being conducted by Congressional committees."

Daugherty replied to President Coolidge's letter of March 27th:

I can not escape the conviction, Mr. President, that your request for my resignation is also most untimely. It comes at a time when the truth is banishing falsehood from the public mind, even though I have not as yet had an opportunity to place upon the witness stand before the Senate committee a single witness in my defense or in explanation or rebuttal of the whispered and gossipy charges against me.

He was forced, however, to forward with this protest the resignation which President Coolidge had been compelled to request. After his dismissal Daugherty told the reporters that he contemplated a trip to France to look over the battlefields.

In the book which he and Thomas L. Dixon wrote in 1932, Daugherty tried the old dodge of accusing his accusers of Communism and of undermining the foundations of the Republic. He called Senators Brookhart and Wheeler the associates of Communists, and wrote: "I think now as I thought then, that Wheeler and Brookhart were extremely anxious to secure [from the Department of Justice] and destroy the secret records of their visit to Soviet Russia." And he added: "Borah, of course, found himself in a position in which he could not antagonize the chief representative of Soviet Russia on the floor of the Senate. He had himself introduced the resolution for the recognition of the Soviets. . . . Up to this time I had counted Borah, one of the men of big brains and powerful personality in the Senate, my friend. I was to find now that I had hopelessly alienated him by the aid I had given to Secretary Hughes in his fight against the resolution on Soviet Russia." Daugherty claimed that, at the personal and confidential suggestion of Secretary of State Hughes, he had given out to the newspapers the statement that here was evidence

of Communist propaganda directed from Moscow in the United States. In his book he portrays this touching scene between himself and the Secretary of State at the next Cabinet meeting after Daugherty's statement on Communist propaganda. Hughes, he writes, took his hand and said: "You're a brick." "'No,' I answered, 'I just play ball with the fellows on my team.'"

I believed then, as I firmly believe now [Daugherty wrote] that Soviet Russia is the enemy of mankind. That unless the forces of civilization stamp out this nest of vipers who have enslaved a hundred and sixty million human beings, our social system as well as our form of government will perish from the poison that is being poured into our vitals.

Soviet agents are busy today as they were at that time, poisoning the hearts and minds of the youth and manhood of every nation of the earth. These madmen have launched a new religion with which they have set out to conquer not only America but the world. And every nation of Europe and Asia is today trembling at their approach.

In this new Paradise of Communism, the human race is reduced in theory and practice to the level of a herd of hogs. I call it the lowest, the most degrading, the most bestial nightmare the human mind has ever conceived.

Then Daugherty and the author of *The Clansman* go on with a description of Soviet Russia which was obtained from the accounts by Henry Wales, a newspaper correspondent, of his trip to that country, and they add:

And a growing number of morons are gathering around the Red Rag lifted in our country as the symbol of the Brotherhood of Man!

If these people are so enamored of Russia and her new scheme of life why do they not migrate to her vast, undeveloped reaches of territory, and leave to honest Americans the inheritance of their fathers?

"I was the first public official that was thrown to the wolves by orders of the Red borers of America," Daugherty wrote. "The object was not only to intimidate me but all those who followed in the office of Attorney

General. Again I repeat: 'Eternal vigilance is the price of liberty.'" But by 1932 the Red herring was so old that it did not even smell, and Daugherty's book was soon selling at cut rates in the drug stores. Honest Americans had received some light on what Americans like Harry Daugherty were doing to the inheritance of their fathers. The Senate committee investigating Attorney General Daugherty's administration made valuable contributions to that insight.

3

ROXY STINSON was a witness on the first day before the committee. She had lived for most of her life in Washington Court House, Ohio, where she was graduated from the local high school. Her mother was a music teacher in Washington Court House, and Roxy Stinson went abroad to study music. When she came back, Jess Smith, who ran the local department store, became interested in her, and they were married in 1908. The marriage lasted one year and a half, and Roxy Stinson was granted a divorce in 1910. She lived thereafter in an apartment above Jess Smith's store, and the town gossips didn't approve of their seeing so much of each other after their divorce; as a result Roxy Stinson was denied membership in a local golf club.

Jess Smith continued to be devoted to Roxy Stinson until the end of his life. He advised her about the gentlemen who were interested in her from time to time, and, she testified, he knew all about her friends and referred to her relations with them in his letters. During the Harding campaign she was frequently present with him and Daugherty and their friends at exuberant conferences and gatherings in Ohio. After Jess Smith went to Washington as steward-politic to his friend Harry Daugherty, he communicated with his former wife and friend every day either by letter or telegram and sometimes called her on the telephone. Frequently, he made trips back to Washington Court House and spent much time with her talking about "the doings in Washington," as she expressed

it. When he was back in Washington Court House with Roxy Stinson, Jess Smith was in constant communication with Harry Daugherty in Washington, just as when he was in Washington with Harry Daugherty he kept in constant communication with Roxy Stinson at Washington Court House. The two men called each other often on the telephone and sent frequent telegrams when they were separated.

“What would be the tenor of those telegrams?” Senator Wheeler asked Miss Stinson.

“The personal ones were that Harry Daugherty would express his lonesomeness without him,” she answered, “and hoped that he would return soon, or at different times he hoped it would be convenient for him to come Monday, or soon, always suggesting coming back.”

When Jess Smith came to see her in Washington Court House, Roxy Stinson told the Senate committee, Harry Daugherty was “the first thing we talked about and the last thing.” At one point in her examination she remarked: “The topic of conversation, Mr. Daugherty.” “Why, Jess Smith was a great admirer of Harry Daugherty all his life long,” Miss Stinson said. “I think he was his ideal.”

“He was in constant touch with Harry Daugherty,” she testified. “They lived together. They were most intimate friends, and Jess adored him. He wanted to shield him in every possible way. He lived for him, he loved him. He had not been here in Washington more than three or four months until he said, ‘I am not made for this. This intrigue is setting me crazy. If I could just come home, but I am in now and I have to stand by Harry.’”

She also said that Jess Smith had been offered positions in the government but that he always refused them: “He always answered that he was not an office seeker, he was just here to help Harry. . . . His only interest was in Harry Daugherty.” According to another witness, Jess Smith also cared tenderly for Mrs. Daugherty, who had been an invalid for many years. Roxy Stinson testified that Harry Daugherty had trouble sleeping and always wanted Jess Smith to sleep in the same room with him. When

they first came to Washington together, they lived in the house at 1509 H Street, which "Ned" McLean had lent to them. But the neighborhood was too noisy for Daugherty, and after about a year and a half, they moved to a suite of seven rooms at the Wardman Park Hotel. When they moved from the McLean house, Jess Smith sent Harry Daugherty's bed to Roxy Stinson, as they did not have room for it or need for it in their hotel apartment. "This is one grand bed," he wrote her, "and you can certainly enjoy it."

Sometimes Roxy Stinson became exasperated with Jess Smith's attachment for Harry Daugherty, and she expressed her annoyance in her letters and telegrams when she wanted Jess Smith's advice and company herself and he had to be with Harry, nursing him through the illness which he suffered early in 1923. When Jess Smith and Daugherty were down in Florida in March, 1923, staying with "Ned" McLean and joining President Harding's party, Roxy Stinson telegraphed him on March 24, 1923:

Miserably cold here. Won't you be home for Easter? With Mal there, why do you have to stay? Why is all responsibility put on you always? Nothing new here. Same old humdrum; wish weather would let up. Best.

ROXY.

Jess answered that he, too, was eager to get away to see her for Easter, and was doing his best to manage it, but later he found that he could not make it, and she telegraphed her exasperation:

Have most important deal on. You must get home as quickly as possible. Time is limited. May have decisive developments tomorrow. I need you right now when opportunity knocks, not when agreeable or convenient to your friends. My patience is threadbare with this continuous and perpetual situation. Think you might get short leave of absence to say the least. Best.

ROXY.

He finally got back, but not until the Monday after Easter Sunday, when he met Roxy Stinson in Columbus, Ohio. Jess had gone with his friend

Harry to Asheville, North Carolina, and from there he sent Roxy Stinson arbutus to plant around the house she was building for her mother and herself, and he also offered to send her some Biltmore homespun for a suit.

Jess Smith was also very nice about giving Roxy Stinson money, she testified. "I never asked him for money," she said, "it was not necessary, he was so nice about it." He sent her checks for \$250, \$350 or \$500 from time to time. He also gave her securities which he had received for nothing or had bought. Sometimes, she said, he sent her a \$100 bill or a \$500 bill "just loose in an envelope." "I have had \$500 bills in a letter quite frequently," Miss Stinson testified. "And when he would be home he would give me \$500 bills or \$100 bills, a lot of them."

Roxy Stinson testified that she received much more money from Jess Smith after he came to Washington with Daugherty than she had ever received before. "He had very much more money than he was accustomed to having," she testified. When asked whether Jess Smith had talked to her about his financial affairs before his death, Roxy Stinson answered: "I had heard nothing else for six months." He also told her that he owned stocks, which were "given to them," Harry Daugherty and himself. "He always said that he would share with me," Roxy Stinson testified, "and he was always very nice to me. There wasn't any arrangement by which he would give me a fifth or a tenth or anything of that sort, but, as he would often remark, 'We are all very much better off than we have ever been before.'"

"I also wish to add," Miss Stinson testified, "I had seen seventy-five \$1000 bills in Jess Smith's possession. . . . Mr. Hays [William R. A. Hays, of the stock brokerage firm of Ungerleider & Company] told me himself that Mr. Smith told him he had it in a belt around his waist. But I saw them because he showed me the money."

"Seventy-five \$1000 bills?" Senator Wheeler asked.

"Yes, sir."

"When he showed them to you what, if anything, did he say in reference to them?"

"Nothing."

"Did he say anything at all when he showed them to you?"

"No; because that was after I got to not want to know."

"How did he come to show them to you?" Senator Jones asked.

"Well, he would just tell me about different deals and of money they would make."

"By 'them' whom do you mean?" Senator Ashurst asked.

• "Mr. Daugherty and him."

"Mr. Harry M. Daugherty?"

"Yes, sir."

"When he showed you the seventy-five \$1000 bills where had he been; where had he come from?" Senator Wheeler asked.

"He had come from Washington."

"He had brought them with him in his belt from Washington?"

"Yes, sir; apparently."

"It was not in a black satchel, was it?" Senator Ashurst inquired facetiously.

"It was not," Miss Stinson answered. "I did not see it in a satchel."

Miss Stinson also testified: "I was given stock to put on the market quickly and quietly. . . . From the time of the inauguration up until his death." She sold 25 shares of White Motors stock "quickly and quietly" for Jess Smith, who delivered the stock to her without any name filled in for the holder of it, and without any endorsement on it. Jess Smith told her that he and Daugherty had got the White Motors stock for nothing, and that the 25 shares were only part of what the two had received without paying for it. He also gave Roxy Stinson stock in Beaman G. Dawes's Pure Oil Company. Jess Smith had several accounts at brokerage houses, Roxy Stinson testified, and besides his other accounts he had one at Ungerleider & Company in Washington called "William R. A. Hays No. 2." Roxy Stinson also had a blind account at Ungerleider & Company known as "William R. A. Hays No. 3."

Gaston Means testified that he had often seen Jess Smith in Daugherty's office at the Department of Justice at Daugherty's desk, getting stock market reports over Daugherty's private wire. Means said that he had tried to catch the names of the stocks himself, so that he might speculate in them and tip off his friends, but that Smith and Daugherty abbreviated them with the brokers so that no one could tell what they were trading in.

"And you have seen him take the reports of the stock market off of the telephone and give them to the Attorney General, have you not?" Senator Wheeler asked Mr. Means.

"I was never in there when he didn't get reports from the stock market," Means answered.

"He was constantly getting reports from the stock market, was he not?"

"That is true. . . . Yes, Jess would write them down. How I know they were stock market quotations, I would see the memorandum there, and then when the telephone bell would ring Jess Smith would read them back to the Attorney General."

Roxy Stinson told the committee: ". . . and I found the less I asked questions the more he talked about things, so I asked very few questions. I have asked one or two pointed questions which he answered me."

"Well, now, for instance," Miss Stinson testified, "I would not presume to ask him any direct questions, and I am a woman, too, because I had been taught that he did not do that, and I had gained that from him. I did ask him, on a deal he told me about here in Washington, D. C., if he had profited by it."

"What deal was that?" Senator Brookhart asked.

"He said that five men in the past few days had made \$33,000,000, and I said, 'Were you in on it?' Or rather, my exact words were, 'Were you and Harry in on it?' He said, 'No; that is what we are sore about. They were our friends too.'"

"Who were those men?" Senator Brookhart asked.

"I am not sure that I can remember."

"Was E. B. McLean, of the Washington Post, one of them?"

"I am not right sure now that I remember."

"What was the character of the deal; did he tell you?" Senator Jones asked.

"Yes, sir."

"What was it?"

"It was an oil deal."

"What oil?"

"Sinclair oil."

"When was this?" Senator Moses asked.

"I would say—in fact, I can't tell you the exact date, but it was in the fall of 1922."

Evidence was introduced at the Teapot Dome investigation that in the fall of 1922 Jesse L. Livermore, stock market gambler, had organized a pool in Sinclair stocks for Harry Sinclair, Blair & Company and the Chase Securities Corporation.

By means of his influence in Washington, Jess Smith obtained a free trip for Roxy Stinson and her companion, Mrs. Oldham, to Panama, as guests of the United Fruit Company in March, 1922.

"And you were entertained upon that trip?" Senator Wheeler asked.

"Royally. . . . We were given the suites. . . . The same suites that were given to any of their honored guests. . . . We were entertained at every port by the United Fruit Co. people afterwards, you know. We were really treated very nicely. Too nicely."

While she was in Havana, Jess Smith called her on the telephone. "Got my bill today for \$52.50," he wrote afterwards, "but it was worth it." When Roxy Stinson's cruise ended at New York in April, 1922, Jess Smith met her there, and they stayed at the Waldorf-Astoria Hotel. Joe Weber, she said, gave them free tickets to any theaters they wished to visit. Miss Stinson overheard a conversation between Joe Weber and Jess Smith about a pardon for Joe Weber's brother-in-law, who was in prison. Jess Smith told her, Miss Stinson testified: "He wants his brother-in-law out of jail," and he added that he and Daugherty got a lot of such applications. "He is awful cheap," Jess Smith said to Roxy Stinson, referring to Joe Weber. "But," he added, "I think we are going to do something for him." "He is awful cheap and wants something for nothing," Jess Smith remarked.

In May, 1922, when they got back from New York, Jess Smith fell ill with appendicitis, and he was very anxious that his friend Harry Daugherty, the Attorney General, should come to Columbus, Ohio, for his operation:

"At the time of this sickness of Jess Smith," Roxy Stinson told the committee, "when he was quite ill and when there was very much doubt

about him living, I did not see any indication that Harry Daugherty was coming for his operation, and he was in Washington. Jess Smith adored Harry Daugherty. . . . I asked him on Wednesday, 'Is Harry coming for your operation?' And he choked up with tears in his eyes and said, 'Why, no; I could not expect him to come for just me. He has important matters on now.' I could see that that hurt him a lot, and I determined I would try to get Harry Daugherty there in some way."

A day or two later Roxy Stinson was at the Hotel Deschler in Columbus, and she met Draper Daugherty, Harry Daugherty's son, who asked her: "Is there anything I can do for you?" "I said, 'Yes, there is. I want you to send word to your father to be here for Jess's operation, and tell him I said so.'" Draper Daugherty managed to get in touch with his father about Jess Smith's operation.

"He did come," Roxy Stinson testified, "but I never told Jess, because I did not want to hurt his feelings by letting him know that Mr. Daugherty was sent for for the operation. . . . I never told Jess that Harry Daugherty had been sent for to come to his operation; but he was so pleased that he cried like a baby when he came into the room."

After he had been operated on for appendicitis, Jess Smith was very fond of talking about his operation. "He was always telling about that," Mr. Duckstein, McLean's secretary, testified. "He showed it to me at one time."

The day after she gave her first testimony Roxy Stinson telephoned to the committee that she had a nervous headache and could not appear. But she testified again later. Meanwhile, Harry Daugherty and his associates did their best to malign her character and to indicate that she was malicious and disappointed because she had not been the sole heir of Jess Smith. These attacks caused her to become ill, Senator Wheeler claimed, and he told the committee:

"And I say if ever a man stooped to a cowardly, low-down trick, it was the Attorney General of the United States when he made that attack. . . . Nobody has attempted to go into his private life; nobody has wanted to go into his private life. And yet we could, possibly, if we

wanted to. Nobody has wanted to besmirch the character of any woman in this case, and it remained for the Attorney General to adopt that kind of tactics in this case."

Roxy Stinson was not a voluntary witness, and she had done nothing to bring herself into the limelight, but, in fact, had resisted previous efforts to get her to tell what she knew, until she was subpoenaed to appear before the Senate committee. On the witness stand she told her story with dignity and convincing detail; she volunteered nothing until she was asked questions, and then told what she knew straightforwardly. Unfortunately for them, Harry Daugherty and his associates had antagonized her by their petty tactics.

When Jess Smith died, there was an account at the brokerage house of Ungerleider & Company, known as the "William R. A. Hays No. 3" which had a balance of \$11,000. Roxy Stinson claimed that this was an account which Jess Smith had opened for her, and that everybody closely connected with him knew that to be so. But Mal S. Daugherty, who was a banker at Washington Court House, and together with his brother Harry, coexecutor of Jess Smith's estate, insisted that this money belonged to the entire estate. Mal Daugherty told Roxy Stinson, she testified, that he was perfectly satisfied in his own mind that the money belonged to her, but that it must go into the estate. She wanted the money, she testified, to pay for the house she was building for herself and her mother.

The will of Jess Smith which was offered for probate was one he had made a long time before his sudden death. A new will written on Wardman Park Hotel stationery by Jess Smith the Monday before the Wednesday on which the bullet killed him, was found on his person. This will was said to have provided that most of his estate should be given to Roxy Stinson and other relatives, but there were no witnesses to it, and therefore it was regarded as invalid and never even submitted to the court for inspection. The will which was admitted to probate named Harry and Mal S. Daugherty as executors and left \$25,000 to each of them; it also left \$25,000 and his Cole sedan automobile to Roxy Stinson. Jess Smith also had a box of diamonds, and he left one to Harry Daugherty, one to Mal Daugherty, one to Edward B. McLean and one to John T. King, Republican politician of Connecticut, who was alleged to have

been associated with Jess Smith and Daugherty in corrupt deals. His antique rosewood desk Jess Smith left to Mr. and Mrs. Edward B. McLean. He also left \$2,000 to the B. P. O. Elks of Washington Court House to build themselves a clubhouse there and \$1,000 to the First Presbyterian Church of Washington Court House. Miss Mary Yeager, Jess Smith's stenographer, testified: "Mr. Smith was himself a prominent Elk; he had visitors from all over the country who were sent to him by various Elks."

Roxy Stinson sued in the probate court for the \$11,000 in the "William R. A. Hays No. 3" account. She then had a two-hour conference with Mal Daugherty at the Deschler Hotel in Columbus. She told him that if this little lawsuit for \$11,000 were permitted to go into court, it would bring up other things which he and Harry Daugherty might not like to have revealed. "He said," Roxy Stinson testified, "'Of course, I do not know anything about that.' I said, 'Well, of course you do know about the large sums of money deposited in your bank?' He said, 'Yes; of course.'"

Just before this conversation the Daughertys had antagonized Roxy Stinson further by a clumsy attempt to "frame" her, she testified. In Cleveland in February, 1924, she met a man named Fink, whom she and Jess Smith had known for many years. The purpose of the meeting was to discuss a stock deal. Fink had hired a hotel room in Cleveland for Roxy Stinson under an assumed name, and as soon as she realized this she was very angry and moved to another hotel, registering in her own name. Before this time, she testified, she had been followed in Columbus by detectives, and she knew that her telephone conversations were being listened to. After Roxy Stinson's first appearance before the Senate committee, Harry Daugherty made the statement that she and a man had occupied the same hotel room together in Cleveland. It was this statement that called forth Senator Wheeler's denunciation of the "cowardly, low-down trick" of the Attorney General.

Roxy Stinson testified that she asked Sam Ungerleider and Fink why the Daughertys did not come and talk with her, if they had anything to say about her claim to the \$11,000.

"'They don't want to talk to you,' Ungerleider answered, 'they just want your promise not to say anything or conspire against Harry Daugh-

erty.' I then made this answer, 'I have been asked for months to talk about Harry Daugherty. I have not done so to anyone whatsoever, as I have told Mal Daugherty; but you may go back to your friends and tell them also, as I have told Mal Daugherty, and with my compliments, that if I am subpoenaed at Washington I shall tell everything I know. It is a frame-up, and I am going to tell them so.' Ungerleider said, 'I wouldn't do that. You know Harry Daugherty is a pretty stubborn man.' 'So am I, and he is not going to strong-arm me. I am not Jess Smith, and there is not going to be a convenient bullet in my head,'” Roxy Stinson said she answered.

Before Sam Ungerleider left the room, Roxy Stinson asked him: “Shall I see you again?” “I hope never to see you again,” he answered.

When she left Cleveland, Roxy Stinson was followed from the Statler Hotel:

“I remember the gentleman as plain—he was a nice looking gentleman too, very nice,” she told the Senate committee. “I was followed from my room down the elevator. I don't know whether he was in a taxi in front of me or behind, but he was at the station. He followed me on the train, and I didn't have a reservation, and I had to take a day coach, and I missed him some place, I think he took the smoker apparently.”

In the statement which he made after Roxy Stinson had testified before the Senate committee, Daugherty branded her as “a malicious woman because the friends of the Attorney General have brushed aside and disregarded all her tentative efforts to capitalize her silence.” She retorted that his statement was “utterly false” and told the committee that people had been trying to get information from her for months, that she had been offered money for her information and had always refused. She said that a young man, claiming to represent the Associated Press, had called at her house one morning before she was out of bed. She asked through the door who he was and what he wanted. He asked her questions about Teapot Dome and Sam Ungerleider and tried to get her to talk. She dressed, signaled to a neighbor who lived upstairs to come down as a witness and let the reporter in. She told him that she knew nothing about Teapot Dome and would not talk about Daugherty, as she was in litigation with

the Daugherty brothers. He then said that his name was Lyle Johnson, and that he had been sent from Washington.

“I said,” Miss Stinson testified, “If I know anything, I don’t want to get mixed up in this sort of an affair; I don’t care anything about it.’ He said, ‘Well, Miss Stinson, if you will just give me a lead about where to go to find evidence, I will give you a thousand dollars.’ And I laughed at him. I said, ‘I might use a thousand dollars to great advantage, but you are talking foolish to me.’”

Then one day in March, 1924, Senator Wheeler came to Roxy Stinson’s door with a subpoena.

“And Senator Wheeler came to my door,” Roxy Stinson told the committee, “and I demanded credentials, to know whether it was him or not. I didn’t know what a subpoena was. It was ‘forthwith.’ I said, ‘Don’t you want to talk to me first; maybe it isn’t of any consequence?’ He said, ‘Yes; I will talk with you.’ I said, ‘Do I have to go anyway?’ He said, ‘Yes.’ Then I said, ‘I won’t talk to you.’”

On the train en route to Washington Roxy Stinson told Senator Wheeler what she knew of the relationship, financial and personal, between Harry Daugherty and Jess Smith and then told her story to the Senate committee.

“Well, he performed a very splendid public service in forcing you to come,” Senator Ashurst told Miss Stinson after she had finished her testimony, “and you are doing a service in coming——”

“And I am the martyr,” Miss Stinson interrupted.

4

BEFORE President Coolidge asked for Attorney General Daugherty’s resignation, Roxy Stinson and Gaston B. Means had both testified to the

close relationship between Jess Smith and Harry Daugherty in a financial and personal way. As the investigation proceeded, the details of deals in which the two men and others were alleged to be involved were revealed.

"Mr. Smith was one of Mr. Daugherty's partners, was he not?" Senator Wheeler asked Miss Stinson.

"Oh, no," Senator Moses protested.

"I say, he was one of Mr. Daugherty's partners, was he not?" Senator Wheeler persisted.

"In law?" Miss Stinson asked.

"No; in crime," Senator Wheeler remarked. "He was one of the partners of Mr. Daugherty in these different deals that were pulled off?"

"Yes, sir."

"Let me ask you, how do you know that?" Senator Jones asked.

"I have his word for it," Miss Stinson answered.

"Mr. Daugherty's word?"

"No; Mr. Smith's words."

"Your knowledge of that comes from Mr. Smith?"

"Yes, sir; and the results of money."

Daugherty's and Smith's living expenses in Washington were very high, according to what Jess Smith told Roxy Stinson:

"He said that it was a fright the expenses they had. He also said time and again that he paid half the living expenses of the household. I never thought that was quite fair, and I expressed myself, and he said, 'Oh, that is all right.' . . . They were interested in things jointly, and he felt that he was able to pay his part through the remunerations he would get. He felt that he could afford it."

"What did his part amount to, do you know? What did he ever tell you that his part of the expenses, or his living cost here, amounted to?"

"It cost considerably over \$50,000. I don't mean individually, you understand, but their expenses ran very high. . . . It cost them over \$50,000, he expressed himself, to that extent. . . . A year."

Walter De Marquis Miller, a negro butler who had worked for "Ned" McLean, was turned over to Daugherty and Smith along with the H Street house and Emma Parker, an aged cook. Mr. Miller testified that

Will H. Hays, Thomas B. Felder, Howard Mannington and Colonel Darden were frequent visitors at 1509 H Street. President Harding had a habit of dropping in occasionally. Harry Sinclair was there whenever he was in Washington, Miller said, and Secretary Fall was a very welcome visitor: "He would come any time," Miller testified, and he added that Fall often stayed to meals. Later when Daugherty and Smith moved to the Wardman Park Hotel, Fall had breakfast with them whenever his family was out of town. Sinclair came to meals often, Miller said, and gave him tips "in two figures."

"What did they do when he [Sinclair] came up there, generally?" Senator Wheeler asked.

"They discussed their business, as any gentleman calling on another would do," Miller replied.

"Frequently hold conferences there?"

"I say sure."

Colonel Forbes was another frequent visitor at the Daugherty-Smith ménage, and General Sawyer was also a welcome guest, "any time he saw fit," according to Miller, "a fine gentleman." Colonel Miller, the new Alien Property Custodian, who had in his charge millions of dollars of confiscated war property, Mal Daugherty and Alexander P. Moore were frequent visitors. Before Richard Washburn Child was appointed Ambassador to Italy, he was said to have visited Daugherty and Smith at the H Street house, and William J. Burns came there just prior to his appointment as head of the Bureau of Investigation. John Ringling, the circus man, came there to arrange for his circus to pitch its tent on a plot of ground in Pittsburgh owned by Andrew W. Mellon and his family. J. Ogden Armour was a frequent visitor, and the Washington branch of Armour & Company were said to have supplied the H Street house with hams, bacons and other products free of charge. "Bill" Orr, of New York, was said to have brought liquor to the H Street house frequently in suitcases. Miller said that they kept it in unlabeled bottles in the safe in the wall, which John R. McLean had used for his important papers. Howard Mannington, who kept the Little Green House on K Street, where the Harding administration officials were alleged to have

held their drinking and poker parties, and where men were said to go who wanted to put through various kinds of deals with the government, was also a regular caller at the H Street house. "Every time I went to the door and seen it was Mr. Mannington," Miller testified, "I didn't have to go back and report. I said, 'Come on in.'"

When he first came to Washington, Jess Smith asked Miller, the butler, where the best stock brokerage house was, and Miller told him to go to Hibbs & Company. Miller would also "get the market" often for Jess Smith on the telephone.

W. O. Duckstein, McLean's secretary, testified that he would not call Jess Smith's way of life extravagant: "He lived as a gentleman should who had money."

"What position, if any, did he occupy with Mr. Daugherty after Mr. Daugherty was selected as Attorney General?" Senator Wheeler asked Roxy Stinson concerning Jess Smith.

"Bumper—intimate friend," she answered.

Jess Smith had a desk outside Daugherty's suite on the sixth floor of the Department of Justice, where he sat, like a faithful St. Bernard dog, and warded off undesirables or entertained the useful. William A. Orr testified that Jess Smith would get the railroad reservations for his friend Harry, "hold his overcoat; yes, anything." Smith impressed Orr as "more like a military secretary" than anything else. He was not on the government payroll, but he usually traveled on Department of Justice transportation orders, according to Roxy Stinson, "for a long time, and then he stopped that."

"Was Jess Smith on the pay roll of the Department of Justice?" Senator Ashurst asked Miss Stinson.

"No, sir."

"He was not a dollar-a-year man under Mr. Burns?"

"No, sir."

"Well, how did he get those orders for transportation?"

"Look who he was."

"What was that answer?"

"Look who he was."

"Oh, I see."

Everybody around the Department of Justice called him "Jess" and he quickly called people by their first names; he loved to refer to the President as "Warren" and to exhibit his familiarity with the great ones of the moment. At every opportunity Jess Smith got his picture taken standing or sitting next to Warren Harding.

At the Department of Justice, Jess Smith was credited with "having the hiring and firing of all employees," Pierce Miller, a newspaperman who covered the Department of Justice testified.

"He seemed to be in full command whether Mr. Daugherty was there or not," Pierce Miller also testified, "because Mr. Daugherty would shut himself up in his office, and he was almost unapproachable. You couldn't get in there very readily. Jess had three means of access to the Attorney General's office, either one of which he would use without being announced. . . . He had perfect freedom in the building."

According to other witnesses, Jess Smith had access at any time to the Department of Justice files, and to the minds of most people who had to do with the Department of Justice. Pierce Miller testified, Jess Smith "was in a higher position than any of the Assistant Attorneys General."

John W. H. Crim, First Assistant Attorney General under Daugherty, testified:

"What did you understand was Mr. Smith's relation to the department, Mr. Crim?" Senator Jones asked.

"I remember very distinctly, Senator, why my curiosity was aroused, and I think I had better tell it. I met Mr. Smith somewhere casually; was introduced to him. A day or two afterwards I was walking from the Shoreham Hotel to my office when I met Mr. Smith. He stopped me, and in a very abrupt way said, 'John, do you know Warren well?' I was thunderstruck, and went back to the department and made inquiry as to who he was. . . . He had no mental capacity of his own, no ability. I supposed that he was a hanger-on, a good-natured fellow, and that the Attorney General used him to run errands and that he was particularly

valuable in the Attorney General's home when the Attorney General was absent."

Mr. Crim testified that he did not believe that Daugherty was crooked, or that he knew that his best friend, Jess Smith, was taking money from various people for favors he rendered to them, ranging from permits to withdraw liquor during Prohibition to exemption from prosecution for crimes and pardons from prison after they had been convicted of crimes. But if we are to believe that Harry Daugherty did not know that Jess Smith was taking money, as he himself maintains in his book, and as Crim testified, we must first believe him to have become much more obtuse than he had ever showed signs of being in the history of his astute career. He lived with Jess Smith, saw him at the Department of Justice most of the time when Daugherty himself was there, carried on stock market operations with him, and shared his living expenses with him. It is hard to imagine that Daugherty could have thought that Jess Smith was paying his half of the expensive Washington living on the proceeds of the sale of his small department store in Washington Court House and his other, comparatively meager, possessions.

Mr. Crim admitted that Daugherty was easily amenable to outside influences:

"Senator, let me put it this way," he testified. "I went in that room [Daugherty's office] a number of times—I expect I saw him less than any other assistant, but I went into that room a number of times, and if I did not convince him I was right I would say, 'Let us adjourn it until I get more facts.' I never acted on anything that I recall at this moment by and with his consent and approval that it was not generously and freely given after I had gotten through with him. The other side would get in there. He would listen to them. They would get in in every way. And very often he would look at me, or he would send me a note indicating to me that they had all been around, but he was very glad that I was going along, and he was sorry that he could not help me to push it a little further, to go ahead."

Mr. Crim also testified: "There were times when I would have raised more dickens with them than I did if the Attorney General had been

right there, a well man. There were times when he was ill and in bad shape, and I hesitated to take up matters with him." Another witness testified that Daugherty in the afternoon usually disappeared to his apartment in the Wardman Park Hotel to rest.

L. J. Bailey, who had been in the Department of Justice since 1908, and who was acting chief of its Bureau of Investigation when Daugherty took office, testified that he had never known anyone in the department to occupy a position similar to that occupied by Jess Smith. He also said that Attorney General Daugherty had told him that he was too busy to see him much, but that he would get his orders through Jess Smith, that Jess lived with him and would talk matters over with him at night. Anyone who was to be removed from a position was removed at the request of Jess Smith, Mr. Bailey testified, and usually the post was filled by Jess Smith's appointee. "Everybody around there," Mr. Bailey testified, "recognized him as a man they better pay attention to. They figured he was the most powerful man there outside of the Attorney General. At least that was the opinion of the people I heard discuss the matter." "Everybody that I ever heard talk about it understood that they should do whatever he told them to do," Mr. Bailey added.

Former Senator George E. Chamberlain, who acted with Paul Howland as Daugherty's counsel at the investigation, denounced the testimony of the relationship between Daugherty and Smith as "hearsay testimony." Senator Smith W. Brookhart, chairman of the committee, then said:

"Let me say this, gentlemen. It is a rule that is as old as the criminal law in regard to a conspiracy that when you show the acts of one member of the conspiracy and show a conspiracy exists, it becomes the act of every member of the conspiracy. There never was such strong testimony indicating a conspiracy as there is of one between Jess Smith and Harry M. Daugherty. If that testimony is true, it means that every statement and every act of Jess Smith, and every act in furtherance of these conspiracies, are proper evidence against Harry M. Daugherty, and not hearsay, and we are proceeding on that theory. And there is considerable evidence as to Howard Mannington in the same way. I do not feel that you have any right to charge the committee with going ahead here with

incompetent evidence, because I have convicted men of conspiracies on very much less evidence than this that has been introduced here."

"Mr. Chairman, I will not discuss it any longer," Mr. Chamberlain said.

Gaston Means testified:

"Well, I have gone to the apartments with data, and he [Jess Smith] would tell me, 'Just wait here, Means, in this room; I will take this right to the Attorney General.' And he would walk in the Attorney General's bedroom and hand it to him. They knew the game. A man don't—never allow two men present. When you are a good investigator, or anything else, keep separate."

"You say they knew the game, and you never talked with but one at a time?" Senator Wheeler asked.

"Yes; two of us, and then separate, and two more talk. I would suggest to do it that way myself."

Mrs. Duckstein, who was Jess Smith's secretary for a time, said that he was also very close to President Harding and Mrs. Harding. "He could always call up and go over there any time he wanted to," she testified.

"Did he go over there quite often?" Mr. Chamberlain asked.

"Yes; he called up and went over there."

"Well, that is a pretty dangerous suggestion to make," Mr. Chamberlain remarked, "that he was intimate with the White House and the President."

"Well, if you had sat there and heard him call up over the phone and talking with them you would have thought they were on intimate terms."

Mrs. Duckstein also testified that Jess Smith attended to personal matters for President Harding and Mrs. Harding. She said that Jess Smith and Gaston Means worked for the President on the investigation of a scurrilous book, written by a professor, which stated that Harding had negro blood. For Mrs. Harding, Mrs. Duckstein said, Jess Smith gave tradesmen orders for presents and clothes, and that "he would get things from New York

at a better price, I suppose, than she could get them, but I do not know exactly why it was."

There is good evidence besides Mr. Means's own word for the fact that President Harding had Jess Smith hire Gaston Means to conduct special investigations for him. Mrs. Duckstein testified that she took a letter by dictation from Jess Smith for the signature of President Harding which served as credentials for Means.

"What was the letter in reference to; was it in reference to prohibition?" Senator Wheeler asked.

"It was authorizing Mr. Smith to have Mr. Means and this Mr. W. T. Underwood to conduct an investigation on prohibition matters and to employ such men as they might see fit, as nearly as I can remember the letter," Mrs. Duckstein answered.

At the investigation of the Teapot Dome and California oil leases, William J. Burns, head of the Bureau of Investigation, testified:

"Is there an agent under you in the department by the name of Gaston Means?" Senator Dill inquired.

"No. We did have a man by that name," Mr. Burns answered.

"How long since he severed his connection?"

"Oh, some months ago," Mr. Burns testified on March 4, 1924.

"Did you find him an effective man?"

"One of the very best investigators I ever knew; the best in this country, I think."

"Did he do any special work for President Harding when the President was living, that is, through your department?"

"He may through me."

Means testified that Gutzon Borglum, the sculptor, had recommended him to President Harding. Means also said that he was paid \$150 a week and his expenses while he worked for Harding, and that Jess Smith paid him. This was in August, 1922, and Jess Smith told him that the money for the investigations made for Harding came from an emergency fund "that belonged to the President."

The main investigation which he conducted had to do with bootlegging,

Means testified. After Jess Smith got the letter of credentials signed for him by President Harding, Means told the Senators, he asked Smith: "Now, Jess, am I to understand that you really want to get the big bootleggers?" Jess Smith assured him that they did, and he then explained that they were really after David Blair, Commissioner of Internal Revenue, whom Secretary Mellon would not remove at the request of Daugherty and his associates. They also wanted Haynes, Prohibition Director, removed, so that the Department of Justice could get its hands on the appointment of Prohibition enforcement officers and take charge of the Prohibition enforcement or the lack of it, without interference from the Treasury Department.

Gaston Means testified that his investigations for Harding and Jess Smith of bootlegging led directly to Secretary of the Treasury Mellon, whose family owned large whisky distilleries. Means also claimed that Secretary Mellon had worked out a plan with Rex Sheldon to pay the troublesome Republican campaign deficit by money collected from bootleggers for permits to withdraw liquor. Gaston Means said that he had worked on a whisky withdrawal case in which the permits authorizing the withdrawals for medicinal purposes of 2,950 cases of Overholt whisky from the Mellon-controlled Overholt distillery were eventually traced to the files of the Mellon bank in Pittsburgh. After the Harding election, he testified, the indictments against the bootleggers accused of removing this liquor were dismissed, and Means maintained that "the gentle hand of Andrew Mellon forced Harry M. Daugherty to come to his rescue."

"We picked up an enormous amount about Mr. Mellon," Means testified. "For instance, the coal mine that he owns in Kentucky, where he has the deputy sheriffs on his pay roll, and controls the courts all the way down. But I first came in contact with Mr. Mellon in connection with Mr. Frick, where they each thought the one was gipping him. They are like banana peddlers when you get to know them."

"As a matter of fact," Senator Wheeler recalled to Means, "when you first talked with me, Means, what you suggested to me was that instead of the Attorney General being investigated, that it ought to be Mellon that ought to be investigated."

"I insisted upon it," Means said. "He is the arch enemy of the Government, the arch traitor."

"That is what you told me."

"Yes, I tell you that now. I repeat it. That is my belief. Attorney General Daugherty is a much higher class and finer man than Mr. Mellon. Mr. Mellon was born grabbing at dollars."

"Well, that is some recommendation for Mellon," Senator Wheeler remarked sarcastically.

"I never had any feeling against Mr. Daugherty," Means said. "I think he is a man of great ability in many respects."

Gaston Means had a personal grudge against Secretary Mellon at the time he testified, because on October 18, 1923, he was indicted for conspiracy to violate the Prohibition act, and it was charged that Means was paid \$15,000 by a man named Johnson to get his trial for illegally removing whisky adjourned from time to time, and for helping him to get whisky removed from a government warehouse to a private place. Means claimed that this indictment was the result of his activities among New York bootleggers during the investigation he was conducting for President Harding and Jess Smith. According to the newspapers, it was Secretary Mellon who personally pressed Means's indictment.

"He had reason to personally direct it, too," Means told the Senators, and then he added: "I never have believed, and I do not believe today, because a man accumulates millions and millions of dollars and can swing the Government and courts that he has got any more intelligence than any other man who is not always vitally concerned in making money. Money is not everything in the world by a long shot. It is no use to worship a liquor man's boots because he has got money. It is the powerful thing in America today, but it should not be."

A short time before, it will be remembered, Gaston Means had boasted to the committee that he would work for anybody with enough money, "just like a lawyer."

Means also claimed that Secretary Mellon had stopped the Department of Justice from enforcing the Prohibition laws. He testified:

"I do know of my own knowledge that Mr. Daugherty was called off from attempts to enforce the prohibition laws by the Treasury Depart-

ment. . . . I do know that Mr. Mellon did not want Mr. Daugherty to have anything to do with it. I do know, in addition to that, that the bootleggers became very much alarmed when they found that Mrs. Willebrandt was taking a very active part in uncovering, not waiting for a case to be uncovered, but uncovering violators of the Volstead law. . . . There were many cases that they changed."

"How do you know that was at the direction of Mr. Mellon?" Senator Brookhart asked.

"Because I was told so. Mr. Mellon went to the President, and the President had to tell the Attorney General that he did not want Mr. Daugherty interfering with his department."

"But that is information that Burns gave you, and information that Mrs. Willebrandt gave you, and not your own information?" Senator Wheeler asked.

"Yes, sir."

But the information of William J. Burns and Mrs. Mabel Walker Willebrandt, Prohibition enforcement officer of the Department of Justice, was more reliable than that of Gaston B. Means in this instance, because they had no personal grudges against Secretary Mellon, they were not of the Baron Munchausen type, and they were, unlike Means, intensely loyal to the Harding administration. Their sources of information were also much closer than Means's. Burns testified:

"Now, let us get this right: The Attorney General came back from a cabinet meeting one day, and he sent for me, and was very angry. He asked me why we persisted in butting into matters that were wholly connected with the Treasury Department. I told him because we had been requested to do so, and that we never did butt in or do anything without a request from either Mrs. Willebrandt or one of the United States attorneys throughout the country. . . . Well, he stated that the Treasury Department was not at all pleased with our butting into their matters, and for me to let them alone."

Burns said that he then went to see Mrs. Willebrandt and told her the Attorney General's orders, that she was very upset and went to see Daugherty; she then came back to Burns and said that the Attorney General had permitted her "to take up the more important matters that

are prohibition." One of the Department of Justice agents in New York, Mr. Holdridge, testified that Burns issued orders to all Department of Justice agents, which were read to them in the district offices, ordering them to let Prohibition matters strictly alone and to do nothing about Prohibition violators without his express permission.

An Associated Press dispatch from Washington on November 28, 1922, gave Secretary Mellon's views on the Prohibition enforcement problem with which his department was charged: "Questions of profits seemed to be one of the most direct causes of heavy traffic in liquor, in the Secretary's view. But how to break up the big profits proved another matter which Mr. Mellon was said to have declared presented, for the present, an insoluble problem of enforcement."

At a Cabinet meeting held on November 25, 1922, President Harding and his Cabinet were reported to be worrying about the debauching effect of bribes to revenue agents and Prohibition enforcement officers. They decided that it would be futile to appropriate more money for enforcement, as that would only subject more men "to the tremendous temptation of easy wealth." In his message to Congress of December 8, 1922, President Harding said: "Let men who are rending the moral fiber of the Republic through easy contempt for the prohibition law, because they think it restricts their personal liberty, remember that they set the example and breed a contempt for law which will ultimately destroy the Republic." And then he added: "In plain speaking, there are conditions relating to its enforcement which savor of nation-wide scandal. It is the most demoralizing factor in our public life."

But some of President Harding's best friends were bootleggers, and many of his intimates were connected with this "most demoralizing factor in our public life." Among those who had "easy contempt for the prohibition law, because they think it restricts their personal liberty," were, it was alleged, President Harding himself and most of his closest friends. For instance, Alice Longworth, who knew the Hardings well and liked them, gives this picture of the White House in those days in her book, *Crowded Hours*:

While the big official receptions were going on, I don't think the people had any idea what was taking place in the rooms above. One

evening while one was in progress, a friend of the Hardings asked me if I would like to go up to the study. I had heard rumors and was curious to see for myself what truth was in them. No rumor could have exceeded the reality; the study was filled with cronies, Daugherty, Jess Smith, Alec Moore, and others, the air was heavy with tobacco smoke, trays with bottles containing every imaginable brand of whisky stood about, cards and poker chips ready at hand—a general atmosphere of waistcoat unbuttoned, feet on the desk, and the spittoon alongside.

Roxy Stinson testified: "Well, they had plenty of liquor at their disposal for their personal use." In answer to Senator Wheeler's questions, she replied that whenever Jess Smith and Harry Daugherty came back to Washington Court House from Washington, D. C., Jess Smith brought suitcases filled with whisky, and that he gave some of it to her, some to Mal Daugherty and drank some of it. At Howard Mannington's Little Green House in K Street, where the officials of the Harding administration held their "whist parties" and business conferences, the Wells Fargo Express Company delivered twenty cases of liquor at a time. "There would be a revenue man in the wagon," Daniel E. Smith, butler at the Little Green House in K Street, testified. "Well, how do you know it was a revenue man?" Senator Wheeler asked. "Well, he had a badge on and a revolver," Mr. Smith testified.

As in most investigations which yield personal material, witnesses were willing to testify against Daugherty's pals, because they had been cheated. M. P. Kraffmiller, for instance, who lived with Howard Mannington in Washington, testified fully to his relationship with Mannington, because they had quarreled over refunds to "clients." Kraffmiller said that he had returned money to some bootleggers who had failed to receive the liquor withdrawal permits for which they had paid, and that then Mannington refused to give up his share of the money on the grounds that a retainer once paid is never to be returned. As a result, Kraffmiller testified, he was forced into bankruptcy.

A Mr. Caskey, of Marietta, Ohio, came to Washington and also worked with him and with Howard Mannington obtaining liquor withdrawal permits and selling them, Kraffmiller testified. When they first came to Washington, Mannington and Kraffmiller lived together at the Lafay-

ette Hotel, but on May 1, 1921, they moved into the Little Green House at 1625 K Street. The first liquor withdrawal permit which they got, Kraffmiller testified, was obtained for the General Drug Company, of Chicago, who, he said, paid \$20,000 for it. He retained one-third of that fee and, he testified, gave the rest, \$13,666.67, to Howard Mannington. Kraffmiller testified that Caskey, when he first arrived in Washington, had to borrow money from him, but that after they had been in Washington for a few months, Caskey bought an expensive house on Wisconsin Avenue.

"And the only client he had was Howard Mannington?" Senator Wheeler asked.

"Yes, sir," Mr. Kraffmiller answered.

"And the only office that he had was in the little green house on K Street?"

"That is correct."

Kraffmiller received \$25,000 from J. B. Scheuer & Company for liquor permits, he said, and he gave it all to Howard Mannington. For representing them in their application for a tax refund before the Bureau of Internal Revenue, the Marland Refining Company gave Kraffmiller \$7,500, he testified, of which he retained \$2,500 and gave the rest to Mannington. The Marland company, Kraffmiller testified, wanted a delay in their tax case, "and we obtained such delay by having a re-examination of the matter, and by that time the stock of the Marland Corporation reversed itself and they became insolvent." Mannington and he also represented the corporation before the Shipping Board, Kraffmiller testified. Mannington, he said, had never been admitted to the bar, though even he had thought for a long time that Mannington was a lawyer.

Kraffmiller testified that two or three times a week Jess Smith came to the Little Green House on K Street for a conference with Mannington, but that he was always excluded from those conferences.

"You know that Jess Smith and Mannington had a lot of deals in New York?" Senator Wheeler asked.

"Yes, sir," Kraffmiller answered.

"And you do know that they were collecting money from the New York end, do you not?"

"I do not know, but I would surmise."

Mannington and Caskey went to New York every ten days or two weeks, Kraffmiller testified, but the New York end of their business was kept secret from him; he handled Chicago.

Jess Smith told Roxy Stinson, she testified, that through Daugherty's influence, they were getting liquor withdrawal permits and selling them:

"And what did he say with reference to their making any money out of it, if anything?"

"Well, there was money made out of it, because I think that was their first avenue of money, or among their first avenues of money," Miss Stinson answered. . . .

"And I understood you the other day that they afterwards, toward the last of it, got cold feet on it?"

"Yes; I am sure that is right."

"Now, let me ask you, Miss Stinson, if it is not a fact that it was these whisky deals that Jess Smith was worrying about just prior to his death?"

"He had worried about that quite a bit, and to the point that for the last six months before he passed away he would not take a drink. He was not a drinking man, yet he probably would take a drink as any of the gentlemen would. He was not a drinking man, but he would not even do that, through his caution."

The \$11,000 in the "William R. A. Hays No. 3" account, which Roxy Stinson claimed after Jess Smith's death, was also claimed by the whisky interests, who maintained that it should have been refunded for liquor permits they had paid for and never received.

William A. Orr was alleged to have handled the New York end of Jess Smith's and Howard Mannington's liquor deals. Kraffmiller testified that on one occasion when Mannington had refused to refund money paid for permits not received, "Bill" Orr had said that he was going to get his money back or "shoot up" Mannington and Jess Smith. "I asked Caskey why," Kraffmiller testified, "for the simple reason that Howard Manning-

ton seemed to get so nervous when he was told that Orr was in Washington." Orr testified that he had paid Mannington money in connection with liquor deals for the withdrawal of alcohol. When asked whether the money was paid to Mannington for going into court, Orr replied: "No; I should say in most cases it was to prevent going into court. . . . It is costly to go into court. It is much more costly to go into court than to have a lawyer that can fix it outside of court." Orr stated his own function to be: "As a means of introduction to a lawyer here who knew the ropes."

According to Senator Wheeler's statement, the New York bootleg interests turned over \$200,000 to Mannington, but Orr would neither affirm nor deny this estimate. Senator Wheeler asked him if he did not know as a matter of fact that Jess Smith had refused to turn back some money that was turned over to him. "Not of my own knowledge, I do not," Orr answered.

Orr was indicted with others for conspiracy to have liquor permits issued fraudulently, but the indictment was not upheld by the court, and the conspiracy was declared not to exist. When Orr was indicted in New York, Howard Mannington expected to be indicted too, Kraffmiller testified, and when the news of Orr's indictment reached the Little Green House on K Street, Mannington left Washington at once for Louisiana, giving out that he was going to Mexico.

When the Daugherty investigation started, Howard Mannington went to Europe. Senator Ashurst charged collusion on the part of the Attorney General to get Mannington out of reach of the committee. He finally turned up in Washington when he got ready to do so and testified that he had been abroad on private business; there had been a rumor that he was made a member of the Dawes Commission on Reparations in order to get him abroad plausibly. The committee got practically nothing in the way of information out of Howard Mannington concerning his alleged activities, but it learned from other witnesses the details of transactions which he and Jess Smith were said to have had with bootleggers, liquor companies and others.

John Gorini, of the Alps Drug Company, 410 Eighth Avenue, New York City, had been selling liquor for medicinal purposes legally. In May, 1921, he testified, the Prohibition director refused to grant him legitimate permits to withdraw 500 cases to be sold to drug stores for medicinal

purposes only. Then Paul Lundy, a theatrical agent, Gorini testified, called on him with the message that if he saw "Bill" Orr, the matter could be arranged. Ten minutes after Orr took the matter up, Gorini testified, he had a permit for his 500 cases of whisky.

Orr also took Gorini to the Astor Hotel to meet Jess Smith. He was told, Gorini said, that Jess Smith could "help a lot" and that Howard Mannington, Daugherty's other close friend, "was getting so much a case from Bill Orr—every case that went through the prohibition office."

"How much was that that he told you he was getting?" Senator Wheeler asked.

"\$2 a case," Mr. Gorini said.

"And who did he tell you Howard Mannington was?"

"He said he was here in Washington. . . . He said he was from Columbus, Ohio . . . he belonged to the crowd from Columbus."

"They were a pretty tough crowd, were they not?" Senator Wheeler asked.

"I should say so," Mr. Gorini answered.

"You were willing to work with them?" Senator Jones remarked.

"Yes; I wish I had broken my arm the day I signed the first paper," Gorini replied.

"You wish it now, but you were glad to work with them."

"I was forced in."

"You were willing to do business and use the Columbus crowd?"

"I wanted to do business; a legitimate business."

Gorini testified that he had paid William A. Orr \$50,000 in thousand-dollar bills.

"Where did you get them?" Senator Wheeler asked.

"I got them from John Lynn."

"And who is John Lynn?"

"He used to be with Park-Tilford, and then went in business for himself in liquor, and he hanged himself last year. . . . Yes; he was broke and hung himself."

Orr was selling liquor permits, Gorini testified, for \$15 a case. Gorini said that in addition to the money which he had paid to Orr, he had paid

\$150,000 to a man named Owen B. Murphy for withdrawal permits for his own and five other drug companies in New York between May and August, 1921. Gorini testified that the \$2 a case which Howard Mannington received was split into three parts. One part, he testified, went to Jess Smith; one part went to Howard Mannington; "I never could find out where the other part went," Gorini said. When he asked Orr where the third part went, Orr refused to tell him. Gorini said that he used to meet Orr, Murphy and a man named L'Esperance at the Exclusive Club, a speakeasy at Forty-seventh Street near Sixth Avenue in New York. L'Esperance was an attorney who worked in the office of William Hayward, who had been appointed United States Attorney for New York at the solicitation of William A. Orr. Gorini was told "that Mannington can take care of everything," and that Jess Smith was "from the Attorney General's office."

The drug companies that Gorini represented never received the liquor which was withdrawn in their names; it was turned over directly to bootleggers, who paid the drug companies \$1 a case for the use of their names in withdrawing the liquor by permits; the bootleggers paid Gorini \$15 a case, he testified, and he gave Orr or Murphy \$14 of it, keeping the one dollar for the drug companies. Altogether about fifty to sixty thousand cases of liquor went through in this way and netted the liquor ring between \$750,000 and \$900,000.

Gorini testified that he had imported from Scotland for legal medicinal purposes 7,100 cases of Scotch whisky, and that Thomas B. Felder, the New York attorney who had worked with Harry Daugherty to get Charles W. Morse a pardon, offered him a quarter of a million dollars to give up his Scotch whisky to bootleggers. Gorini refused, and later Attorney General Daugherty sent a telegram to New York ordering the reshipment of the Scotch whisky to Scotland, though, Gorini maintained, it was imported legally. Gorini tried to get a replevin against the shipment of the liquor, and the sheriff who served the writ was carried three miles out to sea. The steamship company, Gorini testified, had a tug following the ship on which the liquor was supposed to go back to Scotland, and when the ship was four miles outside the port of New York the sheriff and a special agent whom Gorini had hired to bring his liquor back, were put on board the tug and sent back to New York.

"Now, do you know that those goods were never shipped out of the port at all, but that other whisky, other cases, fake cases were shipped out?" Senator Wheeler asked.

"That is my understanding," Gorini answered. "I heard the rumor of that. That is why they ran away with the sheriff."

Gorini said that empty cases to represent Scotch whisky were thrown into the ship. At one time the plan had been to steal his Scotch whisky and replace it with bricks, he testified. Gaston B. Means was sent from Washington to New York, ostensibly to see to it that Gorini's whisky was not shipped away, but he arrived in New York on the Monday after the fake shipment had been made on the previous Saturday. Gorini testified that the same kind of Scotch whisky, "King's Liqueur Whisky," which had never been sold in New York previously during Prohibition, was being sold by the bootleggers of New York soon after his shipment was supposed to have been sent back to Scotland in such a hurry on the order of Attorney General Daugherty.

Nick Cimino, who operated the Italian Kitchen, a speakeasy in Forty-eighth Street, New York, was also a witness before the Senate committee. He said that after Howard Mannington first came to his speakeasy in 1920, he, Nick Cimino, became a loyal worker for President Harding's election among the Italians of New York. The Italian Kitchen was said to be the New York rendezvous of Daugherty, Mannington and their friends during the Harding campaign. After the inauguration of President Harding, Nick Cimino visited the Little Green House in K Street and obtained the appointment of two court stenographers in Brooklyn; he testified that he had received about \$1,500 for these appointments. Later Nick Cimino felt that his share of the liquor deals in New York, in which the Washington ring were involved, was not enough; he wanted more than 50 cents a case, and Kraffmiller testified that when he took the matter up with Mannington for Cimino, Mannington had replied: "To hell with the Dago. Let him fight his own battles."

George Remus, an Ohio bootlegger who owned seven distilleries, was finishing a term of two years in Atlanta Penitentiary for conspiracy and nuisance in violating the Volstead Act, when he testified before the Senate committee investigating Harry Daugherty's office. Remus swore that he

had worked with Jess Smith getting permits to withdraw liquor, ostensibly for medicinal purposes:

"What was the occasion of your meeting Jess Smith?" Senator Wheeler asked.

"Well, from the viewpoint of obtaining withdrawals from drug companies, so as to obtain the liquor from the bonded warehouses and the distilleries, that I was the owner of, if you please."

"When was that? What time was that?" Senator Brookhart asked.

"In 1921, about the fore part of 1921. I can not answer really the month, if you please." . . .

"That was in New York City?"

"In New York City; yes."

"And when you met him at New York, what did he say to you with reference to being able to get these permits through for you?"

"He had heard of me as being a reasonably large operator from the viewpoint of the whisky industry. Of course that was pursuant to the meeting; that was so understood."

"That was the reason that he met you?"

"Yes; absolutely."

"You had no other purpose for meeting Mr. Smith?"

"Other than to do what he could from the viewpoint of holding a person harmless in the event of legal entailments. . . . He was pretty close to the Attorney General."

"What did he say with reference to these permits, or what did anybody else tell you with reference to it?"

"Well, he said that for a consideration he would obtain permits, if I would pay so much for the permits per case. And then I agreed to give him so much per case for his efforts in the premises."

"What did he say with reference to your being indicted in these matters, or prosecuted?"

"That there never would be any conviction—maybe a prosecution, but no ultimate conviction, that no one would have to go to the penitentiary. . . . But I am there, Senator."

"What was the first amount that you paid him?"

"I think it was \$50,000."

"But how much did you pay Jess Smith in the aggregate, to the best of your recollection?"

"Oh, between \$250,000 and \$300,000. That is my best judgment at this time."

Jess Smith received \$1.50 to \$2.50 a case for all liquor permits which he furnished to Remus.

"And whom did he say he divided that with?" Senator Brookhart asked.

"Well, that was not—there was no talk with him and I as to the division, Senator. There was not."

"How was this money paid, Mr. Remus?"

"In cash; always."

"What size bills?"

"Oh, depending upon—we would have it in various denominations. Sometimes thousand-dollar bills; other times \$500, \$200, \$100 bills—cash. Sometimes I would send to the Federal Reserve in Cincinnati and get thousand-dollar bills through the bank."

Roxy Stinson, it will be remembered, testified that she often received \$500 bills and \$100 enclosed in letters from Jess Smith.

Mrs. W. O. Duckstein testified:

"Well, I wrote some letters for Mr. Smith about whisky permits, but they were not in connection with the Attorney General at all."

"Did you make copies of those letters?" Senator Wheeler asked.

"No. Mr. Smith never kept copies of his letters."

"He never kept copies of his letters?"

"No; never."

"Did Mr. Smith tell you not to make copies of his letters?"

"Yes."

George Remus testified that he went on withdrawing liquor on permits for about a year with full protection from prosecution, and that he had withdrawn and sold in that time between seven and eight hundred thousand gallons. Every time he saw Jess Smith, he said, he gave Jess Smith money.

"That was the only business you had with Jess Smith, wasn't it?" Senator Wheeler asked.

"Yes, and to see that the business went on all right," Mr. Remus replied.

"Yes," Senator Wheeler said, "you had no personal acquaintance with him? I mean, there was no friendship between you and Jess Smith? It was a pure, cold-blooded business proposition, wasn't it?"

"Considering my present position, surely," Mr. Remus replied, "yes, sir. Not a bit of sentiment attached to it, Senator."

After he was indicted for violating the Prohibition laws, George Remus met Jess Smith in New York and discussed the matter with him. Jess Smith told him that the Department of Justice would pretend to fight for a conviction, but that "I would never see the penitentiary," Remus testified. Even after Remus was convicted by a lower court, he testified, Jess Smith told him that it would not make any difference, and that even if the Court of Appeals upheld the conviction, he could get Remus out of serving his sentence.

"He said he was assured that there would be no ultimate sending away of Remus or his men to a penitentiary," Remus testified.

"And who did he say assured him of that?"

"The General."

"He called him the General, did he? Is that the way he referred to him?"

"Yes, sir."

"Now, did he tell you, or did he not tell you that if the Supreme Court affirmed that decision you would still be granted a pardon, or that you would never have to serve a day in jail?"

"Yes; he said that. . . . Yes; on account of his friendship to the General."

"That is what he told you."

"Yes." . . .

"Did he tell you whether or not he had talked with the Attorney General about your case?"

"I knew that someone had talked to the Attorney General about my case."

"How did you know that?"

"Mr. James Clarke, the former district attorney of Cincinnati, told me after my conviction that he had talked with the Attorney General in Columbus in reference to my case, at which time the General had

told Jim Clarke that he had to prosecute my case, as there was some talk in Columbus that he was one of my partners."

Once when Daugherty and Jess Smith were in Indianapolis together, where Attorney General Daugherty dismissed the soft coal cases pending there between the government and the soft coal interests, George Remus met Jess Smith at the Claypool Hotel and paid him about \$30,000; he could not remember exactly how much. While Remus was talking with Jess Smith, Daugherty, who had been standing with Jess Smith a moment before, did not join them. Remus was never permitted to meet the General.

When his case was finally decided against George Remus in the Supreme Court, and he had to go to prison, Jess Smith was dead:

"I know this," George Remus testified, "I have been prosecuted——"

"And been double-crossed, too, haven't you?" Senator Wheeler asked.

"Well, the dead don't speak, so what is the use of having to answer that."

George Remus was not uncomfortable, however, when he went to Atlanta Penitentiary for two years—at least not until after he had testified before the Senate committee; Daugherty's appointees and associates made life as difficult as possible afterwards for anybody who had testified against the Attorney General. At Atlanta Remus was known as one of the three "millionaires" of the penitentiary, according to J. E. Wilkins, superintendent of the prison school. Wilkins testified that George Remus "has all the privileges that I consider a man could ask for." At first he had lived in the "politicians' apartment" in the basement of the isolation hospital, but a little later he had his own private apartment built for him, with bath, in the isolation hospital building. There were two other "millionaire" prisoners in the penitentiary at the time, Wilkins testified, Mr. Sweetwood, a bootlegger, and Mr. Kessler, a bootlegger. The three men had their meals sent up from the officials' mess to the Catholic chapel.

There was great dissatisfaction among the other prisoners, according to Wilkins, because of the privileges granted to the millionaire bootleggers, and this system began, he said, when Sartain, a former sheriff at Columbus, Ohio, was appointed warden at Atlanta by Daugherty. In July, 1921,

J. E. Dyche, who had managed Jake Hamon's campaign for Republican national committeeman in Oklahoma, and had helped to throw that state to Harding at the Chicago convention of 1920, was appointed warden of Atlanta Penitentiary. He soon discovered, he testified, that the place was filled with narcotic addicts, and that narcotics were sold freely to the prisoners by the guards. Dyche said that he had tried to stop the evil and had asked for detectives from Burns's Bureau of Investigation. The detectives were sent down to Atlanta, and the situation received publicity. Then Heber Votaw, brother-in-law of President Harding, a minister of the gospel who had been appointed Federal Superintendent of Prisons by Harding, arrived in Atlanta; he put a stop to the narcotics investigation at once, Dyche testified, and Dyche was called before Daugherty, who told him that there had been altogether too much publicity about narcotics in the prison and that it must stop. Dyche testified that at his interviews with Daugherty and Votaw they were only interested in the harmful effect of the publicity about the narcotic traffic and not at all interested in the harmful effect of the narcotics. Dyche also said that he was sure that narcotics were still sold at Atlanta after he had left the position of warden, "and it is worse at Leavenworth than it is at Atlanta," he added. William J. Burns admitted in his testimony that his men could have found the men higher up in the prison narcotic traffic, if they had been permitted to continue their investigation. The prisons were notorious as the preparatory schools for narcotic addiction, and if stopped there, the habit might have become less prevalent and less profitable, which would have cut considerably into the incomes of dope importers and dope sellers. It might also have been very embarrassing to many people if the men higher up were found who sold the dope to the men who sold it to the prisoners.

Evidence was also introduced before the Senate committee that under the Daugherty administration paroles and pardons were sold at Atlanta Penitentiary. Senator Wheeler introduced the following letter from Charles Vincenti, who was doing eighteen months in Atlanta, to E. H. Mortimer, Colonel Forbes's traveling companion:

The Baltimore & Jamaica Trading Co., Inc.
Importers of Fruits,
Baltimore, Md., August 12, 1921.

E. H. Mortimer,
Wardman Park Hotel, Washington, D. C.

Dear Sir: I hand you herewith my demand note for \$50,000 and it is understood between us that demand for payment of same shall not be made until I have received commutation or remission of my sentence of 18 months imposed by Judge Rose and it is also further agreed that a certain transaction must be consummated in addition to the remission of sentence before payment shall be demanded or paid.

Very truly yours,

CHARLES VINCENTI.

Accepted and agreed, E. H. Mortimer.
August 13, 1921.

J. E. Dyche testified that when he was warden at Atlanta he had heard rumors in the prison that payments of \$2,000 and \$5,000 were made for paroles from the Attorney General's office. Jess Smith, it will be remembered, had told Roxy Stinson when they were in New York together that he was negotiating with Joe Weber for a pardon for his brother-in-law, and that "they" had many such applications.

Cecil H. Kerns, an Ohio bootlegger, who had been sent to Atlanta for violating the Prohibition laws, testified:

"There was one source that I heard where a pardon could be obtained absolutely if the money was paid. That was mentioned as being a Mr. Muma, a New York representative of the Cincinnati *Enquirer*."

"Tell me that again," Mr. Chamberlain, Daugherty's attorney, said.

"The name of Jap Muma was mentioned as a sure source of obtaining a pardon if I had money to pay him," Mr. Kerns said.

"You did not fall for that?" Mr. Chamberlain asked.

"I did not have the money, Senator," Kerns answered. "I think I would have taken a chance if I had had money. . . . It seemed to be an understood fact."

Kerns also testified that the name of Thomas B. Felder, as an intermediary for pardons and paroles, was "quite well known in Atlanta."

"Tell me this: Who was Jap Muma supposed to work through?" Senator Wheeler asked. "Do you know?"

"Well, yes. He was supposed to work through McLean."

"Ned McLean?"

"Yes."

"And did you understand that pardons were being signed up in Ned McLean's house?"

"I did not know any of the details of the signatures on them; no."

Cecil Kerns also testified that those who knew Dr. Johnson, a colored physician, who had been convicted in Ohio of violating the Harrison Narcotic Act, told Kerns that Dr. Johnson had been released from Atlanta "by reason of the influence of Walter Brown, of Toledo, who secured his release upon parole." "Who is Walter Brown?" Senator Wheeler asked. "Well, he is reorganizing some of the departments here in Washington now," Mr. Kerns answered. Walter F. Brown became Postmaster General in President Hoover's Cabinet later, and we shall hear of him again.

Cecil Kerns also gave testimony implicating Samuel Ungerleider, Daugherty's friend and stockbroker, with the bootlegging trade, and H. J. Burton, a Prohibition investigator also testified to that effect. After the testimony of the bootlegger Kerns, Samuel Ungerleider wrote to the Senate committee denying the connections in the liquor business attributed to him.

In answer to a question by Daugherty's attorney, Kerns said:

"Well, I never would have got to Atlanta, if I had had the money to pay."

"Remus had the money, and he went," Daugherty's attorney said.

"Yes," said Kerns, "but he was a fool. More men are in Atlanta for being fools, than being knaves."

Kerns himself had been out on parole before he testified before the Senate committee, but as soon as he had mentioned in conversation the nature of the testimony he intended to give, he was ordered returned to Atlanta Penitentiary on the grounds that new facts had been discovered in his case.

Alonzo Everett Bunch, who had been in the liquor business in the

District of Columbia for many years prior to the time when Prohibition went into effect, owned 100 cases of Haynes whisky, 5 cases of Black & Green rye, 3 cases of Haig & Haig and 3 cases of Budweiser which were at his place of business, the Colonial Wine Company. Before Daugherty took office the Department of Justice had seized Mr. Bunch's liquor, and the courts decided that the seizure had been illegal and Mr. Bunch's liquor must be returned to him. Until Daugherty and his associates came into the building, Mr. Bunch's liquor had been intact at the Department of Justice. After that he found it very difficult to learn where his liquor was. Francis M. Boucher, a clerk at the Department of Justice, testified that he "had the pleasure of stalling that man [Bunch] off for quite a long while regarding his liquor." Boucher testified that Bunch's liquor was assorted on the floor of the chief's office at the Bureau of Investigation, and that some of this liquor was delivered by Boucher and another clerk to the house in H Street occupied then by Daugherty and Jess Smith. Some of it found its way into a safe in the office of the director of the Bureau of Investigation, Boucher said. "There was always a supply of good liquor kept in the office of the Chief of the Bureau of Investigation," Boucher testified, and it was doled out to officials from the safe, he said.

Mr. Bunch testified that he had been to the Department of Justice between fifty and a hundred times concerning his liquor. "I don't know a man who is the head of an office I have not talked with in regard to this matter," he said. "It got so lately," he added, "every time I go up there they run and shut the door." He was referred by everybody to William J. Burns, who said to him, Bunch testified:

"'Look here, Bunch, I will investigate about this whisky. The whisky is gone.' I said, 'What?' He said, 'It is gone.' He said, 'You come back in a few days; I am not going to stand for this being pulled off in my office on any consideration.'"

Bunch went back again and again, but he never saw a bottle of his whisky. He wrote to President Harding, he saw Senators, and after Harding's death, he started writing to President Coolidge, and he saw C. Bascom Slemple, Coolidge's secretary; but everybody referred him back to Burns. Mrs. Duckstein told him, Bunch testified, that what he needed was "some

political influence to bear," and she gave him a note to her husband, who was "Ned" McLean's secretary. Duckstein, according to Bunch, offered to get his whisky back for him in return for half of it, but Bunch refused.

"You do not know where the whisky is now [1924], of course?" Senator Wheeler asked.

"I don't think anybody else does," Mr. Bunch answered. "I think it has all been drank up."

5

ALTHOUGH Prohibition was a great source of profit and corruption, it was not the only source for the friends of the Attorney General. There were war fraud cases, land fraud cases, antitrust cases, and the vast property in charge of the Alien Property Custodian, which yielded large sums of money to the hangers-on of the Harding administration.

One of the most interesting deals involving the Department of Justice gang and their friends was the transaction over the films of the Dempsey-Carpentier prize fight which was held at Boyle's Thirty Acres, New Jersey, on July 2, 1921. The law permitted films of a prize fight to be taken, but it prohibited their transportation in interstate commerce. F. C. Quimby, of the F. C. Quimby Film Company, had a contract with Tex Rickard, promoter of the Dempsey-Carpentier fight, to take motion pictures of the spectacle. Jess Smith went to the fight, and two days later he was in Atlantic City with Roxy Stinson. He took her to see the films of the fight twice and was very enthusiastic about them. The pictures, he told her, were better than the fight itself, and then he added that he and Daugherty would make \$180,000 out of them by arranging for their transportation from state to state.

On that same Fourth of July, when Jess Smith and Roxy Stinson were looking at the fight films in Atlantic City, "Jap" Muma, New York representative of "Ned" McLean's Cincinnati *Enquirer*, took a print of

them to Washington. "Ned" McLean was giving a party that night at which the President of the United States and Mrs. Harding were guests, as well as Secretary of State Hughes, Postmaster General New, Attorney General Daugherty, a number of Ambassadors, and many Senators and Congressmen. The fight films were shown to the guests, and they were very enthusiastic about them. After the exhibition was over, "Jap" Muma had a talk with Attorney General Daugherty, and they were joined by President Harding and Secretary Hughes, Muma told a Department of Justice agent later. Someone in the group made the remark that it was a shame that people all over the United States could not see the fight pictures, and it was recalled that the law prohibiting the transportation of fight films in interstate commerce was the result of the Jeffries-Johnson fight, when it was feared that there might be trouble in certain parts of the country from the exhibition of films showing the "humiliating spectacle of a white man beaten by a negro." Daugherty was said to have remarked that the law was only concerned with the transportation of the films and did not prevent their exhibition if they got from state to state. He suggested to "Jap" Muma that he see Daugherty's old friend from Ohio, Alfred R. Urion, who had opened a law office in the Munsey Building in Washington immediately after the inauguration of President Harding. "One of the greatest little men you ever met in your life," was said to have been the recommendation of Urion that Daugherty gave "Jap" Muma. Urion and Daugherty, it was said, had been associated together in legal work for the packing interests in Chicago before Daugherty became Attorney General. Then Daugherty suggested to "Jap" Muma: "If you put this across, you ought to get a big cut—not less than 50 per cent."

"Jap" Muma followed the advice of the Attorney General of the United States and worked out a scheme with his friend Urion for getting around a foolish law. But first "Jap" Muma, Urion, "Bill" Orr and Ike Martin, who ran an amusement park in Cincinnati, arranged with Quimby and Rickard, who owned the fight films, to give them 50 per cent of the net proceeds of the sale of the films throughout the United States.

Mr. Urion, Mr. Quimby testified, gave him the name of a lawyer in each state where the pictures were to be shown, who would manage the details by which someone would be fined as low a fine as possible for

violating the law by transporting the pictures, and then they could be shown for profit. It was also arranged that the fight pictures should be shown first free of charge before the American Legion audience, if possible, in each place, or before some World War veterans' organization; arrangements were also made to have the newspapers protest against the ban on the pictures. Quimby showed the pictures first in New York State at the disabled soldiers' hospital on Staten Island. The United States Attorney in New York was compelled to prosecute Quimby and Rickard for bringing the fight films over from New Jersey, and they were fined \$1,000 each. Then, Quimby testified, they were told by the United States Attorney to wait a few weeks before showing the pictures again in New York. Meanwhile, the newspapers printed editorials in favor of the exhibition of the fight films. The pictures were shown later and made a profit of \$75,000 in New York.

The Department of Justice agent in New York, Ralph Navarro, had obtained the arrest of Tex Rickard and F. C. Quimby, and after their arrest, Quimby complained to "Jap" Muma that they were not getting the protection they were paying for. Muma went to Washington to have the Department of Justice agents called off the fight films. He called on his boss "Ned" McLean and explained the situation to him. "Jap" Muma later told a Department of Justice agent, Holdridge, that he said to McLean: "Fine; Jap Muma, general manager of the McLean newspapers; personal friend of the Attorney General; old acquaintance of President Harding; called him 'Warren,' calls me 'Jap'; fine; on my way to Atlanta as a conspirator!"

McLean telephoned to Daugherty, and Daugherty in turn got in touch with Burns, in whose department Ralph Navarro worked as an investigator. Then McLean told "Jap" Muma to call on William J. Burns. When Muma entered Burns's office, he told Holdridge later, Burns said to him: "If you have come down here to intercede for that Rickard, there is no use in you wasting your time, for I am going to put him in Atlanta Penitentiary." "Jap" Muma said that he answered: "It isn't Tex Rickard you are trying to put into Atlanta Penitentiary, it's me—for I carried out the whole transaction." Then he told Burns the whole story and, standing up, tapped his chest and said to Burns: "Behold, the master mind!"

Muma related all this with appropriate gestures to two Department of Justice agents, Holdridge and Spellacy, at Muma's apartment on the thirteenth floor of the Ansonia Hotel in the winter of 1921 in order to impress them with his influence and importance, and one of them, Holdridge, made a memorandum of the conversation which was introduced when he testified before the Senate committee. Burns, according to Muma's account, appeared to be very much irritated and burst out with: "By God! Everyone knows everything going on around here except me." "Jap" Muma also showed the two men an autographed photograph of William J. Burns and two letters signed H. M. Daugherty and addressed, "My Dear Muma." After "Jap" Muma's complaint about the presumption of Ralph Navarro in arresting Quimby and Rickard for violating the law, Mr. Navarro was sent on an assignment to the island of Haiti, and when that was finished, to the island of Hawaii. The films, meanwhile, were transported into twenty-one states of the Union; they were exhibited and made a lot of money.

Quimby testified that Jess Smith was interested in the proceeds of the fight films through "Bill" Orr. "I knew there was some connection between Mr. Smith and Mr. Orr," Quimby told the Senate committee, and when pressed, he admitted that Orr had told him so. William A. Orr, who owned a 20 per cent interest in the fight films, denied that Jess Smith had received any part of his interest or that he represented Jess Smith in any way on that particular deal. But Jess Smith had told Roxy Stinson that he and Daugherty expected to make \$180,000 from the fight films, and Mrs. Duckstein testified that she wrote letters for Jess Smith concerning the Dempsey-Carpentier fight films "to somebody in New Jersey."

"Did you sell them here in the District of Columbia?" Senator Brookhart asked Mr. Quimby.

"No," he answered.

"You just let them use them here in the District of Columbia free of charge, didn't you?" Senator Wheeler asked.

(Witness smiles and bows his head.)

"Everything was free here, was it not?" Senator Wheeler asked.

(Witness smiles and bows his head.)

6

FREEDOM to violate the law was not the only thing men paid for in Washington during the Harding administration. They also arranged for freedom after they had violated laws under the previous administration.

Gaston B. Means testified:

"For the benefit of this committee," Senator Wheeler asked him, "state when was the first time and the first instance that you ever collected money and give the amount of that money that you collected and how it was collected and to whom it was paid and for what."

"One hundred \$1,000 bills; one hundred \$1,000 bills in connection with the Standard Aircraft cases," Means answered. "\$100,000. . . . I received it at the Bellevue Hotel?"

"The Bellevue Hotel—where?"

"In a room. A Jap delivered it to me from Mitsui & Co."

"In what city?"

"Washington."

"Who delivered it to you?" Senator Moses asked.

"A Jap from Mitsui & Co."

"Who were Mitsui & Co.?" Senator Wheeler asked.

"They were the firm that financed the Standard Aircraft case."

"Who did you give the money to?"

"Mr. Jess Smith."

"In one hundred \$1,000 bills?"

"Yes, sir."

It was in February, 1922, Means testified, that the Japanese man came into his hotel room in Washington, handed him the one hundred \$1,000 bills and went out. Then Means remained in the room at the Bellevue Hotel, where he lived with his wife and boy, until Jess Smith came for the money. Smith had previously told him that a Japanese would come with the money, and he had asked Means to receive it and to count it. Perhaps it was seventy-five of these one hundred \$1,000 bills which Roxy Stinson saw in Jess Smith's money belt when he had come from Wash-

ington to Washington Court House, Ohio, where Mal S. Daugherty was president of two banks.

"One of the specifications that the Attorney General was charged with in his impeachment proceedings was the failure to prosecute the Standard Aircraft case, was it not?" Senator Wheeler asked.

"Yes; he was charged with that. . . . It had not been prosecuted when I left there. They withdrew the case from the Department of Justice."

"Who withdrew it?"

"The War Department."

Mr. Paul Howland, Daugherty's attorney, cross-examined Gaston Means on this extraordinary scene and got more than he was looking for:

"Now, on this evening when this Japanese fellow that you had never seen knocked on your door and handed you \$100,000, in the night season, with nobody present—you alone, and the Jap alone ——"

"I was not alone," Means interrupted.

"The Jap was with you?"

"Oh, no; my wife and boy were sitting right in the room—the adjoining room."

"The adjoining room?"

"Yes; I am a great man to stay at home, unless I am working on a case, active on something."

"It was such a common occurrence for a Jap to rap on your door and hand you a hundred thousand dollars that it did not make any impression?"

"I have had men knock at my door and hand me a million and a half, which was in connection with the German investigation. I had it; I had the bonds that were convertible in my hands. I had a plant in the Belmont Hotel, when they tried to put through the deal about the submarine chasers that were being built for the Russian Government; had it irrevocably ——"

"I didn't ask you about biography," Mr. Howland remarked. "Now, let me ask you, at that time, from your relations with Jess Smith, did you, when that hundred thousand dollars was handed to you, have in the back of your head the thought that it was in connection with some illegitimate transaction?"

"No; I didn't question—I didn't allow myself to think on that subject. When Jess Smith asked me to hand the chorus girl \$5,000 that he knocked on the head with a bottle I didn't ask any questions. I found out afterwards what he did it for."

"That is purely a gratuitous remark," Mr. Howland said.

"I am saying I don't ask any questions," Mr. Means replied.

During the war, before the United States entered it, Means had worked for the German secret service in the United States. Mrs. Means once testified that at that time Mr. Means had given her as much as \$60,000 and \$70,000 to carry around in her waist, and she also said that Captain Boy-Ed and Captain von Papen were often guests at the Means home. Means himself once claimed that the German agent, Captain Karl Boy-Ed, had given him \$1,000,000 "behind a tombstone in Trinity Churchyard at midnight." Means told the Senate committee that Mitsui & Company, the paymasters for the Japanese government, were also working with the Germans in the United States during the war. Mitsui & Company owned and financed the Standard Aircraft Corporation and the Standard Aero Company through one Harry Mingle and a lawyer named Max J. Finkelstein. The Standard Aircraft Corporation, Means testified, sold models of American airplanes to the Japanese government through Mitsui & Company, and he also claimed that Japanese artists made sketches in the United States for the Germans during the war, sketches of bridges and other public works. Means said that when he was working for the German Intelligence, he was sometimes paid by Mitsui & Company.

After the war the United States government claimed that the Standard Aircraft Corporation and the Standard Aero Company, to which the government had paid \$16,461,680.15 during the war, had no records to account for \$9,948,028.42 of this money. The Standard Aero Company went into bankruptcy and the Standard Aircraft Corporation was liquidated after Mitsui & Company, it was charged, had taken out of it \$4,770,000 in quick assets as well as sums in excess of two million dollars. The report of a Department of Justice agent read: "Mitsui & Company are indirectly exercising powerful influence in this country, which extends to Congress and departments of the Government, and they have on their

pay rolls attorneys and politicians who are attempting to run roughshod over this country to whom they owe their first allegiance."

Cadwalader, Wickersham & Taft, a New York law firm, was employed by Mitsui & Company, and that firm was reported to have requested the War Department to permit the same auditors, who, it was charged, had helped to defraud the government in the Standard Aircraft case, to work on the books again. "Their request was refused," the Department of Justice investigator reported, "unless Mitsui & Company would admit its liability in the premises." The Department of Justice under Daugherty was charged with the duty of collecting \$2,267,342.75 from the Standard Aircraft Corporation, which was the sum the government was finally willing to take as a compromise of the claims. Thomas F. Lane, legal adviser to the Air Service, testified before the Senate committee that he had negotiated for this settlement with Harry Mingle, the Mitsui company's American dummy. In September, 1923, Harry Mingle was found dead in New York City; Lane testified: "Nobody knew what caused the death," and he added: "So there are two gone of the Standard Aircraft people."

After the Japanese from Mitsui & Company had brought him \$100,000 in \$1,000 bills for Jess Smith, Means testified, the Standard Aircraft case was taken out of the jurisdiction of the Department of Justice, and that department made no further effort to collect the money which was claimed by the government. Before his death Jess Smith was very uneasy, Means testified, and he wanted to know if Means had ever told anybody about the \$100,000 he got from the Japanese. Jess Smith also told him, Means said, that some progressives had been elected to the United States Senate, that the Harding crowd had been "sitting pretty until then," but that now they had to be careful. Jess Smith said that the progressive Senators were Bolsheviks.

Means testified that in his role as collector for Jess Smith, he had handed him altogether between \$225,000 and \$250,000 in cash from various sources, mainly bootlegging. Towards the end of his life, Means testified, Smith was worried because discontented bootleggers were demanding the return of \$200,000 for permits they had never received or protection which had not been successful. "On that proposition Jess told them to go to hell," Means testified, "he wasn't going to give them nothing." Means testified that the night before Jess Smith died, he had asked Means

to return some money to bootleggers in New York for him, but that Means had refused to have anything to do with the matter.

There were other aircraft fraud cases which came in for private manipulation besides the Standard Aircraft case. During the war the United States spent \$1,051,511,988 for airplanes to be manufactured in the United States and shipped to France; no American fighting plane ever reached France. Charles Evans Hughes was appointed to investigate the aircraft situation, and he issued a report which charged the motor and aircraft companies with extensive frauds against the government.

Colonel Edward A. Deeds, since then associated with Charles E. Mitchell of the National City Bank, and the large aircraft combines, became head of the equipment division of the Air Service on August 2, 1917. He was charged with using his personal business interests to profit at the expense of the government. Colonel Deeds, Justice Hughes charged in his report, had a one-fourth interest in the Dayton Metal Products Company, which was said to have owned part of the Lincoln Motor Company. The estimated profits of the Lincoln Motor Company during the war for airplanes were \$11,250,000, and it was reported that the company had been overpaid by approximately \$4,825,000. Colonel Deeds was also vice-president of the United Motors Company; after he became head of the equipment division of the Air Service in 1917, he transferred his stock in the United Motors Company to his wife's name. Justice Hughes recommended in his report that Colonel Edward A. Deeds should be tried by court-martial, but a military board finally decided against the suggestion. Instead Colonel Deeds's military associates gave him a dinner, at which Major General George O. Squier is said to have stated in a speech that if Colonel Deeds had not done irregular things the United States would not have had an air fighting force worthy of the name. As the United States under Colonel Deeds's administration had no fighting force of airplanes worthy of the name, it may be presumed that one of the reasons for that fact was that Colonel Deeds and others were doing irregular things.

In 1919, John W. Weeks, then a Republican Senator from Massachusetts, rose on the floor of the Senate and denounced the aircraft frauds of the wartime administration of President Wilson. He suggested punishment for those whom Justice Hughes in his report had found culpable,

and he denounced the War Department under President Wilson for not having punished them. "I maintain, Mr. President," said Senator Weeks, "and I have always done so, that nine-tenths of the trouble of the people of the country is lack of publicity."

When President Harding took office, John W. Weeks became Secretary of War. Not only was nothing done during his administration to punish the culpable, but nothing was done to collect the government's claims for huge overcharges under cost-plus war contracts. Daugherty, too, had made a great show of wishing to punish the guilty war contractors, and he had asked Congress to increase the statute of limitations from three years to six, so that he might have time to prosecute them. But he never found the time.

On June 17, 1921, a few months after John W. Weeks became Secretary of War, Charles Hayden, of Hayden, Stone & Company, Boston stockbrokers, wrote a letter to the Secretary, which began, "My dear John," and which read in part:

Ordinarily I would hate to bring these matters to your personal attention, but the way the general situation has been developing in the last six months it seems to me that everything that can be done by co-operation between bankers and the Government to inspire confidence in a legitimate way should be done, and that is why I feel a perfectly clear conscience in giving you this little additional bother.

The little additional bother was the matter of a claim that the Wright-Martin Aircraft company, of which Charles Hayden was a director, had received \$5,267,467.75 more than it was entitled to during the war in payment for Hispano-Suiza airplane motors. Mr. Weeks, who had also been a stockbroker in Boston, wrote his friend Hayden on June 22, 1922:

My Dear Hayden: In view of the steps that have already been taken, I am convinced that the proper procedure is for the company to come in before the Air Service section and make their showing.

Whatever decision may be reached by the Air Service section you should understand is not conclusive. Not only is the approval of a higher officer required, but even if that approval is obtained, there is a further appeal to myself.

This note must have reassured Mr. Hayden that co-operation between bankers and the government of President Harding was going to inspire confidence.

The government claimed that the Wright-Martin company under its cost-plus contract had been guilty of many exorbitant payments and had made profits of 270 per cent. After the war was over, tools and processes which had cost the government \$792,865.03 were sold to the Wright-Martin company for \$24,392.37, and special tools and patterns for which the government had paid more than \$1,000,000 were sold to the company for \$10,642.64. Secret service men hired by the company for the government, though it had not been authorized to do so, were paid huge salaries, one man who had previously been a secret service man in the Treasury Department at a salary of \$4,220 a year, getting from the government through the Wright-Martin company about \$39,000 a year and a guaranty of \$25,000 in case the war stopped before his services were terminated. The Wright-Martin company put in large bills for laundry and for tips, and charged the government \$4,294.96 for executive meetings which were never attended; bills for \$995.29 were put in for cigars, and one was added for \$3.25 for a box of cigars for G. H. Houston, president of the company. Dinners for the company's officials cost the government \$848.78.

The Department of Justice at the request of Secretary of War Weeks delayed prosecution of the Wright-Martin case, and then shifted the supervision of it from one attorney in the department to another in order to delay bringing the company to trial. When Congressman Keller's impeachment charges against Daugherty, which included laxity in the Wright-Martin case, were presented to the House of Representatives, there was alleged to be a gentleman's agreement between the Department of Justice and the other side that action would be taken in the case. But after the impeachment charges were quashed, no further action was taken on the case. Harry Daugherty owned 500 shares of stock in the Wright-Martin company in 1920, and in 1921 he owned 2,500 shares of stock in that company, according to his tax reports.

There were war fraud cases against other large corporations which Harry Daugherty never found time to prosecute. The du Pont powder plant case was one of these, and John W. H. Crim, Daugherty's first as-

sistant, tried repeatedly to get action on it, but found it impossible to accomplish and finally resigned. Among other charges against the du Pont company was that during the wartime influenza epidemic, it charged the government \$75 for each corpse buried at the Old Hickory Powder Plant near Nashville, Tennessee, and that the bodies were "wrapped in muslin, and were sold to the Potter's field at \$11 per body," according to George W. Storck, who investigated the case. Storck testified that his confidential report on the government's case against the Old Hickory Powder Company was shown to the du Pont lawyers in advance, so that they might know how to answer it. According to Cecil Kerns, bootlegger, Jess Smith was partner in a deal by which grain alcohol was removed from the Old Hickory Powder plant during Prohibition as industrial alcohol for 30 cents a gallon and resold by Jess Smith's partners for \$10 a gallon.

Gaston Means told the Senate committee and Mr. Howland, Daugherty's lawyer:

"Mr. Howland, I never knew a case in the United States Government that concerned corporations of vast wealth and influence that they did not have to reaudit, take it up with another set of lawyers, switch those lawyers over, and switch those lawyers over. . . . And I never knew a case in the Department of Justice where it concerned some weak corporations, financially, and without influence, that it was not slapped before the courts."

"That has always been so, hasn't it?" Mr. Howland asked.

"Always been so," Means said.

"And you think it always will, don't you?"

"Oh, no. I am a great believer that there is a great God in heaven. It will come around. It takes years to bring about the millennium."

The United Gas Improvement Company, a large public utility corporation, was under indictment for molesting its competitors by starting prosecutions against them, having them arrested falsely and charging them falsely with counterfeiting trade-marks; it was also charged with acquiring control of competing companies secretly, and of making collusive bids for street lighting contracts by having two or more companies which it owned bid against each other, representing them to be inde-

pendent. A New York grand jury had returned criminal and civil indictments against the U. G. I., and also a bill was filed calling for the dissolution of its monopoly. The officials of the U. G. I. then got busy and saw Daugherty. R. Colton Lewis, who had charge of the case against the U. G. I. for the Department of Justice, was removed from it and Daugherty appointed a personal friend of his from Columbus, Ohio, Harry F. West, to "make special investigations." West told Lewis: "Put yourself in the Attorney General's position. He has indicted these people, and he finds now that they were friends, and contributed to the campaign which he had charge of." Lewis tried to see Daugherty about the U. G. I. case, but was not successful. "The Attorney General was a hard man to see," he told the Senate committee. But the representatives of the U. G. I. monopoly did not have the same difficulty as an assistant attorney of the United States. They were coming constantly to the Department of Justice for conferences with Daugherty. Francis S. Hutchins, Daugherty's friend, and an attorney of the firm of Baldwin, Hutchins & Todd, wrote to Daugherty:

New York, April 24, 1922.

Re Randal Morgan, Samuel Bodine, United Gas Improvement Co.

Hon. H. M. Daugherty

Department of Justice, Washington, D. C.

My Dear Harry: I am wondering if you could not with propriety now give out a statement along the lines of your suggestion Saturday, somewhat as follows:

"In the matter of the so-called 'gas mantle indictment,' new facts have been brought to my attention which would seem to indicate the possibility that certain defendants have been improperly included. I have, therefore, directed that a further searching investigation of all the facts be made by the department, and, pending such investigation, I have ordered that all proceedings both in the criminal and civil actions, be suspended."

Such a statement seems extremely desirable:

First, because it would seem to be plain justice to men who are riding under the stigma of an unjust indictment.

Second, because it would assist the company in getting decent men to serve on its directorate at the coming stockholders' meeting.

Third, to warn off the blackmailers and bloodsuckers who are now attempting to approach us.

I feel strongly that anything you can consistently do along these lines will further the ends of justice.

Yours very sincerely,

FRANCIS S. HUTCHINS.

Daugherty ordered both criminal and civil actions against the directors of the U. G. I., some of whom had been contributors to his Harding campaign fund, and against the company, which was powerful politically and financially, suspended. The "further searching investigation" which Mr. Hutchins mentioned in the convenient draft which he wrote for his friend Harry to give out to the press, was conducted along the lines of the regular Daugherty plan, namely, those who had complained against the U. G. I. were investigated, and not the company itself. Burns's sleuths were put on the trail of Mr. Ragland Momand, street lighting contractor, who had been instrumental in obtaining the indictments against the U. G. I. monopoly.

Mr. Momand had been writing letters; he wrote to President Harding, telling him that the action of his friend and Attorney General in halting prosecution "of this band of big criminals" on the grounds of insufficient evidence of guilt "was a fraudulent attempt to deceive the people of the United States" and permit "the escape of these big criminals from the toils of the law in which they now find themselves enmeshed as the result of their flagrant criminal practices the past 25 years, during which time they have by these criminal practices robbed the people of millions of dollars." He called on Harding to remove Daugherty, "who has proved false to the people." But so many people and newspapers had been calling on Harding to remove Daugherty that by this time he was used to it. To his letters to Harding, Mr. Momand received no reply. Then he published his letters to Harding in the New York newspapers.

Congressman Keller and Mr. Momand called at Daugherty's office but were unable to see the Attorney General; at the suggestion of Daugherty they were having a conference with Daugherty's friend Harry F. West, who was supposed to be making the "further searching investigation" of the U. G. I. case, when William J. Burns entered the room. "He

walked past us through the room and over to the window and gave Mr. Keller and me, as we say, the 'once over,'” Mr. Momand testified, “evidently wanted to identify us. . . . For the next two or three days,” he added, “Mr. Burns personally was at our heels while we were in Washington here; we could hardly turn around but we would see Mr. Burns.” Daugherty was up to his old tricks: trying to get something about the prosecutors of his friends which would warrant prosecuting them. In his announcement to the press of the appointment of his friend, Harry F. West, to make a thorough investigation, he wrote: “It may be necessary for him to investigate the investigators.”

During the administration of the Department of Justice by Harry Daugherty monopoly had a picnic and restraint of trade ran riot. Price fixing by large associations of corporations was prevalent throughout the country, and the Department of Justice was negligent about enforcing all laws against such practices. For instance, the large tobacco companies in the United States were fixing the price of their product to the consumer, and at the same time two buying combinations practically fixed the price of leaf tobacco to themselves by buying secretly through other firms in order to keep the price to the farmers low. The Federal Trade Commission wrote to Attorney General Daugherty recommending prosecutions of the tobacco monopoly, and the Attorney General did not reply to its letters. Huston Thompson, chairman of the Federal Trade Commission, testified before the Senate committee that after receiving no replies to letters, the Federal Trade Commission came to the conclusion that it was useless to send reports and requests for legal action to the Attorney General's office. Finally, after Congressman Keller had charged in his impeachment proceedings that Daugherty paid no attention to the Federal Trade Commission's recommendations, Daugherty wrote at last to the chairman of the Commission suggesting a conference with his assistant, A. T. Seymour, on the tobacco cases. But even then he took no action to prosecute the tobacco monopoly.

The Federal Trade Commission had also issued reports on the lumber monopolies throughout the country, who had financed a “Buy Your Own Home” campaign by hiring teachers, clergymen and writers to spread that propaganda, and then, by controlling the price of lumber had made the process of buying your own home much more expensive.

In the lumber cases two of Daugherty's friends from Columbus, Ohio, had come to Washington, enjoyed a friendly chat with Harry Daugherty, and thereafter nothing more was done about the lumber cases at the Department of Justice. The Federal Trade Commission had also made a study of the high cost of farm implements and had called attention to the price-fixing activities of the Harvester Trust, and the refusal of combinations in the farm implement industry to sell to farmers' co-operatives, in an effort on the part of the monopolies to break up the farmers' co-operative movement. Nothing was done about prosecution by Harry Daugherty's Department of Justice.

"My idea," Huston Thompson told the Senate committee, "is that criminal prosecution and jail sentences is the only thing that will cure the state of mind that now exists in the business world with regard to trade associations." Fines for violation of the laws against unfair practices were merely charged up to profit and loss by the monopolies, and they went right on violating the law. But Daugherty never could see the point of putting potential campaign contributors and possible clients into jail.

Daugherty's attorney, former Senator George E. Chamberlain, told the committee that his client had prosecuted monopolies, and he gave as the only instance the prosecution of some men who had been trying to establish a monopoly of perforated music rolls in the United States. Daugherty had made the United States a comfortable place for those who had player pianos, but those who smoked cigarettes, built their own homes, or were served by public utility corporations and railroads were not as carefully protected by the Department of Justice. In some instances, Daugherty's administration interfered in the effort to make monopoly surer and safer.

There was, for instance, the case of the New York, New Haven & Hartford Railroad, which was trying to control the Boston & Maine Railroad and enjoy a complete monopoly of New England transportation. The New York, New Haven & Hartford had controlled the Boston & Maine, but in the course of years the New York bankers had debauched the railroads, with great profit to themselves and ruin to the small New England stockholders. Finally, the courts ordered that the Boston & Maine be divorced from the New York, New Haven & Hartford. A long fight then began on the part of the New York bankers to regain control of New England's railroads; Boston financiers and railroad men wished to

develop the freight possibilities of the Boston & Maine, which served northern New England, by merging it with either the Grand Trunk-Chicago, Milwaukee & St. Paul system or the New York Central system, and thus gaining outlets directly from Boston to the West. The officers of the New York, New Haven & Hartford were eager to prevent such a move, and so were the officers of the Pennsylvania Railroad, which owned large blocks of stock in the New Haven.

During the administration of President Wilson the bankers had found it impossible to do anything about having the divorce decree of the New Haven and the Boston & Maine rescinded, though they took the matter up with two of Wilson's Attorneys General, McReynolds and Gregory. But when Harding became President and Daugherty Attorney General, the hopes of the bankers rose. An application was made for the dissolution of the decree divorcing the two railroads, and though the minority stockholders were vigilant, Daugherty gave them little chance to protest. He went to Boston in December, 1921, in the company of R. E. McCarty, general manager of the Pennsylvania Railroad lines. Mr. McCarty, according to Senator Wheeler, had often loaned Daugherty and Jess Smith his private railroad car.

A few days before he left Washington for Boston, Daugherty issued a statement to the press that he intended making a trip to Boston to look into the matter of the two railroads; no official notice of any hearing was given to the stockholders of the Boston & Maine. Daugherty then appeared at the Hotel Touraine in Boston for a public hearing on the case. At this meeting he spoke in generalities of the government and the railroads. He told those stockholders and officials who had been able to learn of the meeting: "Now, on the general proposition as to the necessity of maintaining transportation facilities, I have acquired in a period of some years of experience, sufficient information to know positively that a community can not get along without transportation facilities." Then Mr. Daugherty called on the most interested party present, Mr. Edward G. Buckland, vice-president of the New York, New Haven & Hartford Railroad, to give his views on whether or no the two railroads were competitive. It was charged by the representative of the minority stockholders of the Boston & Maine that the New Haven "had gone through the back door of the Department of Justice and gotten Mr. Daugherty to come

down and open this hearing." The officials of the Massachusetts Public Service Commission pointed out to Daugherty that they had not had sufficient time before this hasty public hearing to study the competitive features of the two railroads and would prefer to discuss the matter at a later date. Mr. Buckland made a general speech on why the decree should be modified and his railroad permitted to reunite with the Boston & Maine. Mr. Conrad W. Crooker, counsel for the minority stockholders, then told Daugherty that the courts and the Interstate Commerce Commission had already closed the matter by their decisions against the combination of the two railroads.

Daugherty then went to New York, where he held a private conference with Federal Judge Julius Mayer, who had to decide whether directors of the New Haven should be permitted to climb on to the board of the Boston & Maine. Daugherty was representing the interests of the United States in the matter, for the government was a creditor of the two railroads, holding \$83,000,000 of loans to the New Haven and \$46,775,000 to the Boston & Maine.

In New York Daugherty also held private conferences with the New York, New Haven & Hartford Railroad officials. It was suggested to the board of directors of the New Haven that R. G. Hutchins, Jr. would be a suitable person to become a member of its board. Mr. Hutchins was a brother of Mr. Francis Hutchins, the lawyer who had written to his friend Harry enclosing a draft statement to be given to the press by the Attorney General in the United Gas Improvement case. Mr. R. G. Hutchins, Jr. was a member of the banking firm of Hallgarten & Company, which had close relations with Kuhn, Loeb & Company, the financiers and advisers of the Pennsylvania Railroad, which was the largest individual stockholder in the New Haven Railroad. Mr. Hutchins had grown up in Columbus, Ohio, with Harry Daugherty. Mr. August P. Loring told the meeting of the board of directors of the New York, New Haven & Hartford Railroad: "Mr. R. G. Hutchins is the junior member of the firm of Hallgarten & Co., Pine Street, New York. He is the financial adviser of the Attorney General of the United States." Senator Wheeler remarked: "The only surprising thing to me is that Jess Smith and Howard Mannington were not put on the board of the New Haven Railroad."

Mr. Hutchins's close connections with both the Attorney General of the

United States and with Kuhn, Loeb & Company were considered to be useful to the New Haven Railroad in another matter besides the control of the Boston & Maine by the New Haven. French bondholders held a large loan of the New Haven Railroad, and they had been threatening to foreclose. At the time the French government owed huge sums of money to the United States government in war debts. It was represented to the New Haven directors, according to the testimony of Mr. Conrad W. Crooker, that the Attorney General of the United States could force the French bondholders not to foreclose their loan because of the French government's war debts to the American government. Mr. Hutchins was also considered useful in getting the French bondholders to wait for their money because of his influence with J. P. Morgan & Company and Kuhn, Loeb & Company.

But Mr. Hutchins was said to have performed still another valuable service for the New Haven directors. It was testified that Attorney General Daugherty sent his friend Hutchins to see Mr. Smith, the president of the New York Central Railroad, which was also trying to get control of the Boston & Maine, with the message that the New York Central Railroad would be prosecuted under the Sherman Anti-Trust Act, if it "did not keep out of New England." As soon as Mr. Smith received this information, he dropped all negotiations he had been carrying on with Mr. Philip Dexter, Mr. Gordon Abbott and Mr. Guy Currier for the New York Central to take over the Boston & Maine.

Judge Julius Mayer, with whom Daugherty had had a private conference in New York, signed a decree permitting directors of the New Haven to go on the board of the Boston & Maine. The minority stockholders of the Boston & Maine were not represented at the private conference between Daugherty and Judge Mayer. A public hearing was held in court, at which Attorney General Daugherty made a speech:

"You are able to distinguish between a speech and a legal argument, are you not?" Mr. Howland asked Mr. Crooker.

"Yes," Mr. Crooker replied, "and this was a speech. There is no question about it."

"Did you ever hear Mr. Daugherty make a legal argument?" Senator Wheeler asked.

"I never did," Mr. Crooker answered. "I do not think he is capable of it. My own personal opinion is that he is the biggest false alarm that ever sat in the Department of Justice."

Although Judge Mayer ruled that the directors of the New Haven might sit on the board of the Boston & Maine, it was another matter to get them there, for the stockholders of the Boston & Maine by an overwhelming vote declined to accept the New Haven directors on their board. Then the New Haven crowd tried through Daugherty to force some Boston & Maine directors to resign and give their places to New Haven directors. This, too, proved unsuccessful, for the Boston & Maine directors refused to resign. At the annual meeting of the Boston & Maine Railroad in January, 1923, an attempt was made to elect five New Haven directors, but they were defeated again. Then the entire decree of divorce of the two railroads was vacated by Judge Mayer in June, 1923, after Daugherty's plea in favor of that action, and the situation which the Interstate Commerce Commission and the courts had tried to remedy in 1914 was created again. At the meeting of the Boston & Maine Railroad in April, 1924, the New Haven crowd finally succeeded in forcing their directors on the board. When Mr. Paul Howland was cross-examining Conrad W. Crooker, representing the Boston & Maine Stockholders' Protective Association, which controlled about 100,000 of the 800,000 shares of the railroad, Crooker turned on Daugherty's attorney and said:

"Any blame that attaches to your client is because he reversed a well-settled policy of the Department of Justice for seven years and turned these people loose on us again after they had damaged the Boston & Maine stockholders more than \$100,000,000, as found, not by me, but by the Interstate Commerce Commission. If you can make anything of that go to it."

IN THE spring of 1923 Daugherty and his friends had cause for worry. Businessmen were complaining about the lack of activity of the Department of Justice in behalf of men of small means; bootleggers were complaining that they had not received liquor permits for which they had paid; and Congressmen and governmental departments were complaining that they could get neither action nor information from the Department of Justice. Daugherty himself had become very ill early in 1923; Jess Smith was suffering from diabetes and fear; even President Harding, prince of good fellows, seemed to have a dim realization that all was not right in his political family. Fall's private leases to public property were being investigated; Colonel Forbes had been caught red-handed selling government property and government contracts; Lasker's attempt to put over a large ship subsidy had failed; and criticisms of Daugherty's administration continued to pour about the President's head.

Roxy Stinson testified that during the last months of Jess Smith's life, he and Harry Daugherty were not getting on so well as previously. Daugherty's illness, she said, had made him irritable, and Jess Smith was very depressed at the way his old friend sometimes talked to him:

"And one thing which impressed Jess so much," Miss Stinson told the committee, "was his courteousness to him always. For instance, if he wanted him to do anything he wouldn't say, 'Do that.' He would say, 'Would you like to do this for me?' or 'Would you mind doing that?' or he would wire him at home, 'I am awfully lonesome without you. Will be so glad when you come back. Will you be back Monday?' He wouldn't say, 'Come back.' Jess wouldn't have gone then. I don't want to give you the impression that Jess Smith was namby-pamby or didn't have any backbone or intellect of his own, for he was a very bright man, and it is only through his loyalty and devotion to this man that he was enmeshed. I reiterate, I want you to get this impression; I want you to believe, know it is true."

Jess Smith visited Roxy Stinson the last two weeks before his death, and she testified that on this trip, he was in mortal terror:

"The man was afraid," she said. "He was afraid. . . . He indicated it at various times. For instance, we were at the Deschler Hotel for lunch or dinner, and we would be sitting at the table at dinner, and he would say to me, 'See that man over there? How does he look to you?' 'Oh,' I would say, 'he is all right.' He would say, 'I don't like his looks.' I would say, 'Don't look at him. He is all right. He is just a traveling man.'

"Or we would be sitting out in the lobby of the hotel, or out in the foyer, and we would be sitting in two chairs, just like this (illustrating), and he would say, 'Don't let us sit here, let us sit over there; let us go over,' and it would be on a lounge with our back to the wall.

"And the last time he came home, the last two weeks home, he was home for two weeks, as I stated before. I came to Columbus, and the driver was to come and take us back later in the afternoon, and he grabbed me there in the hotel, in the Deschler, and he threw his arms around me, and he said, 'I never was so glad to see anyone in my life.' He seemed to have forgotten that he was doing something that was more or less embarrassing—it wasn't; it was sweet, and he meant it, just in his direct manner, and he said, 'I never was so glad to see anyone in my life.'"

On that occasion, Roxy Stinson had made plans for them to go together to a dinner dance, but Jess Smith asked her to do him a favor and go home. He said, she testified, "Let's go home before dark." And instead of waiting for the automobile that was to return for them, they took the train. In the train, while Roxy Stinson was telling him about the house she was building, Jess Smith became suspicious of a man asleep in the chair opposite theirs. "Don't talk so loud," he said, "he will hear you." After she told him that she was not saying anything of any consequence, he said: "I don't like the looks of that fellow." "I said, 'Oh, stop looking at him.' Directly this man had got up and gone out, I said, 'Oh, he is just tubercular,' I said, 'he is all right.' And all this time I had this brief [case] with these important papers in my lap all the time. He said, 'Carry them; I don't want to carry them.' . . . His brief case that he was bringing home from Washington on this trip." Miss Stinson said that she did not know what papers this brief case contained.

When they got off the train and into a taxi, Roxy Stinson said, Jess Smith kept looking back, and she told him not to do that. He answered

that he just wanted to see if that fellow got off the train when they did: "I said, 'Don't you do that again,' and he said, 'All right,' and kind of smiled, and looked up a little bit assured, and the man didn't get off the train."

"Who did he say he was afraid of?" Senator Wheeler asked.

"He said, 'They are going to get me.' . . . He said, 'They are going to get me.' I said, 'No; they won't.' And he said, 'They passed it to me.'"

"They what?"

"'They passed it to me.' And I knew what he meant. I didn't ask. At least I assumed—presumed, if you will. And he was in mortal fear. And I said, 'Oh, don't. You are all right. You are all right.' He would always pacify me if I had troubles, imaginary or otherwise, and I tried to do the same thing for him. . . . Well, what I understood that he meant, that he had been passed the blame. That was my interpretation. Now that is purely my own, you understand. That is my interpretation. And I think that he figured—I am sure, because he indicated he had his house absolutely in order. He asked me to destroy the papers."

"What papers?" Senator Brookhart asked.

"Any papers I might have relative or letters, or anything relative to any situation, and I have many more of them, maybe of consequence or not; as I said before, I don't know. But he had his house absolutely in order. . . . I saw no bank books, no receipts, no checks; everything had been destroyed. Just as he made the request which he asked me to do the next day, he said, on Sunday, 'Will you tomorrow afternoon destroy all these things?'"

"And you did?" Senator Jones asked.

"No; because I felt very badly, and I went out in the country and spent the afternoon with my mother."

"You never destroyed any of his papers, then, did you?" Senator Jones asked.

"No," Miss Stinson replied. "I never had any of his papers. He was talking about mine."

"He was referring to his letters and things like that?"

"Yes. I didn't get around to it. The reason I didn't—if you could only understand the great stress we were under there. I said, 'Tell me all about it, Jess. I know so much.' 'No, no, no,' he said, 'just cheer me up.

Just cheer me up.' It was pitiful. And he would say, 'Do you miss me when I am gone?'—and he knew what he was going to do."

"You said he walked down the middle of the street?"

"Yes; at night. He asked different people if they wouldn't stay all night with him. He was afraid. He asked Mr. Mal Daugherty if he knew of some one he could get there to stay all night. Mr. Daugherty has told me that himself. No one stayed with him; he was alone. If he would leave my house at 10 or 11 o'clock, whatever the time he would leave, he would go to Harry Daugherty's house, and Mrs. Daugherty was ill, and Mr. Daugherty was up, and he would go in there and stay with him as long as he would stay up, until 1 or 2 o'clock, and then he would go over to his home. . . . If he had broken down and told me, I am sure I could have helped the situation, because I could have braced him up, I know."

"Madam," Senator Ashurst asked, "you say he was afraid. Do you mean he was afraid of an exposé?"

"Yes. . . . Or the ultimate results."

"Results flowing from an exposé of these deals?"

"Yes. He was a proud man. He had a right to be so."

"Well," Senator Jones said, "his actions did indicate, in some respects, too, that he was afraid he would be shot or killed?"

"Yes, sir. He was afraid of that for me. . . . I told you that the last evening he told me not to go out after dark. He made me promise not to go out after dark by myself; never, never to drive alone. That is the last thing he said to me." . . .

"Let me ask you one more question. Did he ever indicate to you that he feared Mr. Daugherty?" Senator Jones asked.

"Yes; he feared Mr. Daugherty."

"Well, what did he say about that? What did he say that indicated that?"

"Do you want me to tell about that incident at the shack on Friday afternoon, Senator Wheeler?" Miss Stinson asked.

"Yes; go ahead and tell them all."

Miss Stinson said that one week before Jess Smith was killed, he and Daugherty went out to the shack which they owned near Washington Court House:

"Yet I find that that afternoon," Miss Stinson continued,—“Mr. Harry Daugherty always had the habit of taking a nap after lunch, and this was about 1 or 1.30—I don't know which—you can corroborate my story if you wish—I got it second hand, yes, from Mr. Daugherty and from one other who was present there that day—Mr. Mal Daugherty I mean—he was taking a nap, and there was a gentleman came from Columbus down and wanted a consultation, or rather wanted an appointment with Mr. Daugherty; and Jess, as I have said before, he was his bumper, and he would arrange this or that for him, and he said, ‘He is asleep and can't be disturbed.’ And he was so persistent and insistent, and he was an old friend of Jess's too, and Mr. Daugherty's—he is from a near-by town, a gentleman I know—and so he insisted, and so Jess finally went upstairs to Harry's room and aroused him and told him this man wanted to see him, and Harry immediately flew off and abused Jess unmercifully for arousing him from his sleep. He said, ‘You know I won't be disturbed,’ and he swore at him, and he talked to him disgracefully, and he got up and put his clothes on and started to leave, got his driver and his car, and Jess didn't have a car there, and he was going to leave Jess there at the shack by himself. The people had gone at that time. He was mad, and was going to leave him there by himself, and so Jess called up Mr. Mal Daugherty, asking his son Ellis to call for him, and he said he would as soon as—he couldn't leave the bank until 3 o'clock, and he called him up two or three times, and finally Mr. Daugherty waited and took Jess at the crossroad leaving for Columbus, and he was so mad, and he took him to Washington Court House, and Jess got out of the Daugherty car and walked right to the hardware store and got a gun, saying, ‘This is for the Attorney General.’ He had made his decision. Harry had been so unkind to him after he had shifted his responsibility to him that he had made his decision what he was going to do, and that is why he could hold his head up and walk down the street and come to me his old self, and I said, ‘Are things all right?’ And he said, ‘Yes.’ And that is the first time in months that he would walk straight and carry his head up. Yet he was making all this preparation.” . . .

“Now, who told you about this buying of the gun?” Senator Wheeler asked.

“No one has told me that directly, but it is generally current there in town that he went to this hardware store—I am sure you could verify it—and bought this gun, and just casually remarked that he was buying it

for the Attorney General, I suppose, to give people a reason why he would buy it, you know, like anybody would be apt to do."

"He told you about this trouble with the Attorney General, did he?"

"Yes; he told me about this trouble with the Attorney General." . . .

"Had Jess Smith ever used a gun, or ever owned a gun in his lifetime?" Senator Wheeler asked.

"He wouldn't look at one, much less touch one."

"He was actually afraid of a gun, was he not?"

"He had a natural horror of a gun. I know it hadn't been later than last fall that we were going by a window where they had guns on display, and I stopped a moment, and he said, 'Oh, come on, I wouldn't stop to look at the window.' He might have been wanting to go on for something else, but I know his natural abhorrence of guns. After the war there was a lot of banditry going on in the neighborhood, and I wanted to get a gun, but he wouldn't permit me to have a gun."

In answer to Senator Brookhart's questions, Roxy Stinson testified that she was convinced that Jess Smith had committed suicide. "However," she added, "I also consider Harry Daugherty as morally responsible for the death of Jess Smith." She said that she had seen the body at Washington Court House, where it was brought for the funeral, and that she was told that the bullet had entered the left temple and come out the other side. There was a great bruise on Jess Smith's left temple, "which they said was caused by his falling into this waste-paper basket." Daugherty did not go to the funeral, Roxy Stinson testified.

In the book which he published, Daugherty gave the impression that Jess Smith had become affected by his appendicitis operation and his suffering from diabetes. He also wrote that Jess Smith was greatly disappointed and depressed because President Harding had refused to permit him to join the President's party for the expedition to Alaska which took place two months after Jess Smith's death. Daugherty also wrote that Jess Smith had been "acting 'queer.'" "After his death," Daugherty remarked, "I learned that while in Ohio he had bought a pistol—a thing I had never known him to own before." When they came back to Washington together from Washington Court House on their last trip, Daugherty wrote that he went to stay at the White House and asked his secretary, Warren F. Martin, to spend the night in the apartment at the Wardman Park Hotel

with Jess Smith, "as I was uneasy about his condition." "On the morning of the 30th," wrote Daugherty, "shortly after breakfast, the President and Dr. Boone came to my room in the White House and told me of the suicide. The President was greatly shocked."

When he got to the Wardman Park Hotel, Daugherty wrote, he found that Jess Smith had destroyed all of Daugherty's household accounts and personal correspondence. "In fact there was hardly anything left pertaining to my personal affairs." "I was afterwards informed," Daugherty wrote, "that Mr. Crim, Assistant Attorney General, had said that he obtained evidence that Smith had been mixed up in questionable deals, confronted him with the truth and informed him that I would be made acquainted with the facts. And that this was but a few days before Smith committed suicide."

Smith's mother, Daugherty wrote, had also suffered from diabetes and had died of it. Jess was reported to have remarked at the time that "if he ever had diabetes there would be a shorter way out for him."

"This insidious disease," wrote Harry Daugherty, "plays sad tricks with the human brain. It has caused loss of memory. It has produced homicidal impulses. It has made suicides. It has broken down the moral fiber of character.

"I shall always remember my friend before his illness when he was himself, kindly, helpful, loyal, generous."

Whether Jess Smith committed suicide, or whether he was murdered, will probably never be definitely established. There is evidence that he feared cheated bootleggers and suspected that strangers were following him and lying in wait for him, and there is also evidence that he was depressed enough and worried enough about the consequences likely to come from his acts to make him commit suicide; and then when Harry Daugherty began to get irritable with him, his whole fragile world seemed to go to pieces. He was proud, sensitive and disreputable; obviously he had been threatened, if we can judge from his actions as described by Roxy Stinson. In any case, his death was a great convenience to his beloved friend, Harry Daugherty, who was able to maintain that his "kindly, helpful, loyal, generous" friend, whose memory as such he would always cherish, "had been mixed up in questionable deals," without the knowledge of his friend and roommate, the Attorney General. Also, Daugherty no

longer had to worry what a man whose moral fiber had been broken down by diabetes might do or say about bootleg deals and sales of influence.

Jess Smith would have been an interesting witness before the Senate committee which began its hearings less than a year after his death, except that he probably would have been able to maintain that anything he might say would tend to incriminate or degrade him. An effort was made by the Senate investigators to examine the books of the Midland Bank, of Washington Court House, Ohio, and the Commercial Bank of that town. Mal S. Daugherty, the Attorney General's brother, was president of both those banks. Mal Daugherty denied examiners access to the accounts in the banks on the grounds that any examination would violate the sacred trust put in the bank by its depositors. But before the books were closed to them, investigators for the Senate committee had noticed deposit slips in the name of Harry M. Daugherty. "The most striking thing to me," the committee's examiner, Mr. Phelon, testified, "was the very large certificates of deposit, as I mentioned. I have here four certificates of deposit which aggregate over \$100,000."

"And your recollection is that about \$74,000 of that was in the name of Harry M. Daugherty?" Senator Wheeler asked.

"As I recall," Mr. Phelon replied.

He also noticed a certificate of deposit slip in the name of Jess Smith for \$63,000 marked "Liberty bonds" and also a certificate of deposit in the name of Mal S. Daugherty for \$50,000 marked "Liberty bonds." A total of about \$20,000 was deposited in the Daugherty Midland Bank in the name of J. E. Grey. Some of these certificates of deposit in the name of J. E. Grey were endorsed by Harry M. Daugherty. The mayor of Washington Court House, Rell G. Allen, testified before the Senate committee that, though he had lived in Washington Court House since 1887, he had never heard of a resident of the small town by the name of J. E. Grey. Also, none of the other residents of Washington Court House deposited so much money in the banks as the Daughertys and Jess Smith. The deposit slips of other depositors were seldom higher than \$400, John L. Phelon testified. The cashier of the Commercial Bank of Washington Court House also testified that for Washington Court House a deposit of

\$10,000 was very large indeed and that one of \$30,000 or \$40,000 was most unusual. Senator Brookhart remarked:

“The tax returns of Mr. Daugherty show that he had no property; he was in debt more than he was worth when he became Attorney General. The evidence again shows that we found in his brother’s bank live certificates of deposit to him of nearly \$75,000, which would be accumulated within these two or three years, on a \$12,000 salary. The Wright-Martin aircraft stock is a circumstance that certainly needs explanation. . . .

“The refusal to let us see those bank records is exceedingly presumptuous against innocence in these matters.”

Senator Brookhart also told the committee:

“Now, in the first place, this criminal organization of Jess Smith’s in Mr. Daugherty’s household is established by the evidence in this case; it is established by direct and circumstantial evidence stronger than I have heard of any conspiracy in any court anywhere, and I have heard and convicted men of conspiracies myself as a prosecuting attorney. Jess Smith profited in a way that is not explained, except on the theory of this criminal traffic. His estate shows it; his manner of living and everything shows it; and he was living with Daugherty as a member of his household.”

In *The Inside Story of the Harding Tragedy*, Daugherty wrote: “I was never subpoenaed before the committee and never attended a session.” In June, 1924, the committee requested Harry Daugherty’s appearance before it. He declined to be a witness on the grounds that the committee had not laid a groundwork for an investigation of his administration by calling his assistants who knew the details of the work of his department. He also stated that the committee had not confined its activities to investigation of his official conduct, but had made personal attacks on him. He questioned the authority of the Senate committee to compel his appearance and offered in support of this contention the recent decision of Judge Cochran in the case of his brother, Mal S. Daugherty, who had refused to answer a subpoena of the committee and had fought its authority in the courts.

In his book Daugherty called the members of the committee "Reds," its witnesses "a procession of perjurers," and its testimony "a mass of insinuations, innuendoes, vicious gossip and shameless lies." Of Roxy Stinson, whom he called "the Prima Donna of Wheeler's play," he wrote: "This unfortunate woman had become my bitter enemy because I had refused to allow Smith to bring her to Washington while he was in charge of my house. The moment the Wheeler Committee began its attack on me, she saw an opportunity to get her revenge." Of Senator Wheeler, whom Daugherty called contemptuously, "the little lawyer from Butte," he wrote: "In the little borough of Montana, masquerading as a state, boasting two United States Senators who represent a population about the size of a county in Ohio, there suddenly appeared a District Attorney appointed under Wilson, as a candidate for the Senate. On his banners he had inscribed the slogan: 'I'll get Daugherty.'"

Soon after the Senate had passed a resolution calling for an investigation of Daugherty's administration, the Department of Justice under Daugherty began to investigate the two Senators from Montana, the "little borough . . . masquerading as a state." Burns's sleuths were sent out to Montana to get what they could about Wheeler and Walsh, and friends of Wheeler's were visited with suggestions that they do what they could "to pull Wheeler off Daugherty," according to testimony taken before the Senate committee. A Department of Justice agent, C. F. Hately, visited John S. Glenn, of Nashville, Tennessee, who knew Senator Wheeler and his family. Mr. Glenn testified that Hately asked him "what kind of a fellow Wheeler was" and "about Senator Wheeler's morals." He was offered his expenses to Washington, if he would attempt "to pull Wheeler off Daugherty." Mr. Glenn testified that he saw Hately send Burns a telegram in the Department of Justice code, and that he saw his transportation order from the Department of Justice.

When the Senate committee began its public hearings, sleuths shadowed the witnesses and watched the proceedings, endeavoring to get what they could to discredit the investigation and to aid Daugherty's side. W. O. Duckstein testified that he had met in Washington two detectives, P. J. O'Brien and Walter Petit, who were alleged to be working for Hiram Todd, special assistant of the Attorney General, in charge of the indictments against Gaston B. Means. These indictments were being pressed

against Means with unusual alacrity for the Daugherty Justice Department after Means had testified before the Senate committee. O'Brien and Petit, Duckstein testified, told him that they had a crew of male and female detectives at the Capitol and a crew of wire tappers with them "to find out everything they could about the committee." "They told me," Duckstein said, "that they had lady investigators in the ladies' retiring rooms near your [Senator Wheeler's] office, and also near Senator Brookhart's office, to listen to find out what they could. . . . They said one thing they were going to try to frame Senator Wheeler." "They also told me they were going to railroad Mr. Means when his case came up in New York," Duckstein testified.

As the investigation of Daugherty proceeded, Senator Burton K. Wheeler received telegrams from Montana informing him that the Department of Justice had agents there investigating his entire career. "You are not alone," Senator Brookhart, the chairman, remarked. "I got notice they are investigating me in Iowa." Twenty-four of Burns's Department of Justice agents were working in Montana to "get something on" Senators Wheeler and Walsh. Senator Wheeler was suddenly indicted in Montana charged with misuse of the mails in the interests of the Gordon Campbell-Kevin Syndicate No. 2 of Great Falls and Kevin, Montana. A. A. Grorud, an attorney of Helena, Montana, who had formerly been a law partner of Senator Wheeler's, and who was once Republican attorney general of Montana, testified that Blair Coan, a Department of Justice agent, had come to him in his effort "to smear Senator Wheeler," as he frankly admitted. Mr. Grorud said that he had asked Mr. Coan how he had managed to put over the indictment of Senator Wheeler, and he testified that Coan answered: "Well, you know we made Slattery, the United States district attorney, go through, because we had so much on him that he had to go through for us in connection with the prosecution of the liquor or the violations of the Volstead Act, so he had to go through with us." William J. Burns admitted when examined by the Senate committee that he had conferred with this same Blair Coan about Senator Wheeler's career and had consulted others on the same subject.

It took a year after his indictment in Montana for Senator Wheeler to get vindication of the charges of fraud which the Department of Justice under Daugherty had trumped up against him, and it cost the people of

the United States a large sum of money to try the case. Senator Walsh was one of Senator Wheeler's counsel at the trial, and it took a jury only ten minutes to acquit Senator Wheeler on all counts in the indictment. Then Senator Wheeler was indicted again in the District of Columbia, and twenty months after the original indictment had been obtained in Montana by the aid of Burns's sleuths, the charge in the District of Columbia was dismissed in December, 1925, as absolutely groundless. The case had cost the people of the United States \$103,720.75 so that Daugherty and his pals might vent their spleen.

Some of the witnesses before the Senate committee were molested in other ways. Mr. Storck, who had investigated the Old Hickory Powder case against the du Ponts found one day that someone had cut open his brief case, which was in his hotel room, and his cabinet in the Department of Justice, and had stolen his papers, while he was testifying before the committee. John Kosterlitzky, another special investigator, found that his suitcase was stolen at about the same time that Mr. Storck lost his papers.

An active battle took place between the Senate committee and the Department of Justice attorneys in New York over Gaston B. Means. Means was under four indictments in New York when the Senate committee met, and he was charged with conspiracy to violate the Prohibition laws. A fifth indictment was found against Gaston B. Means on March 7, 1924, for conspiring to bribe officials of the Department of Justice. This indictment was returned shortly before Means testified before the Senate committee. Colonel Thomas B. Felder was indicted along with Means for attempted bribery of Department of Justice officials. Means had obtained adjournments on the grounds of illness, but a doctor who examined Means for the prosecutors reported "that there was nothing the matter with him except that he had had a tooth pulled." Then Means had three more teeth pulled and a part of his jawbone extracted. But this did not prevent him from talking before the Senate committee, as we have seen. Two weeks after he first appeared as a witness before the committee, Hiram Todd wrote to the chairman, Senator Brookhart, asking that Means be excused as a witness before the committee so that he might be tried in New York. The effort was made not only to keep Means from testifying further but to put the committee investigating Daugherty in the position of thwarting Means's prosecution. Senator Wheeler, examining

Hiram Todd, brought out that he had obtained Means's indictment by a grand jury in New York on the testimony of bootleggers against whom Means had been assigned to get evidence, and that by testifying before the grand jury against Means the bootleggers had earned immunity from indictment themselves.

As soon as Means became a witness before the Senate committee he was "shadowed" by Department of Justice agents. R. P. Burruss and Mrs. Alaska P. Davidson, special agents of the Department of Justice, testified that they were assigned by E. R. Bonner to spy on Means, and that they watched him constantly between March 6, 1924, and April 1, 1924, and reported their findings every day to the office of William J. Burns at the Department of Justice.

Means and Colonel Thomas B. Felder were tried on the charge of attempting to bribe Harry M. Daugherty, Attorney General, William Hayward, United States Attorney in New York, and two of Hayward's assistants, to quash indictments against the Glass Casket Company. Means and Felder were convicted, and Means was sentenced to two years in jail and a fine of \$10,000; Felder was fined \$10,000 but not sentenced to jail. The Glass Casket Company was said to have paid Colonel Felder's office \$65,000 to fix a case with Daugherty charging it with using the mails to defraud in the sale of bogus stock. Means was charged by witnesses in the bribery case with having tried to create an impression of his importance by pretending to be in conference with Secretary Mellon and looking up the telephone number of President Harding's secretary in the presence of others.

Gaston Means came out of jail in July, 1928. In 1930, he raided a warehouse in Baltimore for Communist propaganda and found a crate of lettuce. In 1931, he was arrested for beating his wife and assaulting an officer when he resisted arrest. In 1933, Means was sentenced to fifteen years in the penitentiary for stealing \$104,000 from Mrs. Edward B. McLean on the pretense that he could find the Lindbergh baby. Means claimed that he had given the money which Mrs. McLean had given him to obtain the release of the Lindbergh baby to a man who jumped on the running board of his automobile en route from North Carolina, under the impression that the man was Mrs. McLean's agent. Between jail terms Gaston Means published a fantastic book in which he claimed that Presi-

dent Harding had been murdered by Mrs. Harding because of jealousy of another woman. Every page of the book is implausible, and there is no evidence in it for any of the contentions Means made.

In 1926, Harry M. Daugherty and Thomas W. Miller, Alien Property Custodian, were tried in New York for "conspiracy to defraud the Government of their honest, impartial and unprejudiced services." They could not be indicted for bribery, because the statute of limitations had expired on the acts they were charged with committing. Miller, who had taken part in the election campaign of President Harding, was appointed to the valuable office of Alien Property Custodian by Harding. Jess Smith, Howard Mannington, Alfred Urion, Wade Ellis, another of the Ohio group, and John Todd, Daugherty's law partner, appeared frequently before Miller on behalf of claimants. Colonel Miller testified before the Senate committee investigating Daugherty's administration:

"I am occupying an office that is holding hundreds of millions of dollars belonging to other people, and they think they ought to get it back, and maybe they should, I hope it will be settled up soon. But naturally when they want their property back they are probably willing to pay big fees for it, which, of course, is an incentive to people representing them to use every means within their power to get their claims allowed for their clients. I have a certain amount of independence and stubbornness in me, and being responsible only to the President of the United States I had no hesitancy in telling him that I did not like the actions of some people, regardless of who they were. . . . But I told President Harding that I did not like some of the ways of some people who came from his State, the way they walked into my office at least."

Whatever Colonel Miller may have thought of the way some people from Ohio walked into his office, he often permitted them to walk out again with the favors for which they had come. Jess Smith, for instance, asked that some of the funds in the custody of the Alien Property Custodian be deposited in Mal S. Daugherty's Midland National Bank, of Washington Court House. Miller testified that he took the matter up with Harry Daugherty, who said that it was his wish, and the funds were deposited in the Daugherty bank. But the particular charges against Colonel Miller, Harry Daugherty and John T. King, Republican national

committeeman from Connecticut, concerned the American Metals case.

The American Metals Company, a German firm, was taken over by the Alien Property Custodian during the war. Richard Merton, the representative of an alleged Swiss corporation, whose affiliations were German, claimed the ownership of the American Metals Company. He gave John T. King \$391,000 in Liberty bonds and \$50,000 in a check for arranging to have the \$7,000,000 stock of the American Metals Company turned over to the Société Suisse pour Valeurs des Métaux. The government maintained that the \$391,000 in Liberty bonds which Merton admitted putting up was distributed as follows: \$224,000 to Harry M. Daugherty and Jess Smith; \$112,000 to John T. King; and \$50,000 to Colonel Thomas W. Miller; \$5,000 worth of the bonds were unaccounted for. King had aided the government by voluntary testimony; he died on May 13, 1926, about a week after the indictment against him, Daugherty and Miller was returned. According to the New York *World* of July 17, 1926, there was found in the estate of John T. King, which was valued at \$1,200,000, 1,000 shares of American Metals Company, Ltd., valued at \$50,000. Richard Merton, who had given the money and Liberty bonds to John T. King, testified at the trial of Daugherty and Miller that he had paid the money for King's services in introducing Merton to Jess Smith, who in turn took up the American Metals case with Colonel Miller.

Daugherty was defended at his trial by the well-known criminal lawyer, Max D. Steuer. Colonel Miller was defended by Colonel William Rand. Daugherty's defense admitted that \$200,000 of Merton's money had gone to Jess Smith and maintained that this was for "expediting the claim through his acquaintance in Washington." It was impossible to trace the Liberty bonds or cash to Harry Daugherty's account or that of his brother, Mal, because Daugherty had burned the ledger sheets of the Midland National Bank, as well as the ledger sheets for the Jess W. Smith Extra account. These he destroyed some time in 1925, after his resignation as Attorney General.

Daugherty and Miller did not take the witness stand in their own defense, and the defense put up for Daugherty blamed everything on the dead Jess Smith. It was also convenient for the defense that John T. King had died suddenly. Daugherty refused to testify on the grounds that his relations with President Harding, Mrs. Harding, the Midland Bank

and Mal S. Daugherty were "of the most confidential character as well as professional." And he also declined to testify because: "The answer I might give or make and the testimony I might give might tend to incriminate me." Max D. Steuer explained to the jury that his client did not wish to take the witness stand and disclose things which he knew, but would never disclose, "about matters political." "The destruction of the ledger sheets," Mr. Steuer stated, "did not conceal anything that had the slightest bearing on this case. If the jury knew the real reason for destroying the ledger sheets they would commend rather than condemn Mr. Daugherty, but he insisted on silence."

The jury deliberated for sixty-five hours and forty minutes, and then reported that they were unable to agree about the guilt of Harry M. Daugherty. They convicted Colonel Thomas W. Miller. It was said later that the jury were divided on Daugherty's guilt, 11 for conviction and 1 for acquittal. A second trial was held, and the jury again failed to agree on Daugherty's guilt after long deliberations, but convicted Colonel Miller. Miller was sentenced to eighteen months in prison and to pay a fine of \$5,000. He served thirteen months of his sentence and was then paroled. His citizenship was restored by President Hoover on February 2, 1933.

In 1930, Mal S. Daugherty was indicted on 15 counts, charged with mishandling the affairs of the Ohio State Bank, of which he had been president, and which closed its doors on May 12, 1930. The Ohio State Bank was a merger of Mal S. Daugherty's two Washington Court House banks with another. He was charged with misapplication of funds and credit, embezzlement, deceiving state bank examiners, making false entries in the books, and more than fifty other offenses, including the use of his wife's and his son's name as well as other names for concealed loans from his bank. He suffered a nervous breakdown. On March 4, 1931, he was convicted and sentenced to ten years in the Ohio Penitentiary and fined \$5,000. The jury found him guilty on the first ballot.

In his book, *The Inside Story of the Harding Tragedy*, Harry Daugherty wrote:

When the last obscene literary scavenger has uttered his dying howl, the figure of one of the knightliest, gentlest, truest men who ever lived

in the White House will emerge from the din of slander and take his rightful place in the hearts of our people.

The American, deep down, loves fair play.

For a time he may listen to the clamor of fools and chuckle over vicious slander. But in the end he demands the truth.

History, perhaps, will prefer as an epitaph for President Harding the statement of Alice Longworth in her book, *Crowded Hours*:

Harding was not a bad man. He was just a slob.

At the belated dedication ceremonies of the Harding Memorial at Marion, Ohio, which were postponed by embarrassed Republican colleagues until delay became more scandalous than dedication, President Hoover said:

“Warren Harding had a dim realization that he had been betrayed by a few men whom he had trusted, by men whom he had believed were his devoted friends. It was later proved in the courts of the land that these men had betrayed not alone the friendship and trust of their staunch and loyal friend, but they had betrayed their country. That was the tragedy of the life of Warren Harding.”

Harry M. Daugherty, a member of the board of trustees of the Harding Memorial, sat behind President Hoover on the platform as he pronounced these words. When the President arrived in Marion to make the dedication speech, he and Daugherty, who had sat together in Harding's Cabinet, exchanged no words of greeting.

CHAPTER FIVE

Ships for Sale

AT THE end of the war in 1918, the United States Shipping Board had under its control 4,500 vessels of 24,500,000 dead-weight tonnage. Of these ships 2,316 had been constructed by the government's corporation, the Emergency Fleet Corporation, a subsidiary of the United States Shipping Board, for which the government supplied all the capital. The other vessels had been chartered, requisitioned, commandeered, or seized as the property of enemy aliens. In addition, during the war the Emergency Fleet Corporation had built shipyards, villages and homes for workers in the shipyards, transportation and other public utilities in the villages. After the war vast stores of material as well as ships were left in the government's hands.

The Shipping Board had spent three and a half billions of dollars for the construction of ships, "a sum greater than any expended by any corporation in a similar period of time," according to the report of the committee of the Sixty-sixth Congress, which investigated its construction activities. Although new organizations, shipyards and other facilities had to be created with great haste, and there was waste and extravagance with government money, the investigating committee of the House of Representatives found no evidence of fraud in connection with the Shipping Board's work. Considering all the facts, the committee concluded,

the activities of the Shipping Board during the war "constitute the most remarkable achievement in shipbuilding that the world has ever seen." Costly mistakes were made in the effort to build ships quickly out of wood and concrete, which later proved unserviceable at sea, but the steel cargo vessels built by the Shipping Board ranked in quality with the best steel vessels in service throughout the world.

Prior to the great westward expansion of the United States, this country had been an important maritime nation; the American clipper ships were among the fastest in the world, and American captains competed favorably for the Far Eastern trade before the Civil War. After that war, when railroad construction and internal development absorbed all the available capital in the country and the capital flowing into it from Europe, American shipping declined. During the World War the people of the United States became painfully aware of their dangerous dependence on foreign shipping; cargoes lay on wharves waiting for transportation at enormous freight rates, while prices for goods soared in Europe during the three years before the United States entered the war; then there was a tremendous shipping problem involved in moving American soldiers and supplies to France.

After the war, the United States Shipping Board was faced with the double problem of disposing of its huge resources and still maintaining an American merchant marine in competition with world shipping. In his report on the investigation of the Shipping Board, Judge Ewin L. Davis, a member of the House of Representatives, wrote:

While we were in the midst of war, the shipping interests took advantage of the situation and profited in the most unconscionable manner. They ran ocean rates up on both their Government and the people as high as 1,250 per cent over pre-war rates, as admitted at the hearings by the general manager of the American Steamship Owners' Association; they made profits which were characterized as "almost fabulous" by W. J. Love and as "enormous" by J. B. Smull, Messrs. Love and Smull being two of the \$35,000 a year experts of the Shipping Board and vice-presidents of the Emergency Fleet Corporation. For instance, the American-Hawaiian Steamship Co. paid dividends of 200 per cent in 1916 and 405 per cent for 1917; the Luckenbach Steamship Co. made net profits on its capital of 236.2 per cent in 1916 and 666.9 per cent in

1917; the Pacific Mail Steamship Co. made 365.3 per cent net profit on its capital stock in 1915-1920; the Atlantic, Gulf and West Indies Co. made net profits greater than its capital in 1915-1920, and during 1921, the very worst time in the history of shipping, according to its own annual report made a net income of \$1,781,337, after deducting all expenses, taxes, interest, and losses on sale of Liberty bonds; the United Fruit Co., with a capital stock of \$50,000,000, made net profits of \$94,147,500 in 1915-1920, paid dividends of \$77,080,277 and increased their surplus to \$66,176,490; the Dollar Steamship Lines made net profits on its capital stock of 322.9 per cent in 1916 and 104.9 per cent in 1917.

In the two years immediately following the war the market for freight was higher than ever, according to J. Barstow Smull, shipping executive, because the countries of Europe began importing in huge quantities goods which had not been available during the war years. A wild boom in shipping followed. One vessel of 8,000 tons taking coal to northern Europe made \$150,000 gross profit on the cargo, which was about three-quarters of the cost of the vessel before the war. J. H. Rossiter, formerly of the Pacific Mail Steamship Company, gave an instance of the *S. S. Quistconck*, which in a voyage of 92 days made a net profit of \$461,151.29, after depreciation of \$37,800 and interest charges of \$18,900 had been written off from the gross profit. Another ship made more than \$800,000 in a voyage of 110 days. "Anybody experienced or inexperienced in the shipping trade could make money," J. B. Smull told a Congressional committee in 1922.

Much of this vast profit went into dividends and salaries. The dividends paid were colossal, and no attempt was made to store up sufficient money for lean years ahead, although shipping men of experience knew that the world had many more ships than it could use profitably at the moment.

In 1921, the depression in shipping began, along with a general depression in trade. The Shipping Board vessels proved valuable at this time. For example, they moved \$650,000,000 worth of surplus American wheat at a loss to the government of one million dollars, but at great gain to the farmers and wheat merchants. Even during the shipping depression some of the companies admitted that they were making a profit, and others stated that they were not losing money at least.

The existence of a large government-owned fleet was both a temptation and an irritation to private shipowners. A concerted effort was made to get the government to scrap and destroy the vessels which it had built at such cost and effort, or to sell them at ridiculously low prices to private interests; the ships would have been valuable after the temporary trade depression of 1921, and meanwhile the upkeep of the vessels would have averaged about \$3,000 each. The object of the shipping men was to prevent these vessels from falling into the hands of enterprising competitors with new capital, and, according to the Select Committee of the House of Representatives, there was a "desire on the part of some shipbuilders to destroy as many existing ships as possible in order that there may be more ship construction in the future." Foreign shipowners were also eager to see the American ships destroyed, and they helped in the propaganda to that end. The existence of this large fleet of government vessels made it impossible for American and foreign private shipowners to levy tribute on American commerce by demanding exorbitant freight rates, because as soon as the freight rates got too high, the government could always send its large supply of ships into competition with private buccaneers. This situation was hardly congenial to shipowners and shipbuilders, who hired lobbyists and propaganda experts to make the nation believe that the activities of the Shipping Board were a ghastly and a costly mistake.

And at this serious juncture in the history of the American merchant marine, President Harding chose to appoint a propaganda expert as chairman of the United States Shipping Board. Albert D. Lasker, of Chicago, had been a successful advertising agent for many years. He was a very good friend of Harding's friend, "Ned" McLean, and he had also aided in the election of President Harding by campaign contributions and otherwise. "I have made most of my political contributions in cash," Mr. Lasker told the Senate committee investigating the Continental Trading Company. "Most politicians seem to like to get it that way. (Laughter.)" Mr. Lasker told another Congressional committee: "I was the only man who would take this job. The President couldn't get anyone else, and as Eva Tanquay says in her song, 'Gee, it is great to be crazy.'"

President Harding and his friends must have been reading W. S. Gil-

bert's *Pinafore* when they gave the vast resources of the United States Shipping Board into the hands of Albert D. Lasker. Mr. Lasker had never had the slightest experience in shipping, and when called before Congressional committees to testify, he exhibited a brash and pathetic ignorance of the work in his charge. His one great effort was to get the Congress of the United States to grant a huge subsidy to private shipowners who had already profited so greatly at the expense of the rest of the nation, and in that effort he kept up a steady stream of propaganda to make the nation believe that the government-owned and operated fleet was a colossal failure.

"The only fitness I can think of that the President dreamed I had for the position he called me to was that I had been a doctor of failing business," Mr. Lasker told a convention of newspaper publishers in 1922. "Never in the history of government," he added, "was an administration, however, called on to take over such bankruptcy, such chaos, as confronted President Harding in the Shipping Board." Mr. Lasker also told the newspaper publishers on that occasion:

"I prize as the greatest achievement of my life the dear and close friendship of the President of the United States whose sacred sense of duty has led me to a love of him that amounts to worship. Next to him in the administration, I hold in close personal friendship, the Attorney-General. . . .

"I know there has been great difference among you gentlemen of the Press with certain views of Mr. Daugherty, but my close contact with him has shown me that he is a man of unalterable courage in fearlessly making decisions whether against radical or conservative."

When Mr. Lasker made his speech, President Harding was still alive and Daugherty had just obtained his injunction interfering with labor's right to strike.

What Mr. Lasker called so loosely a failing business had turned over \$193,447,865 to the United States Treasury before the shipping depression began in 1921. Besides, the Shipping Board had done work for the War Department estimated as worth \$98,500,000 and for the Navy Department work worth \$8,500,000, making a total return of \$300,447,865, and from 1918 to 1925 the appropriations for the Shipping Board had

amounted to \$250,000,000. In addition, the Shipping Board's competition had saved American farmers and other shippers large sums of money by keeping freight rates reasonable.

Under Lasker a beautiful propaganda machine was built up hastily, and the effect of it is not yet out of the consciousness of the American people. "Waste" and "incompetence" were the words most Americans were led to believe applied best to the Shipping Board. Lasker was also fond of referring to government operation of ships as "poison ivy in the garden of industry." "Private ownership," he told the newspaper publishers, "withers and dies against this incompetent competition of which I am the head." He made no effort during his incumbency to make that competition aid American industry and American shipping generally. Almost every American citizen got the impression that the Shipping Board was inefficient, costly, and probably corrupt. It was only in the ports of the Far East and in the harbors of Europe and South America that the activities of the United States Shipping Board were both respected and feared. Private ship operators in the United States were also worried enough about Shipping Board efficiency. The Bulletin of the American Bureau of Shipping printed an editorial in August, 1924, which read:

On another page we print excerpts of the platforms of both the great political parties, which relate to the future of American shipping in the foreign trade.

There is a striking similarity of intent regarding the ultimate disposition of the Government-owned fleet.

Shorn of all technicalities, it is evident that both parties are at one in the idea of continuing the operation of at least the present number of active ships. . . .

The great danger of continued Government ownership and operation is, that with the increasing efficiency now being shown by the Shipping Board and with advancing freight and passenger rates, there soon will be no apparent loss to the Federal Treasury. While this in itself is to be commended, there is but little question that the radical element would seize upon this fact as a strong argument for governmental ownership and operation of the railroads and other means of transportation. Such action would be fraught with very serious consequences, as none but those of socialistic tendencies will admit that public operation of such

great utilities would be for the best interests of the people, at least during the present generation.

The italics are those of the Select Committee to Investigate the United States Shipping Board.

Albert D. Lasker became chairman of the United States Shipping Board on June 13, 1921. He started out by making himself the man in complete command and relegating the other members of the Board to the class of dummy directors in a large corporation. It was brought out in testimony before the Select Committee investigating the Shipping Board that President Harding had told Lasker to do what he thought best, that Harding would back him up, "and that if any of the other members of the Shipping Board did not act in accord with him on his views, to advise the President and he would get rid of the members." It was said that Lasker had taken the job reluctantly for one year; he remained longer in order to try to get Congress to pass a bill granting large subsidies to private shipping.

"Is it not a fact," Representative Davis asked Commissioner Plummer, of the Shipping Board, "that the whole proposition was just permitted to drift and that Mr. Lasker devoted most of his energies and time, as well as that of a large part of the Shipping Board organization, in an attempt to put through his program embraced in what is generally known as the 'Lasker ship subsidy bill'?"

"Well, of course, as I stated the other day," Commissioner Plummer answered, "we were asked to give that legislation the right of way and not do anything to cripple it." . . .

"And without saying that you were right or wrong in doing so, feeling that, wise or unwise, Mr. Lasker had been placed at the helm to take charge and run things, you all thought you should acquiesce and give whatever he suggested, generally speaking, a trial?"

"Yes; I think that is a pretty fair statement of it."

It had been the policy of the government for some years to get private capital to operate American ships with American crews under American ownership, so that American commerce might be served and also to insure that in case of another war the country would not be in the help-

less condition of dependence it found itself in when the war broke out in 1914. But, obviously, it would take time to get the Shipping Board boats back to private ownership under proper conditions and without the fear that they would fall into the hands of foreign operators. At first the government leased the ships in many cases to private shipping operators under what was known as the M. O. 4 contract. By this contract the government said in effect to private shipping companies, "Heads you win, tails I lose," for the contract guaranteed that the government would pay all losses and that the operators would receive a commission on gross receipts.

The Shipping Board also had mapped out about thirty different trade routes over which regular shipping service was to be maintained, in order that all the ports of the country would have outlets to other nations for their products. The effort was to get private shipping companies to operate ships on these routes, but wherever capital was lacking or it proved impossible to interest private parties in the venture, the Shipping Board operated its own ships itself through the Emergency Fleet Corporation, the very name of which suggested impermanence and contributed to inefficiency. New capital at the time was reluctant to take over the trade routes because while the government took the losses under the M. O. 4 contracts, there was no advantage in taking the risks of ordinary business competition. After he had been in office a month, Albert D. Lasker went before the House Appropriations Committee to ask for deficiency appropriations, and he told the committee concerning the M. O. 4 contract that it was "the most shameful piece of chicane, inefficiency, and of looting of the Public Treasury that the human mind can devise." He promised that the minute trade permitted he intended to do away with all the M. O. 4 contracts, and to make the ship operators either purchase or charter the Shipping Board's vessels. "If we have not fully succeeded in putting in our system," Lasker told the committee, "you can hurl it back to me when I come again in six months." Up until the time of his resignation, and even afterwards, the Shipping Board still made these M. O. 4 contracts. Eventually, they were changed to lump-sum contracts, by which the Shipping Board paid private operators of its ships a lump sum for each voyage, out of which the operators paid their expenses themselves, instead of getting a percentage of the gross receipts,

the government paying the expenses, by which arrangement the expenses could be padded unmercifully. While American shipping companies were operating Shipping Board boats under M. O. 4 contracts, many of these same operators of government ships were acting as agents for British and Japanese steamship lines, which paid them commissions on profits and not also on losses. Thus they had every incentive to make their foreign ships pay in competition with the Shipping Board boats.

The Shipping Board also had a regular European passenger and freight service which it operated itself under the organization of the United States Lines. This line had the *Leviathan* and other large steamers under its flag, and it competed with the large British, French and German passenger lines.

The government also wished to encourage new shipbuilding and new shipping enterprise in the United States. The Merchant Marine Act of 1920 had provided that ships were to be sold only to corporations in which a majority of the stock was held by American citizens, when the vessels were to be used in overseas trade, and corporations in which at least 75 per cent of the stock was held by American citizens when the ships were to be operated in the coastwise trade.

In 1920, before the Harding administration came into power, ships had been sold by the Shipping Board to private operators at high prices. These were known as "pioneer sales," and later, when the prices for ships fell drastically because of the oversupply of world shipping, the 1920 purchasers asked for some of their money back, and for cancellation of part of the installments still due, for the government had sold its ships on an easy payment plan in order to encourage shipping. Lasker's administration granted reductions to these "pioneers," but the records of these reductions could not be found anywhere around the Shipping Board, according to J. Harry Philbin, the sales manager of Shipping Board vessels. Before Lasker's regime stenographic minutes had been kept of the meetings of the Shipping Board, but during his administration it was ordered that no minutes should be kept. Also, during the Lasker regime officials of the Shipping Board and its employees were ordered not to give information to members of Congress or to the press. When newspapermen and Congressmen inquired concerning the rebates on "pioneer" sales, they found it impossible to get any information. Mr. Philbin, the

Shipping Board's own sales manager of ships, was told that these records were "private." When Chairman Lasker was asked at the hearings on his Ship Subsidy Bill what his policy had been on reducing the prices for those who had bought ships, he answered: "I would prefer not to, because it would be against the public interest. I would be glad, happy, to do so in executive session, to tell you all about it, because we are still trading with these people." Representative Davis asked Mr. Philbin later: "But do you know of any good reason why these transactions by Government officials with regard to property of all the people should be conducted secretly and kept secret?" "No, sir," he answered.

In the latter part of 1921, J. W. Powell, who had been an official of the Bethlehem Shipbuilding Corporation before Lasker appointed him president of the Emergency Fleet Corporation of the Shipping Board at a salary of \$1 a month, instituted a new sales policy for ships. He took the sales out of the hands of the sales department and placed them in the hands of a special sales committee. No board of appraisers of the value of the ships was considered necessary, and Mr. Powell's new sales committee was in a great hurry to sell the Shipping Board's vessels without too much hampering interference by the laws of the United States governing such sales.

While Mr. Powell was acting as head of the Emergency Fleet Corporation, there was pending a claim against the Bethlehem Shipbuilding Corporation; the government claimed that the Bethlehem company had overcharged the United States \$11,000,000 for war work, and the Bethlehem company made a counterclaim against the government of \$9,000,000. Lasker made Powell, the former official of the Bethlehem company, chairman of the claims committee of the Emergency Fleet Corporation, and while he was in that office, Mr. Powell dismissed Mr. Adamson, the only man in the Shipping Board who knew the history, details and status of the Bethlehem case. Commissioner Haney, head of the Shipping Board's legal department, testified that the government's case against the Bethlehem company could not be tried without Mr. Adamson. When Commissioners Thompson and Plummer, of the Shipping Board, heard of Mr. Powell's action in discharging Mr. Adamson, they went to Lasker and threatened to resign unless Mr. Adamson was brought back. Lasker

consented to bring him back, and Powell resigned. He was the only "dollar-a-year man" on the government's payroll after the war.

Under Lasker's administration of the Shipping Board, J. Harry Philbin testified, steel cargo ships were sold at \$30 a ton, "as is, where is, take your pick; no matter which vessel you took." In 1920, before prices for ships had fallen, the Shipping Board had sold 250 steel ships at between \$200 and \$250 a ton. After Lasker resigned from the Shipping Board, the Board decided to go back to a policy of selling its ships by the appraised value of each individual ship instead of in the manner in which department stores sell silk stockings, but twenty million dollars' worth of government ships had already been disposed of under that bargain-counter policy. When Representative Davis asked Admiral Plunkett whether he was in sympathy with the plan of some Shipping Board officials and other citizens to sell the cream of the Shipping Board fleet as fast as possible at the low depression prices for shipping prevailing during Lasker's time, and then to scrap the rest, he answered: "I think it would be treason. That is the way I feel about it."

It was sometimes necessary to go through the legal formality of advertising government ships for sale, but these advertisements were frequently nothing more than a formality, because insufficient time was given for the advertisements to reach people who might be interested in inspecting the ships and bidding on them. The *Great Northern*, which was sold to H. F. Alexander—the man who had given Colonel Forbes a suite and had received a Harding inaugural medal in return—was advertised seven days before its sale. At the time the advertisements appeared the ship was in the port of Guantanamo, Cuba, and prospective purchasers would have had to journey there to inspect her. The ship was sold to Alexander for \$1,250,000 and would have cost about \$4,000,000 to replace, according to Mr. Philbin. He also testified that the ship could have been used advantageously by the Shipping Board in the coastwise trade.

The Los Angeles Steamship Company, of which Harry Chandler, publisher of the *Los Angeles Times*, was a leading stockholder, wished to buy the *Aeolus*, renamed the *City of Los Angeles*, for \$100,000. After the war the International Mercantile Marine had offered \$660,000 for the ship. Then the *Aeolus*, which had been a German passenger ship used

to transport troops, was reconditioned and repaired at a cost to the United States of \$2,816,000. The vessel was worth more than \$100,000 for scrap material alone, according to Mr. Philbin's report to Admiral Benson. At the time of its bid of \$100,000 for the *City of Los Angeles*, the Los Angeles Steamship Company was operating the boat for the Shipping Board between Honolulu and Los Angeles, and by its contract with the steamship company, the Board would have made a profit of \$100,000 on its operation in a very short time.

One year before the bid of \$100,000 for the *City of Los Angeles* Harry Chandler had telegraphed to Albert D. Lasker offering \$500,000 for that ship and another ship, the *Huron*, which was later sunk. He and his company were interested, together with other Los Angeles business interests, in establishing a steamship service between Los Angeles and Honolulu, in the effort to make Los Angeles an important port. The only other service to Honolulu was that operated by the Matson Line out of San Francisco.

According to the law, Lasker could not give Chandler the option he wanted on the two ships for \$500,000 without first advertising them for sale, and it was said that he suggested to Chandler that he and his associates arrange to raise the money to buy the ships, and that the ships would then be advertised for sale in such a manner as practically to assure the purchase to Chandler's company. The *City of Los Angeles* was advertised for sale from July 15 to July 25, 1923, and sold to the Los Angeles Steamship Company on August 9, 1923, for \$100,000. Meanwhile, the ship was on the Pacific Ocean running between Honolulu and Los Angeles. Even when she reached ports for a short time, anyone who wished to inspect her had first to get the permission of the Los Angeles Steamship Company.

In a similar manner E. J. Farley, of the Shipping Board, sold four cargo ships to the Dollar Line at \$300,000 each. They were built in China by a company with which the Dollars were associated, at a cost to the government of \$2,250,000 each. Mr. Philbin, the Shipping Board's sales manager, was permitted to know nothing about the sale. Farley also sold the Dollars the *Callao*, a combination cargo and passenger ship, which had cost the government \$900,000 and \$719,503.27 for expenses of reconditioning her, for \$375,000. On January 17, 1920, when prices for

ships were still good, the International Mercantile Marine had put in a bid for the *Callao* of \$825,000.

In October, 1923, the Dollars purchased seven "President" ships for \$550,000 each. These ships were large passenger vessels, 502 feet long, and had cost the government \$4,128,000 each to build. The Dollar Line received easy terms of payment from the government. The government received a letter of credit due in two years for 25 per cent of the \$3,850,000 purchase price for the seven ships, which had cost the government about \$29,000,000. The balance of the payments were to be made at the rate of 5 per cent a year until March 15, 1936, and meanwhile the government had liens on the ships. Mr. Philbin testified that no other ships had been sold on such long and liberal terms. This deal was made after Lasker had left the Shipping Board.

On December 10, 1923, the minutes of the Dollar Line stockholders' meeting recorded a vote of thanks to the president, R. Stanley Dollar, "for his services in negotiating and closing with the United States Shipping Board the purchase of the seven passenger vessels of the 502 type." One month later the minutes of the directors' meeting recorded that a commission of \$192,500 was voted to R. Stanley Dollar for his services in purchasing these ships for the company. The commission was to be paid in eleven installments, one a year until 1936, when the last payment was due the government on the ships; but Mr. Dollar was to receive interest at 6 per cent on his commission, while the government received interest of 4 per cent on its payments. In addition, the company paid Mr. R. Stanley Dollar's expenses in Washington during his sojourn there to purchase the ships.

On May 14, 1925, the directors of the Dollar Steamship Company gave Mr. Dollar another commission of 5 per cent, for he had been to Washington again and had brought home five more "President" ships, this time the larger 535-foot type, which he had purchased for his company from the Shipping Board for \$5,626,000 on easy terms. He received a commission on this deal of \$281,250 in addition to his salaries and expenses. Up to November, 1933, the company had paid Mr. Dollar \$410,493.75 in commissions for its ship purchases. The Dollar company defaulted on its payments to the government for the ships in 1933, but it went right on paying its president, Mr. Dollar, his commissions after it

could no longer pay the government for the ships he had bought. Between 1924 and 1929 the Dollar company made a total profit of \$6,746,759.33 on the "President" ships which it purchased from the government. On the purchase of 17 ships from the government for \$13,975,000, R. Stanley Dollar received from his company commissions of \$635,493.75 and interest of \$73,014.69. In 1933, at the time this material was brought out by Senator Black in his investigation of Ocean and Air Mail contracts, the Dollar company still owed Mr. Dollar a balance of \$63,256.25 for his commissions, and the government many millions for its ships.

2

THE Lasker Shipping Board made great efforts to persuade Congress to grant huge outright subsidies to American shipping. The theory on which ship subsidy was based was that American shipping could not compete with foreign, and especially British, shipping, because of the differences in cost and operating expenses in the United States, Great Britain, Japan and Scandinavian countries. The Lasker bill provided that every American ship was to receive from the government $\frac{1}{2}$ cent a gross ton for each hundred miles the ship covered, and speedy vessels were to receive increases on this basic subsidy, depending on the number of knots they could make; ships doing 23 knots or more would receive 2.1 cents per gross ton for each hundred miles covered. Under the bill the Shipping Board was also to be granted power to double these rates, if it considered the subsidy insufficient on shipping routes. The bill gave the Shipping Board absolute power to dole out the government's money without any recourse to Congress or any supervision by the President or anyone else. The subsidy contracts were to be valid for ten years, no matter what the economic conditions during that period, and Congress would have been powerless to repeal the subsidies during that time.

In addition, the Lasker bill granted American exporters and importers

deductions of 5 per cent on their income taxes if they used American ships instead of foreign ships, and it also granted shipowners deductions in their taxes for ten years, if they used their profits to build new ships in American shipyards. A construction fund to subsidize new shipbuilding was also to be established, which would have granted American companies building new ships loans of \$125,000,000 at 2 per cent interest. The Shipping Board vessels were to be sold as fast as possible to the shipping companies at highly reduced rates, at either private or public sale, and the proceeds of such sales were to go into the fund for the construction of new ships. In order to create indirect benefits for American shipping, there was a provision in the Lasker Ship Subsidy Bill that 50 per cent of the immigrants arriving at American ports must come in American ships; the Army and Navy transport services were also to be discontinued and contracts were to be made for American merchant ships to act as transports.

Early in the discussion before the Congressional committees considering the Lasker bill, it was discovered that organizations like the Standard Oil Company and the United States Steel Corporation would have been entitled under the bill as drawn to the subsidy per ton for the vessels which they operated exclusively to carry their own oil and steel. The Standard Oil Company, for instance, would have received \$1,500,000 a year from the government for carrying its own product around the world, and the United States Steel Corporation would have received \$500,000 a year for the same service. These possibilities were finally eliminated from the bill, but when they were discussed with Shipping Board officials who were attempting to push the bill through Congress, the Shipping Board people thought the discussion rather superfluous. Under the proposed bill the *Leviathan* would have received a subsidy of \$1,250,000 a year from the government, which could have been doubled by the Shipping Board if it felt like doing so. If the Shipping Board felt so disposed, it could have withheld any subsidy compensation from a particular company without giving its reasons. Those Senators and Representatives who were opposed to the bill pointed out: "This power to build up or destroy ports, to enrich or impoverish ship lines, thus dominating localities, controlling shipowners, ship operators, and financial institutions, and the insurance

companies, and all other connecting interests, would make that bureau a political autocracy and a dominating influence, equipped to work its own will."

Lasker and his associates gave Congress an estimate of \$30,000,000 a year as the cost to the government of their subsidy bill, but at the hearings on the bill it was developed that both direct and indirect benefits to private shipping interests under the bill would have cost the nation \$75,000,000 a year. And under the bill there was no protection for American merchants and farmers against high freight rates after American shipping companies had obtained control of American commerce.

In the course of the extensive propaganda effort for his subsidy bill Lasker frequently warned in speeches and writings that without its passage the art of shipbuilding would become in America a lost art, and that "no nation has been great save in proportion to its greatness on the sea."

The shipping interests, who worked with Lasker for the passage of his bill, made much of the fact that in time of war the merchant marine would become of great benefit to the nation, but the subsidy bill contained the careful provision that in time of emergency the government must pay the shipping companies "at the current rates" for any of the ships it might need, and could have been charged huge war rates for ships it had subsidized and furnished the capital to build.

Andrew Furuseth, president of the International Seamen's Union, testified that the section of the Ship Subsidy Bill requiring crews of merchant vessels to become members of the Naval Reserve was what "we seamen characterize as the strike-breaking section of the bill." By its provisions men could have been mobilized at any time by the shipowners to break strikes or enforce lockouts.

The Shipping Board's propagandists and the shipowners' propagandists stressed the war scare motif continually in their effort to get government subsidies. They pointed out that since the Harding administration had just agreed at the Washington Conference to limit naval armaments, it was all the more important to build and develop the merchant marine as a potential naval auxiliary. Homer L. Ferguson, president of the Newport News Shipbuilding & Dry Dock Company, said: "To neglect merchant shipping while limiting war shipping is deliberately to invite disaster." "Then," Representative Bankhead asked him, "instead of being

a competitive race in armaments, the effect of your formula would be to create a competitive race in merchant ships?" "I think you might put it that way," Mr. Ferguson replied. Mr. Ferguson also commented before the committee of Congress on the depressed state of his shipbuilding business:

"We are out for coal cars and water turbines and oil engines, and we are trying to beat the swords into plowshares to the best of our ability. The only trouble is we find the plowshare business very much crowded just at present, and we are not welcomed by the plowshare builders in that hearty way we would like, but so far as merchant marine building is concerned, I am frank to say we do not see much building ahead, and we are just trying to keep our heads above water, and whoever has the best bank balance and the best surplus will keep going the longest. There is now no work being let except just a little odd job now and then."

An attempt was made by Shipping Board executives, with Lasker at their head, and politicians with the interests of ship operators and shipbuilders at heart, to rush the subsidy bill through Congress. Hearings on the bill were held in a very short time, and at these the Shipping Board men worked hand in glove with the private propagandists. Representative Davis wrote in his minority report against the bill: "The Shipping Board repeatedly refused to furnish important information called for by members of the committee. . . . The members of the committees, who were convinced that the bill was bad either as a whole or in parts, neither had the time, opportunity, nor facilities for ascertaining and procuring the attendance of witnesses to testify to the iniquities of the bill." Witnesses opposed to the bill had to pay their own expenses in Washington, whereas the shipping companies could afford to send their witnesses. Representatives of farmers and merchants, who did not benefit directly by ship subsidy, found it hard to understand why they should be taxed heavily for the benefit of private shipping enterprise, even though the development of a real American merchant marine would have been of great indirect benefit to them.

When Albert D. Lasker appeared as a witness at the public hearings

on the bill, he read a long prepared statement warning the members of the committee and the people of the United States in glittering generalities that if they did not pass this bill, they would become powerless in war and backward in peace. When his platitudes were subjected to cross-examination by Congressmen, Lasker's ignorance of his subject was plainly revealed; he constantly took refuge in the statement that he intended to put experts on the stand, when he was asked the simplest questions about his bill, but his experts did not prove much more enlightening as to controversial features of the subsidy program. The Congressmen took up with Lasker the main contentions he had made, and after much squirming, Lasker had to admit that American shipping companies did not labor under great disadvantages as compared with their nearest competitors, the British. He was asked to give details about costs, subsistence and labor, and after much fencing finally admitted, "I can only answer generalities."

There was one thing, however, on which Mr. Lasker was a self-confessed expert, and that was the colossal loss to the government of the Shipping Board operations. He had continually proclaimed in the press and on the platform and to Congress that the Shipping Board operations cost the government \$50,000,000 a year. But when these figures were subjected to analysis, they proved about as valuable as Lasker's general statements. "Any proof or suggestions of ships making profits invariably caused a commotion among the representatives of the Shipping Board," Representative Davis commented in his minority report on the subsidy bill. "They seem to absolutely resent any such proof."

Lasker used the press in his effort to create propaganda for a ship subsidy and against government operation. The Chicago *Journal of Commerce*, a newspaper in Mr. Lasker's home city, had not been used much for Shipping Board advertising of its ship sailings. In February, 1922, that newspaper published an editorial in favor of the Lasker Ship Subsidy Bill and thereafter it received advertising on an increasing scale, and for the fiscal year ending June 30, 1923, the newspaper had received \$34,652.53 in Shipping Board advertising. *Fruit, Garden and Home*, a farm publication, advised Lasker on how best to convert the farmers to the idea of ship subsidies; *Fruit, Garden and Home* then received advertising for steamship travel and freight sailings from the Shipping Board. On May

12, 1922, Albert D. Lasker wrote to his friend Colonel Robert R. McCormick, of the *Chicago Tribune*, in answer to a letter of Colonel McCormick's apparently suggesting that the *Chicago Tribune's* Paris edition should receive more advertising for Shipping Board sailings. In his reply Mr. Lasker pointed out that the Shipping Board had just started a new schedule of advertising for the *Chicago Tribune* of 1,400 lines a week, or 23,800 lines in all. Then he added that he was sending under separate cover copies of the hearings on the Ship Subsidy Bill and a copy of the Shipping Board's study on subsidy submitted to the President. "You will remember that when in your office," Lasker wrote, "I suggested that I would send this data to you with a view to your consideration of publishing a series of articles, after due study, on the subject of the American merchant marine." He then offered to put any prospective writer whom Colonel McCormick might designate in touch with "the proponents and the opponents of the Administration's program." The *Chicago Tribune* did better than that; it syndicated a series of articles by Lasker himself, entitled, "Why the United States Should Have a Merchant Marine." The Shipping Board also gave the *Chicago Tribune* the contract for the news service on board its boats, by which contract the Shipping Board paid any deficit and divided any profits with the *Tribune*.

In spite of all his propaganda efforts, Lasker's bill met with great opposition in Congress. It passed the House of Representatives as a Republican administration measure, and would have passed in the Senate, too, if Senator Brookhart and Senator McKellar had not kept up a filibuster against it, preventing the bill from coming up for a final vote before the end of the session of Congress on March 3, 1923. Lasker resigned as chairman of the Shipping Board on July 1, 1923.

IN 1924, Congress made an exhaustive investigation of the Shipping Board and its activities under Lasker, before Lasker, and afterwards. The

Select Committee held public hearings for almost a year in Washington, on ships and in European ports. The result was twelve volumes of revealing testimony and exhibits. The committee reported the effort of the Shipping Board officials during the Harding Administration and the shipowners to discredit government operation in favor of subsidy. The report suggested that the government should encourage private shipping as much as possible and at the same time maintain its own services where private American lines did not exist. It also recommended that the Shipping Board activities be placed on a more permanent basis, and that the confusing name of its operating unit, the Emergency Fleet Corporation, be changed to Merchant Fleet Corporation, which was done.

By 1928 it had become apparent that private capital must be granted some form of subsidy in order to induce it to engage in large scale shipping operations and the development of an American merchant marine. Under the Jones-White Act of 1928 subsidy was granted in the form of contracts to carry the mails for ten years. The act also provided for a revolving fund of \$250,000,000, to be used for loans to companies at very low rates of interest in order to help them to build new ships. The government loaned three-fourths of the cost of construction of a ship, and the company building it was to put up the other one-fourth. The prices paid to steamship companies to carry the mails were sixty times the ordinary mail contract rate, so that the companies might have the difference in subsidies, and ships were still sold to private companies by the government at very low prices, in order to induce them to operate steamship lines. The result was that by the end of 1930 private American companies were operating 1,345 ships under the American flag with government aid, and the government was only operating 433 ships directly. Forty-five new ships were built with government loans, and the merchant marine was modernized for the first time since the war.

After the shipping companies had been granted subsidies in the form of mail contracts for the purpose of building up an American merchant marine to carry American commerce at reasonable rates, they thwarted this purpose in many cases by joining in pool arrangements with foreign lines and agreeing to keep up the freight charges on American trade. The freight rates became so high that the Cudahy Packing Company and the International Harvester Company—no radicals—protested that the freight

rate on lard and other products was very much higher after the American merchant marine had been subsidized than before.

The shipping companies kept up extensive and expensive propaganda in Washington and throughout the country to further the interests of their corporations, and the expenses of these campaigns for subsidies and aid were paid for out of the revenue which the government supplied to the companies. J. E. Dockendorff, of the American Diamond Lines, paid the law firm of Donovan & Bond a fee of \$100,000 for representing the American Diamond Lines before Cabinet members in President Hoover's Cabinet and with President Hoover himself. Publicity men and publicity campaign organizations received large fees from the shipping executives for persuading the American public that the money doled out to private shipping companies was well spent; they could put their hearts into these campaigns, for they received some of this money themselves. And then there were the lobbyists for special bills and the legislative representatives with permanent establishments in Washington, financed by the shipping organizations.

Henry Herberman, president of the American Export Lines, was known as "Mr. Tuesday" around the United States Shipping Board offices, because he usually appeared there every Tuesday to solicit contracts for ship purchases at low rates, construction loans at low interest charges and renewals and extensions of those construction loans. Mr. Herberman testified before the investigation of ocean and air mail contracts that he had paid out large sums of money for propaganda. He said that he had paid the expenses of a magazine, but he could not quite remember its name. "I tried to get a magazine," Mr. Herberman testified, "in fact, I backed a magazine. What is the name of that thing? The Shipping—I have one of the magazines up in my room around here." He paid for the magazine's publication during three years, he said, and had it sent around the country. He also paid sums of money to men interested in other magazines in order to induce them to publish merchant marine propaganda, he testified. "My God, man, every one of them wanted money, and I gave it to them," Mr. Herberman exclaimed, when Senator Black asked him whether he had ever given money to the Midwest Trade Association. Whenever he made a trip to Washington, Mr. Herberman drew large sums of money from his company for expenses, and he made out vague

vouchers for the amounts he spent for entertainment in the nation's capital. In 1928, Mr. Herberman had received a salary of \$125,000 from the American Export Lines, and that year he charged the company \$163,171 for his Washington expenses. He also drew \$169,000 that same year from another of his companies for expenses.

"What went with that money, Mr. Herberman?" Senator Black asked.

"Mr. Senator," Mr. Herberman replied, "if you had one child it would cost you so much to keep. I had 43 kids I was supporting and trying to develop that business."

"You mean 43 ships?"

"I call them my children," Mr. Herberman replied.

The tailor bill of \$510 for three suits and an overcoat for Chairman T. V. O'Connor of the Shipping Board, was paid by the American Export Lines at Mr. Herberman's request to the treasurer of that company. Mr. Herberman also sent blooded cattle to the ranch of the father-in-law of R. D. Gatewood, who was in charge of repairs and maintenance accounts for the Shipping Board when Mr. Herberman was operating ships for the Shipping Board under contract. For the year ending 1925, Mr. Herberman was allowed \$792,139 for repairs and maintenance, and the following year, after he had bought the ships from the government, his repairs and maintenance amounted to slightly more than half that amount, and in the next year his repair bills had fallen to \$39,799. Mr. Herberman also bought 18 ships from the government for \$1,071,431.77, and in 1930, when he got into financial difficulties, Mr. Herberman owed the Shipping Board \$8,000,000 in construction loans and owed the New York Shipbuilding Company for his share of the construction costs of the ships he had been building. The total granted to Mr. Herberman's American Export Lines, including mail contracts, insurance and payments for repairs to ships, amounted to \$45,230,151. Before he received government contracts Mr. Herberman had never operated a shipping company in his life.

Senator Black estimated that during a period of ten years up to 1933 the government had granted shipping companies direct and indirect subsidies amounting to \$405,696,302. He also pointed out that if the difference

in the cost of ships to the government and the sales price to private companies was included in this estimate, the subsidy would amount to about one billion dollars. Even the shipping companies must have felt that their government had been generous in keeping rugged individualism on the seas; but eternal subsidies are obtained only by vigilance, and the American shipowners and operators kept up a steady stream of propaganda and pressure to keep the government bountiful.

Efforts were made by the American Steamship Owners' Association to get Frederick William Wile, newspaper and radio correspondent; Will Rogers, topical humorist; Merle Thorpe, radio news commentator; and Frank H. Simonds, writer on international affairs, to talk over the radio in favor of subsidy for the American merchant marine. J. Caldwell Jenkins, president of the association, wrote a letter in which he stated: "The other day Mr. John Franklin states he had been talking to Will Rogers and Rogers said he would make some mention of the merchant marine in his talks or articles." The association worked with newspaper editorial writers and inspired articles, which were then sent to Senators and Representatives in Washington to indicate the sentiment of the people of the United States. The association succeeded, too, in suppressing material in newspaper articles which was opposed to its interests.

For their propaganda the shipowners also used chambers of commerce, Propellor Clubs, the Minute Men of America, and trade associations. Some of the propaganda was sent out under the names of these organizations and then forwarded to Congressmen. The American Steamship Owners' Association proposed to conduct an educational campaign in the schools of the nation by offering prizes for the best essays on the merchant marine written by pupils, with prominent citizens of the country as the judges of the pupils' essays.

At one time the American Steamship Owners' Association contemplated contributing \$94,000 to the American Farm Bureau for the use of its propaganda machinery to convert the farmers of the nation to a belief in ship subsidies. The American Farm Bureau, which boasted that it had "the most powerful lobby in Washington," promised to reach 1,250,000 farm families in the United States in the interests of the steamship owners for \$94,000. The shipowners were to have the use of the Farm Bureau's 15,000 community units, 1,837 county farm bureau organizations, its

10,000 volunteer leaders and workers, its 6,000 salaried employees, and its legislative bureaus in Washington and Chicago. The American Steamship Owners' Association approved the plan and circularized its membership concerning it, but the cost was decided finally to be too great. When the Farm Bureau was trying to sell itself to the shipping association, its executives pointed out that the bureau had done excellent work of a similar nature for the National Lumbermen's Association, the Portland Cement Association, the Copper & Brass Research Association, and the National Automobile Chamber. The steamship association looked up some of these references and learned that the American Farm Bureau had done excellent propaganda work for the power interests and the lumber interests.

When the administration of President Franklin D. Roosevelt took office in 1933, the American Steamship Owners' Association was concerned for its members' subsidies. Its representative in Washington, Mr. Duff, telephoned his ideas to Mr. R. J. Baker, its secretary-treasurer, and Mr. Baker made a memorandum of them which was found by the Black committee in his files. Mr. Duff thought that it was no longer "worth a tinker's damn just to run around and try, by buttonholing or otherwise individual Senators here to ascertain their possible position with reference to how far we can look for support and so forth." The time had come, he said, for the shipping men "to arrange through someone close to Mr. Roosevelt for having a conference with him and have him call in the Secretary of the Navy, so we may get the Administration's slant on this ocean mail situation, and have emanate from the President and his Cabinet to the leaders of the Senate some expression of opinion which is going to be more or less controlling in the majority of those who follow Robinson's leadership, because left individually, you are going to find that there will be a large number of these new men who are going to take guidance from these old fellows. A great many of them are bitterly opposed to ocean mail and air mail contracts, and left to their own resources they are all wild to show the veterans and others that they have not abdicated to the President to cut right and left in the way of benefits to various people without having shown that some of the people who are enjoying certain privileges, as they put it, have not been attacked."

When the expected attack in Congress began in 1933 with the resolution for a Senate investigation of ocean and air mail contracts, Mr. Duff tried

to get certain Senators appointed to the investigating committee, and the steamship owners also tried to get a counsel appointed for the committee whom they liked. On March 7, 1933, Mr. Duff wrote to his employers in New York:

As a matter of fact, I do not look upon this undertaking as being something that will give us any concern at all. I think you will find several of the members will, during the summertime, take some trips abroad and see whether the mail arrives and possibly make sure that the airplanes are actually delivering mails for which the Government is paying. The probabilities are that after they have all had some trips, the committee will get together and tell the fine times they have had and possibly call in the Postmaster General and explain to him what had been done during the recess.

Frankly, up to the moment, no one knows what will be done, but I think my guess is not far off.

On March 14, 1933, Mr. Duff wrote again concerning the personnel of the investigating committee:

I think this committee is about as good as we could have expected and there may be something in the fact that the name of the chairman is Black and one of the Republican members is White.

In other words, we start with everything looking black and end up with it white.

But Mr. Duff was to be sadly disappointed. The chairman of the committee, Senator Black, studied all summer; no one took any trips; and in September, 1933, an exhaustive and valuable survey was made of the steamship subsidy via mail contracts.

WHILE the merchant marine operators were making every effort to get money from the government and to get control of the government's ships,

the shipbuilders were working hard to make Congress appropriate money for building both naval cruisers and merchant ships. Charles A. Beard in his book *The Navy: Defense or Portent?* wrote:

On the one hand we are told that a big navy is necessary to protect the merchant marine in all waters of the world; the bigger the merchant marine, the bigger the navy needed. On the other hand we are informed that, since merchant ships are to be armed in war time, we must have more of them to strengthen the navy. According to this logic we must build more fighting ships to defend the merchant ships and more merchant ships to defend the navy. With great cogency, Senator Walsh of Massachusetts expounded this beautiful creed during the hearings on the London Pact in 1930. Three cheers for old Ireland, down with the British, and more jobs in shipyards!

The most brazen episode in the campaign of shipbuilders to persuade the government and the world to continue giving them contracts for naval cruisers and merchant ships was that which involved the confidential relations of William Baldwin Shearer and the executives of the three largest shipbuilding companies in the United States.

A writer in *Collier's Weekly* remarked in 1929 concerning Shearer: "In the old days he would have sold patent medicine or lightning rods. Today he sells patriotism, a product with a much higher social status and more profitable to sell."

William Baldwin Shearer was born in Philadelphia on October 23, 1874, into a family which had lived there for many generations. He once furnished a record of his career to one of his employers, Laurence R. Wilder, of the American Brown Boveri Electric Corporation, which owned the New York Shipbuilding Company. Mr. Wilder had the record checked for accuracy by the propaganda office of Ivy Lee, who was also in the employ of the shipbuilders, and he received a telegram from Mr. Lee's office reading: "Subject's statement correct as to biography details and loyalty unquestioned."

Scotland Yard also had a record of Shearer, which read as follows:

W. F. Shearer, or William Baldwin Shearer, Also Known As Schalarer, Roscovely or Roscowey, Sear, and Nevin.

American citizen; probable age about 50; height 5 feet 11 inches; complexion fresh; hair brown; eyes gray; rather long thin face; thin build; very smart appearance.

This man is a notorious associate of international crooks and swell mobsmen, and is said to be well-known to Pinkerton's Detective Agency, Chicago. He first came under the notice of the British police in 1904. He was then associated in betting transactions with one Baron Seidlitz, from whom he stole a check for £737. Shearer cashed the check by opening a banking account with it, immediately afterwards withdrawing the whole amount. A warrant for his arrest was issued, but the loser was reimbursed and proceedings were withdrawn.

In 1912 Shearer was said to be associated with the boxer, Kid McCoy, and others in a theft of jewels from the Princess of Thurn and Taxis at the Royal Palace Hotel, Osten. Shearer was arrested in Paris, but escaped, like the rest of the accused, on grounds of insufficient evidence.

Shearer's associates are said to have included the notorious crooks "Captain" Arthur Huber Allison James, alias Captain "Baby" James, and Montague Noel Newton, who was recently very prominent in the "Mr. A" case. There are, however, no details as to his relations with these men, or whether it was anything more than a friendship of thieves. He is said to have interested himself in gaming houses in the West End, and before leaving for America about the end of 1915 was largely interested in running a night club in Garrick Street.

In March, 1918, Shearer was reported on for the information of the admiralty. At the time he was in touch with the British naval authorities in the United States of America, having a very clever invention which they wished to develop on this side, where there was less risk of its getting into enemy hands. It was accordingly arranged that Shearer should be sent over under escort of a naval officer. It appears that he came here, for he returned to the United States in June, 1918, with an intimation that he should not be allowed to land without reference to the home office.

Shearer was last reported on in October, 1920, when the United States naval attaché was anxious for information about him. He was then detained in America, it is believed on account of espionage.

The interesting thing is that Shearer is the man who the other day made the widely disseminated disclosures about the Americans having had a spy on board one of our battleships during maneuvers. This spy,

you may remember, was said by Shearer to have reported that we were evading the Washington agreement in the spirit, if not in the letter.
1-1-25.

This Scotland Yard record was introduced into the Senate committee's record at Shearer's request, so that he might have an opportunity to reply to its allegations. Shearer testified that he had known "Kid" McCoy for many years, that he was in Belgium in 1912, and that "Kid" McCoy had asked him to promote a fight between him and Georges Carpentier. Shearer also said that a man named Stockley, formerly of Scotland Yard, whom Shearer employed to protect his theater and the night club which he promoted in London, had told him that it was "his and the Yard's assumption" that the jewel robbery of the Princess of Thurn and Taxis was an attempt to collect insurance, and that there were conflicting stories concerning the robbery. "Kid" McCoy was arrested for the robbery, but Shearer believed he was liberated a short time afterwards for lack of evidence against him. Shearer claimed that he himself was never arrested in that connection and had nothing to do with the alleged robbery.

Mr. Shearer did not offer any direct denials of the Scotland Yard record, or its innuendoes, with the exception of the robbery of the Princess of Thurn and Taxis' jewels. He tried to indicate in this connection that the characters of the Princess of Thurn and Taxis and of her husband were not all they might be, and he blamed the check transaction on a man named Doyle. But his past associations remained much as stated in the Scotland Yard record, until he began to associate with shipbuilders.

After the war Shearer attracted some slight attention to himself in the United States by bringing suit against the United States of America to prevent the government from destroying the battleship *Washington* in accordance with the terms of the Washington naval treaty. His suit was thrown out of court, but he got publicity for himself out of it. Shearer then began to agitate for an increase in pay for navy officers and started a campaign for more battleships and more naval bases. He attacked John D. Rockefeller, Jr., as a pacifist and branded everyone who questioned the advisability of a huge navy with the traditional epithets of the time, "Bolshevist" and "Communist." Meanwhile, Shearer took part in the Florida real estate boom. Then he went to Geneva in 1926 to be present

during the sessions there of the Preparatory Commission of the League of Nations on naval disarmament.

In November, 1926, Shearer was back in New York, and he got in touch with the editor of a minor newspaper, the *New York Commercial*. He worked out a scheme by which he was to purchase a page in the *New York Commercial* one day each week for six months for \$18,000. Then he tried to interest the leading shipbuilders of the United States in taking advertising on this page for \$36,000. The difference of \$18,000 was to be used by Shearer for his expenses while conducting his perpetual campaign for a large merchant marine and a huge navy.

A member of the staff of the *New York Commercial*, Shearer testified, was vice-president of the Propellor Club, a big-navy organization which gave a Marine Dinner each year in New York. It was arranged that William B. Shearer should be the speaker at the Marine Dinner to be held at the Waldorf-Astoria Hotel in November, 1926. After his speech at the dinner in favor of a large merchant marine and a bigger navy, Shearer told the Senate committee proudly, he was approached and surrounded by admiring shipbuilders. "If I said twenty-five talked to me intimately, it might be a very conservative statement," he testified. Among those who were impressed with Mr. Shearer's speech at the Marine Dinner was Mr. Homer, of the Bethlehem Shipbuilding Corporation, who told Shearer that he thought the speech should be read by everyone in the United States.

After his oratorical success, Shearer got busy. He met Charles M. Schwab, of the Bethlehem Steel Corporation and the Bethlehem Shipbuilding Corporation, at the Ritz-Carlton Hotel in New York and discussed "sea power" with him. As a result of this conversation with Schwab, Shearer claimed, Mr. Homer, of the Bethlehem Shipbuilding Corporation, took up with him his advertising and propaganda scheme for sea power in connection with the *New York Commercial*. Mr. Shearer summarized the purpose of his scheme for Senator Robinson: "Well, it was, to use my exact interpretation, or as I stated, that I considered before you could ever create a merchant marine in this country you had to create a vote value; and the only way to get a vote value was to sell it to the public."

Mr. Homer asked Mr. Shearer to put his plan in writing, and then he took him to see his superior in the Bethlehem Shipbuilding Corporation, Mr. Samuel W. Wakeman, vice-president of the company. In the mean-

time, Mr. Shearer had interested in his scheme Mr. F. P. Palen, vice-president in charge of the New York office of the Newport News Shipbuilding & Dry Dock Company. Mr. Palen was very much impressed with the potential value of Shearer to the shipbuilders, and he wrote to Homer L. Ferguson, president of the Newport News company, concerning Shearer: "He is probably the most forceful speaker and the greatest authority and enthusiast interested in this question, and I think it advisable to offer him some financial assistance in connection with this speaking tour." Mr. Ferguson, it will be remembered, was the man who told a Congressional committee that though he was willing to beat his cruisers into plowshares, he found that the plowshare manufacturers did not welcome him in a very hearty way.

Mr. Palen recommended that the Newport News company take space on Mr. Shearer's page for \$2,600 in order to help him finance a speaking tour on sea power. He wrote to Mr. Ferguson:

After making one more address in New York he expects to spend some time in Washington after the opening of Congress in order to get information on the probable attitude of Congress and the administration toward appropriations and backing for the Navy and merchant marine, after which he will start on his speaking tour, and intends to cover the entire country, speaking before gatherings organized by the American Legion, the chamber of commerce, and similar organizations that will cooperate with him in getting the necessary audiences.

Mr. Bailey was present at the conference today with Mr. Shearer and he will discuss this matter with you.

The shipbuilders finally decided that Mr. Shearer's idea that he be subsidized by them via advertising in the *New York Commercial* was not wise. Instead the executives of the three large shipbuilding companies met with Mr. Shearer on December 15, 1926, at the office of Henry C. Hunter, attorney for the Council of American Shipbuilders. Those present were Mr. Wakeman, of the Bethlehem Shipbuilding Corporation, Mr. Palen, of the Newport News company, and Mr. C. L. Bardo, of the New York Shipbuilding Company, a subsidiary of the American Brown Boveri Electric Corporation. They agreed to send Shearer to Washington to work for the passage of the merchant marine act and the navy cruiser bill by

the Sixty-ninth Congress. Shearer received \$7,500 for this job from the three companies. Payment was made to him by a check paid through Henry C. Hunter, of the Council of American Shipbuilders, and no written contract or agreement of any kind was made with Shearer.

Senator Robinson asked Mr. Wakeman whether he had taken the trouble to look Shearer up before hiring him:

"No, sir, I did not," Mr. Wakeman replied.

"Is that the custom of your company in employing individuals for a confidential mission?"

"No; it is not. This was an act of my own, Senator."

"I know; but why did you pursue a different custom on that occasion from the one that usually prevails?"

"Well, I do not know."

"You do not know?"

"I think I was just 'jazzed' off my feet on that proposition, if you want to know," Mr. Wakeman said. "I do not like to make the acknowledgment, but ——"

"Frankness is the best thing," said Senator Shortridge.

Mr. Palen testified that he had heard of Shearer first as the inventor of the one-man torpedo boat during the war, which had gained Shearer publicity. Senator Shortridge seemed to doubt that Shearer had invented the boat himself. "Oh, well, the boat carried his name," Mr. Palen replied. Then Mr. Palen had heard Shearer make a speech, talked with him and agreed to hire him as a propagandist.

Mr. Wakeman said that he and his colleagues had hired Shearer "to supplement the work of the Shipping Board," but Shearer testified that Wakeman said to him: "The idea of a campaign is very good. That will help educate the people, but we want action in Washington. I have had a talk with Mr. Palen and with Mr. Bardo, and we think that you should go to Washington for the Sixty-ninth Congress, to try to get through the 3-cruiser bill." Each cruiser built would cost the government about \$10,000,000.

Senator Allen tried to get out of Shearer just what he did in Washington to earn his \$7,500, but the witness was vague and discursive. We know from the *Congressional Record*, however, of one bit of his influence. Congressman Loring M. Black, of New York, made a speech in the House of

Representatives on January 4, 1927, which was for the most part a rendition of a long letter by "a naval critic," who, Mr. Black assured the House, was not a British critic. The signature at the end of the letter was that of W. B. Shearer. The letter advocated 50 new naval cruisers, ten to be built each year for the next five years; 15 destroyer leaders to be built at once; replacement of the 103 destroyers then in commission as obsolete; 45 new submarines; 3 new airplane carriers and 5 new dirigibles of the largest size. Such a program would have kept Mr. Shearer's shipbuilding employers busy for a long time. "There is every evidence," Mr. Shearer, the naval critic, wrote, "that the United States Navy would be defeated in every major engagement."

The naval cruiser bill was debated in Congress during January and February, 1927, and many of the speeches of the Congressmen owed some of their information and their color to Shearer's influence in the offices and lobbies of Congress. The bill providing for six new naval cruisers, was passed before the session ended on March 4, 1927, and Shearer returned to New York early in March with the satisfaction of having earned his money for his employers.

The Geneva Conference on Naval Disarmament was due to meet in Switzerland in the spring of 1927, and the shipbuilders agreed with Shearer that it would be a good idea for him to leave for Geneva at once. On March 17, 1927, Shearer met at noon with Clinton L. Bardo, of the New York Shipbuilding Company, F. P. Palen, of the Newport News Shipbuilding & Dry Dock Company, and Samuel W. Wakeman, of the Bethlehem Shipbuilding Corporation, at the office of Henry C. Hunter, attorney to the Council of American Shipbuilders. They made an oral agreement to send Shearer to Geneva as an "observer" for them. That day they gave Shearer \$8,333.33 as the first payment of \$25,000 for his work abroad.

The avowed purpose of the Geneva conference was to limit naval building with express reference to cruisers. Mr. Homer L. Ferguson, of the Newport News company, testified, "it is a matter of very great importance to us—what these armament conferences do." He said that the Washington conference of 1922 had resulted in cancellation of work for which his company had contracts with the government. "We had two battle cruisers and one battleship scrapped by that conference, and we almost lost the *West Virginia*," Mr. Ferguson told Senator Shortridge.

At the time when the shipbuilders sent Shearer hurriedly to Geneva, each of the three companies who paid him had invitations to bid on the new naval cruisers.

"Were those two cruisers upon which you bid, and contracts for which you received, involved in any possible outcome of the Geneva parley?" Senator Allen asked Mr. Bardo.

"The contracts contained the privilege to discontinue at any time," Mr. Bardo answered.

Senator Allen brought out that if the Geneva conference failed of its purpose, then it was possible that the United States would enter on a program to build fifteen new cruisers. Mr. Bardo testified that he was not thinking of that possibility at all when he joined with the other two shipbuilders in sending Shearer to Geneva, that he merely wanted to know what was going to happen at the conference, and get firsthand information from Shearer, so that he might prepare his business plans accordingly. He said that \$8,000 was nothing compared with the cost of installing machinery which might be useless if the naval cruisers were limited, and he gave as an example one machine, which would have cost \$60,000 to build and would have been a loss if the cruiser program was limited.

"What is the relevancy of that illustration?" Senator Shortridge asked.

"To show," said Mr. Bardo, "that the business man who has any conception of the value of a dollar has got to be thinking of a lot of things besides his breakfast tomorrow morning."

"He is explaining, Mr. Chairman," said Senator Allen, "the reason why it was so important to spend \$25,000 for observation of this conference at Geneva."

"To learn the trend of it, you mean?" Senator Shortridge said sarcastically.

"That is it," explained Senator Allen.

"He was not concerned with the result, but merely, as Senator Robinson developed, with the trend."

"I did not care about tons and guns," Mr. Bardo remarked. "I wanted it settled, that is all."

The shipbuilders had all testified previously that they had not sent Shearer to Geneva to influence the conference by propaganda or otherwise, but merely wanted him to "observe the trend" of the conference so that they might know where they stood.

But Shearer's conception of his job was rather different, as evidenced by his own testimony, that of witnesses who had met him in Geneva, and the reports which he sent to his employers in the United States. Shearer left New York on March 19, 1927, two days after he was hired to go to Geneva, sailing on the *George Washington*. He spent a few days in Paris to renew old contacts and then went at once to Geneva, where he took a luxurious apartment with plenty of space for entertainment. He got to work quickly and prepared an advance publicity campaign before the conference began its sessions. He sent out multigraphed articles to the press, patriotic societies and members of Congress, and he made every effort to influence newspaper correspondents by giving them naval data, colored with his own belief in a bigger and better navy for the United States and implications concerning the insidious influence of Great Britain. He referred to himself fondly as "the bass drum," and his favorite tune was "Perfidious Albion."

On May 26, 1927, Shearer wrote to Henry C. Hunter, who acted as go-between for the shipbuilders with Shearer, and who received all his reports from Geneva and passed them on:

My Dear Mr. Hunter: Watch all articles in Times of May 13 and 14, which were reflections of my views. Also hope you read article sent by Williams (the Times correspondent here), printed in the New York Times tomorrow, May 27, which is also my views and suggestions for strong man, Dawes or Reed, given him.

Have sent out 250 copies of inclosed, including all newspapers. Mr. Ochs, owner of the Times, now in Europe, has issued orders to all correspondents to play up naval situation.

I consider best move to pound on naval bases to offset the British thesis on cruiser situation.

Engineering, London, printing my article on Imperialistic for Peace.

Sincerely,

W. B. SHEARER.

Then on June 2, 1927, he wrote again to the agent of his employers:

Dear Mr. Hunter: New York Times was cabled story of 1,000 words last night compiled from inclosed article, "A Merchant Marine."

Sent out: Imperialistic for Peace, 250 copies; Facing Geneva, 250 copies; A Merchant Marine, 250 copies being posted.

Sincerely,

W. B. SHEARER.

As yet there seemed to be nothing in Shearer's reports about the "trend" of the conference.

The New York *Times* subsequently denied that Shearer had influenced its correspondence. After Shearer's letters had been introduced before the Senate committee in 1929, Edwin James, foreign editor of the *Times*, cabled his newspaper:

Reference to the files of the New York Times shows that on the dates of May 13 and May 14, 1927, there were published no dispatches, big or little by me, relative to naval matters, nor were any cabled by me for publication on those days.

He added that he had not seen Mr. Shearer for two years, and that Shearer never had had anything to do with the preparation of his articles. He had met Shearer at the Paris office of the *Times* in the summer of 1927 and had refused Shearer's "offer to have him interviewed." Shearer did not hesitate at all to misrepresent facts in order to impress his employers with his great influence.

Shearer told the Senate committee: "My titles, I want to say, are much better than my writings." He was right, except that his titles were not very good either; "Imperialistic for Peace," "The Marine Follies," and "Facing Geneva," required little imagination to invent. Shearer's articles were blustering, heavy and full of one set of culled facts which he used as often as possible. His releases spoke vaguely of Communist plots, and his main theme was still "Gott strafe England," and it may be that his difficulties in England in his palmy days as a racing man and a night club promoter might have contributed to his persistence in this theme. A sample of his style is the following peroration from his article, "The

Marine Follies," which he used over again with slight variations in words in his pamphlet, "The Cloak of Benedict Arnold":

The crucible that once produced red blood and sturdy hearts will surely produce a Paul Revere, sounding the alarm and riding like hell over these Babylonian architects who would take us from the sea, and molding the younger generation for the dance of death—a self-inflicted torture of driving seditious nails into the cross of national crucifixion.

W. B. SHEARER.

Mr. Shearer seemed to think that he was that Paul Revere, but there is no evidence that the original Paul Revere was in the employ of the Lexington & Concord Arms Manufacturing Corporation.

Drew Pearson, newspaper correspondent, who attended the Geneva conference, testified that Shearer was "a person that you could not help seeing: because, first he was a very well groomed and flashily dressed gentleman. In the second place, he was very active in mingling with the newspaper men and others at the press conferences which were held with Ambassador Gibson and Admiral Jones, and in general conference circles." Shearer had credentials from the New York *Daily News*, a picture paper which Henry Wales, correspondent of the Chicago *Tribune* and New York *Daily News* furnished to him, so that he might attend conferences not open to the general public. Drew Pearson testified that Shearer sat with the American naval delegation in their hotel lobby night after night, and the conversation was largely anti-British; members of the group, Pearson testified, said frankly that they were out to see that the conference failed, because they felt that the 1922 Washington conference had hurt the American Navy for political purposes.

At the press conferences Shearer was very busy prompting newspaper correspondents to ask questions, Pearson said, and after a press conference, Shearer would gather a group of newspapermen around him and interpret the news for them.

"And did the newspaper men become interested in these interpretations of Mr. Shearer?" Senator Allen asked.

"I would not say they became interested," Mr. Pearson answered.

"Shearer is a forceful person, and if you do not want to listen to him he more or less makes you listen to him. I mean he has a habit of expressing his views under very difficult circumstances. I remember he even tried to put his views across with the British correspondents."

"What were his relations with the British correspondents?"

"They more or less 'gave him the raspberry.'" . . .

"As they continued to 'give him the raspberry' did he continue to insist upon instructing the British correspondents?"

"I think he got a little tired of instructing them. But I remember they were very indignant, and inspired and wrote dispatches which were published in England, pointing out that the condition of affairs in Geneva was seriously retarded by his presence, and in which they openly stated that he was in the pay of American—I think they said—steel interests."

"Did Mr. Shearer's handouts to the press create the impression among these intelligent newspaper men who were there that he had his facts straight?"

"Senator, if you read his stuff carefully, his facts were usually correct; but they were embroidered and tied up with so much color that the whole effect was poisonous."

"So that he was there apparently to poison his facts rather than to make them tell the true story. Was that your judgment?"

"That is absolutely my judgment."

"Perhaps my question was not quite clear," Senator Allen said. "It is whether Mr. Shearer was merely following his own sentimental attitude in the matter or was working for some one to a definite purpose?"

"Well, Senator, there was every evidence that he was working for some one to a definite purpose."

"What was the purpose?" asked Senator Shortridge.

"To break up the conference. From the way that he spent money lavishly, I was surprised that he had only \$25,000, because he spent money hand over fist. He certainly did not make much money out of his trip." . . .

"But he spent money with the manner of a man who believed that there was plenty more where that came from?"

"It seemed so." . . .

"Was there a feeling that Mr. Shearer had an inside which made his information of peculiar significance?"

"Yes; there was, to a certain extent, that feeling that he got his facts straight from the Navy."

Shearer himself testified that he was assisting the naval delegation at Geneva to "get out the facts and figures which they were not permitted to give out." That, too, was quite another thing from "observing the trend" for his employers.

"Did you tell these naval officers you had been sent there as the employee of the Council of American Shipbuilders to help them?" Senator Allen asked.

"Certainly not," Shearer replied.

"But they knew you were there to help them?"

"Naturally. They knew my record in naval matters, and I have always helped them."

"And you are saying now that they knew you were there to help them; they knew you were there living in impressive style and doing all of this work; they were glad to associate with you, but did not know who was paying you?"

"They did not ask *i.e.* They are not inquisitive."

Others were more inquisitive than the naval officers about who was paying Shearer. Dr. Gordon, of the Church Peace Conference, called on Shearer in Geneva and wrote to him asking whether he represented American steel companies. Shearer testified that he did not reply. When Wythe Williams, correspondent of the *New York Times*, and Henry Wales, correspondent of the *Chicago Tribune*, asked Shearer whom he represented, he replied that he represented the Pittsburgh Doorknob Company, "because if you build battleships you will have doors; and if you have doors you must have doorknobs." "That was my only statement," Shearer testified, "because it was ridiculous for newspaper men to ask me whom I represented." Shearer told the Senate committee that he would have told an ambassador or a naval officer whom he was representing, but not the "English owned" and "English edited" *New York Times*. When pressed about this English ownership and editing, he could only feebly offer as evidence that Frederick T. Birchall, foreign correspondent of

the *Times*, was an Englishman. Shearer finally had to admit that at Geneva he gave out that he was endorsed by American patriotic societies, which carried the implication that they were his employers.

In his spare time at Geneva Shearer made oil paintings of ships and showed them to the newspapermen and naval officers. On July 12, 1927, he sent this confident note to Henry C. Hunter, the agent of his employers:

Many thanks for letter with inclosure.

This show may end abruptly. Gibson has handled our case admirably. This will be the only conference America ever won. Gibson gives the credit to the American Press; we have been able to defeat the British propaganda machine and get the figures out.

The inclosed is the shot I issued on the date of the plenary session which was postponed.

The Chicago Tribune, Chicago, has from the start taken the same stand as the New York Times. Colonel McCormick, owner of the Chicago Tribune, sent word to Wales, the correspondent here, to shoot all my stuff.

Sent out 250 copies of the Marine Follies. I issue a statement daily to the leading American correspondents here, including the A.P. and U.P.

Yours very truly,

W. B. SHEARER.

The main difference between the American and British delegations to the Geneva conference was concerning the number of cruisers each nation should be permitted to build; both agreed to limit the total cruiser tonnage, but the Americans wished to build as many cruisers as they pleased within that tonnage, and the British maintained that the number of additional cruisers should be limited. Cruisers at \$10,000,000 apiece were what Shearer's employers wanted; they did not care so much about "tons and guns," as one of them expressed it in another connection. Shearer testified: "My purpose, as they [the shipbuilders] understood it, was to see that the United States would get out their side of the story at Geneva; that we would get a treaty of parity if possible, and if it was not a treaty of parity, no treaty." In a confidential report which he sent to the ship-

builders, and which he suggested that they should send out under his name in pamphlet form to members of Congress, the press, patriotic societies and prominent individuals, Shearer wrote:

A small band of naval experts stood by their guns; they were thinking of Washington in 1922. The ammunition was passed out and the well-trained guns of the loyal American press fired their well-placed shots. The enemy's propagandist guns were outranged, the subsidized pacifists' and internationalists' ranks were broken; the American people rose to the occasion and allied themselves behind America's justifiable stand. And as the echo of victory died it was realized that America had won its first conference.

Shearer was proud to admit, especially to his employers, that he was the man behind the well-trained guns of the press. The conference broke up in failure on August 4, 1927, and on the following day one of the leading newspapers in Geneva published an article headed, "The Man Who Wrecked the Conference." Drew Pearson testified that it was the impression among the European newspapermen that Shearer had smashed the conference with his propaganda, but that the American newspapermen thought that there had been other factors as well, although they believed that Shearer had contributed to its failure. Shearer, before the Senate committee, emphatically disclaimed all credit for breaking up the Geneva conference, and he said that he never had claimed that he had done so. "I said the conference broke, not that I broke it," he testified. He added that he had said that Secretary of State Kellogg had blamed him for breaking up the conference, but that he himself had never taken such credit. "I recall at no time, even in my enthusiasm as a bug, as I have been referred to, when I said 'I broke up the conference.'"

The shipbuilders smiled and exclaimed on the witness stand before the Senate committee when asked whether Shearer had broken up the Geneva conference in their interests. "The idea of one man breaking up a conference!" exclaimed Mr. Laurence R. Wilder, of the American Brown Boveri Electric Corporation. "You talk about a man breaking up the Geneva conference!" said Clinton L. Bardo, president of its subsidiary, the New York Shipbuilding Company. "I would be a silly ass

if I thought for a minute, or anybody would be who thought for a minute, that a man could without power, without authority, the force of authority, without backing, without prestige, the very things that are necessary to get action, and break up anything dealing with international relations. It is impossible." But Shearer had the authority of the Navy for his facts, the backing of the shipbuilders for his money, and the respectful attention of a part of the American press at least for his prestige.

When it came time for the shipbuilders to testify before the Senate committee, they became strangely ignorant of Shearer's activities at Geneva. Charles M. Schwab admitted that he had heard of the man and had met him, but testified that he knew nothing of his employment by Mr. Schwab's corporation until after he had returned from Geneva. Mr. Schwab also expressed his willingness to scrap his armament works; it did not amount to much, anyway, he said. Mr. Eugene G. Grace, president of the Bethlehem Steel Corporation, with which the Bethlehem Shipbuilding Corporation was affiliated, also knew nothing of Shearer until he had returned from Geneva and then was angry that he had been employed. The men who had employed Shearer directly admitted that they had received the reports on his activities, his press releases and other articles, and some of them even admitted that they had read them. But all maintained that they had paid no attention to his propaganda and were only interested in Shearer as an "observer" of "the trend" of the conference. Shearer, however, had sent them no word about the "trend" of the conference except when he wrote gleefully that, "This show may end abruptly." As the Washington correspondent of the *New Republic* pointed out: "If they were not sinister they had to be stupid. Without exception they agreed on the stupidity theory, and before they finished had glowingly painted themselves as the prize boobs of the business world."

Shearer arrived back in New York in October, and Mr. Palen, Mr. Bardo and Mr. Wakeman, his employers, went to his rooms in the Fifth Avenue Hotel to have lunch with him and to hear his verbal report on the "doings" at Geneva, as Roxy Stinson said in another connection. After his return from Geneva, Shearer remained in the employ of the shipbuilders. His next propaganda activity was his lurid anti-British pamphlet, entitled "The Cloak of Benedict Arnold," which was a virulent

attack on pacifists, internationalists and the British government. His employers, the shipbuilders, found the pamphlet a little violent for their taste, and they paid Shearer not to publish it. Each of the three companies sent Henry C. Hunter \$75, and Hunter gave Shearer \$225 to pay the expenses of printing the pamphlet which the shipbuilders wanted suppressed. Nevertheless, Shearer, after he had taken the \$225 on November 14, 1927, circulated "The Cloak of Benedict Arnold" widely in the following January among newspapers, patriotic societies and others interested in his cause. Shearer insisted before the Senate committee that nothing had been said to him about suppressing the pamphlet, but that the shipbuilders had merely paid him the expenses of printing it, just as they had paid Ivy Lee for printing another pamphlet of Shearer's called "Sea Power."

Then the shipbuilders decided to send Shearer to Washington to work on their propaganda for merchant marine subsidies and to work on the naval cruiser building programs which were to come up before Congress. Shearer testified that Mr. Palen, of the Newport News Shipbuilding & Dry Dock Company, was in favor of Shearer's coming out in the open as the representative of the shipbuilders, but that Mr. Wakeman, of the Bethlehem company, was opposed to that move; he felt that the time was not ripe for open lobbying. However, Shearer said, he was to go to Washington as their representative, hire a house and make his permanent residence there. "I was to have a lovely house here," Shearer told the Senators, "so I put the real estate agents to work."

"On December 11th [1927] I believe the date was," Shearer continued, "Mr. Hunter phoned me to come to New York at once; so I naturally assumed—we all live on hopes—that Charlie [Schwab] was going to make me one of his boys. (Laughter.) So I pushed off with all this hope in my breast; and I was met at the railway station by one of Mr. Hunter's men who whispered in my ear—whispered, 'Go at once to the Lotos Club.' . . . So I went to the Lotos Club, and Mr. Hunter was there, and Mr. Palen, and I am not sure whether it was Mr. Wakeman, or I think it was Mr. Smith—another vice-president I believe it was, from the Bethlehem . . . and met me at his private room with the doors closed; and then they told me that Kellogg [Secretary of State] had called the Bethlehem crowd on the mat; did not say which ones, whether it

was that tower of ivory who sat back here the other day [Eugene G. Grace] or whether it was Mr. Schwab, or who it was, but the cat was out of the bag; they were going to proceed against them unless they fired me. I was to be the goat."

"Just prior to that they were arranging for you to come down to Washington?"

"It had been arranged. I was here."

"To have open employment?"

"Oh, yes."

"And represent them here in proceedings before the ——"

"Yes; everything."

"In everything?"

"Oh, I was to be the big fellow. (Laughter.)"

"And when you went up to New York, you learned, or they told you, that the Secretary of State had instructed them to get rid of you?"

"That is right."

Shearer added that a New York *World* reporter had learned that Shearer was in the pay of the Bethlehem Shipbuilding Corporation, and that that newspaper was about to attack Shearer. He also claimed that Secretary of State Frank B. Kellogg, whom he referred to on the stand by the slang nickname, "Nervous Nellie," until reprimanded for his disrespect, had threatened Schwab and Grace that the suit for war frauds against the Bethlehem company would be prosecuted by the Department of Justice unless they got rid of Shearer at once.

The night of his meeting with the shipbuilders at the Lotos Club, Shearer telephoned to Mr. Palen, who had been more friendly to him than any of the other shipbuilders who hired him, and went to Mr. Palen's home to talk with him. He asked Palen what was behind this new move to discharge him. "Mr. Palen said, 'Schwab does not want to be tabulated or accused of being behind all the "Big Navy" propaganda. He don't want to be tagged with it'—exact words—'He don't want to be tagged with any such charge,'" Shearer testified. The next morning Shearer met with the shipbuilders at Mr. Hunter's office and was discharged. He said that he protested that he was being punished for a mistake of Mr. Hunter's:

"I said, 'Surely you are not going to punish me for your own mistakes? I am not to be the victim of success? You are not going to make me walk

the plank? Your great mistake was made by your own attorney.' In his enthusiasm, Mr. Hunter had called up the head of the Navy League here in Washington, who was very close to the Secretary of the Navy—Mr. Wilbur, Secretary of the Navy at that time—and suggested me as the Navy Day speaker. Well, Mr. Wilbur does not need any more information than that, does he? The Council of American Shipbuilders suggesting me for the Navy Day speaker! That was not clever."

But Mr. Shearer was a very hard man to get rid of once he had proved himself useful to the shipbuilders. Mr. Bardo, of the New York Shipbuilding Company, testified that after Shearer's work at the Geneva conference, "there was a very determined disposition on Mr. Shearer's part to fasten himself on the shipbuilders beyond the time when they were willing to have him around." But there was also a disposition on the part of some of the shipbuilders to continue to fasten Mr. Shearer on Congress and government departments. Mr. Laurence R. Wilder, who was Mr. Bardo's superior as former head of the American Brown Boveri Electric Corporation, which owned the New York Shipbuilding Company, was very much impressed with Mr. Shearer, and he planned to use Shearer in an important propaganda project.

The Transoceanic Corporation of the United States had been incorporated by Mr. Wilder in Delaware in January, 1928. It advocated the construction, with the aid of construction loans from the Shipping Board, of four huge liners capable of making the voyage to Europe in four days. The ships were to cost between thirty and thirty-five millions of dollars and were to be financed by the government and the stock-investing public.

Offices were taken in the Carlton Hotel in Washington; Captain Herbert Hartley, former commander of the *Leviathan*, was hired as commodore of the 4-day liners, and a uniform was purchased for him for \$167; and William B. Shearer was hired to paint pictures of the prospective 4-day liners and to do propaganda work for a huge merchant marine under government subsidy. The 4-day liner plan was admittedly a huge publicity scheme to create renewed interest in a government-financed merchant marine, which would stimulate shipbuilding and ship operation. Mr. Laurence R. Wilder, shipbuilder and organizer of the scheme, told the Senate committee investigating Shearer's activities:

"Well, as I have stated before, in relation to shipbuilding, unless we could create a large volume of merchant building we were going to quit. There was no public interest in the merchant-marine problem. It was dead. Issues such as the International Mercantile Marine, the American Gulf & West Indies, and the Harriman interests in the United American Lines, had created a very bad flavor for any merchant vessel operating securities. We were proposing something radically new, and we had a disinterested public. We believed that it was up to us. That is why the other shipbuilding companies joined us. We felt it was up to us to arouse some interest, to arouse some enthusiasm, if we could, in the public at large.

"We used the 4-day liner proposal as the nucleus of something with a little romance in it, something new, something where the country would be stepping out into the forefront of ship operations, rather than be lagging way behind the way it was. It went, and it went fine. It was entirely satisfactory."

"What do you mean when you say it went fine?" Senator Shortridge asked.

"I mean the publicity took well. The papers opened up to it, and we really succeeded in stirring up a lot of interest in the merchant marine again. It has been reflected since. The whole situation has changed now."

No 4-day liners were ever built, but the publicity was worth its cost to the shipbuilders. "I venture to say we had half a carload of newspaper clippings from all over the United States indicating an interest," Mr. Bardo testified. The result was to facilitate the passage by Congress of the Jones-White Merchant Marine Act, which granted huge subsidies in the form of mail contracts to shipping lines and provided for a large construction fund for new merchant shipbuilding. Mail subsidies and construction loans were the idea of the Transoceanic promoters, which they passed on to Senator Jones and Congressman White.

Those behind the Transoceanic 4-day liner project spent \$143,000 in Washington to promote their ideas. Ivy Lee got some of this money for taking part in the propaganda campaign, and so did William B. Shearer. Shearer painted four oil paintings of future 4-day liners, took a trip to California to interest William Randolph Hearst in the project, gave Mr. Wilder valuable information and aid and received in return from Wilder \$9,550.

After the passage of the Jones-White Act with its rich subsidy and construction features, Clinton L. Bardo wrote the following letter to E. M. Herr, president of the Westinghouse Electric & Manufacturing Company:

August 13, 1929

Mr. E. M. Herr,
President Westinghouse Electric & Manufacturing Co., New York.

Dear Mr. Herr: The Jones-White merchant marine bill as passed by the last Congress is the most helpful and constructive national shipping legislation ever presented to the American shipping public. This legislation was only made possible by the energetic action of Mr. Wilder and his associates in the transoceanic enterprise, with the help and cooperation of other shipping and shipbuilding interests.

As a direct result of the passage of the Jones-White bill a number of remunerative foreign mail routes have been advertised, and some contracts let. A number of new ships are under active negotiation to build.

This activity was carried on in the interests of the shipper, shipbuilder, shipowner and suppliers of materials used in ship construction. The vision of the 4-day, high-speed transoceanic liners made an effective background for this legislation. Several months were spent in Washington by Mr. Wilder and his staff, explaining and educating Congress as to the need of an adequate merchant marine, privately owned and operated. The expenses incident to this effort were approximately as follows:

Publicity and advertising	\$30,000
Salaries of staff solely engaged in M. M. legislation duties and for reports submitted	22,000
Services of experts	26,000
Hotel expenses at Washington	23,000
Office expenses	12,000
Traveling expenses	15,000
Miscellaneous (printing, telephone, telegraph, photos, etc.)	4,000

Total \$150,000

Every single dollar of this expenditure was spent legitimately.

The board of directors of the American Brown Boveri Electric Corporation have assumed these obligations without any assurance as to re-

imbursement but with an abiding faith in the fairness of others whose interests have been so materially helped by this legislation. As stated to you recently, we are hopeful that others whose interests have been so vitally helped will contribute to a fund of \$100,000, which will leave the American Brown Boveri Electric Corporation to carry \$50,000 of the direct out-of-pocket expenses and \$56,000 for transoceanic development.

On the \$100,000 basis your proportion as nearly as we can estimate it upon the division of ship costs, would be \$5,000.

The other contributors who have been solicited are as follows:

American Engineering Co., Babcock & Wilcox Co., Bath Iron Works, Bethlehem Shipbuilding Corporation, De Laval Steam Turbine Co., Federal Shipbuilding Co., General Electric Co., Hyde Windlass Co., Newport News Shipbuilding & Dry Dock Co., Pusey & Jones, Sperry Gyroscope Co., Sun Shipbuilding Co., Worthington Pump & Machinery Co.

I would very much appreciate the courtesy of an early reply.

Checks should be made payable to the company and forwarded to the offices at Camden, N. J.

C. L. BARDO, *Vice President.*

Mr. Bardo had been very much opposed to Mr. Shearer's having any part in the propaganda for the Jones-White Act via the 4-day liner project. He had warned Mr. Wilder against Shearer. "I told him," Mr. Bardo testified, "that I regarded him as an undesirable man to have around; that he was more likely to do harm than good; he would not stay hitched." But Mr. Wilder was still much impressed by Shearer, and in spite of Bardo's statements that he had learned that Shearer was not an American citizen but a Prussian officer, "and that the British had enough on Shearer to hang him," Mr. Wilder told Shearer, according to the latter, that he would not be dictated to by Charles M. Schwab, and refused to get rid of Shearer, according to Shearer's testimony. Mr. Wilder did speak to Shearer about these statements about his past, and Shearer took Wilder to the Navy Intelligence, where Commander Powell told Wilder "that if Mr. Shearer was paid \$3,000,000 for his services at Geneva, he would still be underpaid," according to Shearer's testimony.

Meanwhile, Shearer was trying his best to get back into the employment of the three shipbuilding companies, but they remained wary of him. At least, if he could not get direct employment again, he wanted his compensation for what he had done and what he was doing. On this point there was disagreement. Shearer claimed that his arrangement with the shipbuilders was that he was to get \$25,000 a year for eight years, and they claimed that he was hired on a piecework basis for the cruiser bill propaganda at the Sixty-ninth Congress, and for the "observation" work at the Geneva conference. On January 30, 1928, Shearer wrote to Samuel W. Wakeman, vice-president of the Bethlehem Shipbuilding Corporation, who was the most anxious of all his erstwhile employers to get rid of him, and he sent copies of this letter to Palen, Bardo and Wilder:

My Dear Mr. Wakeman: Pursuant to our last private conversation and understanding in your office, that future negotiations would be with me direct, I wish to call to your attention that as the result of my activities during the Sixty-ninth Congress, eight 10,000-ton cruisers are now under construction.

Further, that owing to the failure of the Tri-Power Naval Conference at Geneva, there is now before the Seventieth Congress a 71-ship-building program costing \$740,000,000.

The understanding for which expenses were furnished me to conduct the campaign for naval preparedness was to March 5, 1928, to be paid as a salary of \$25,000 a year, receipt hereby acknowledged for year ending March 4, 1928.

As stated by you, and agreed by your group, I am to receive at the rate of \$25,000 a year as a reward, a bonus, or money earned as the result of the naval preparedness campaign which benefits, and, in reality, saved the shipbuilding industry. . . .

At the request of Mr. Hunter, Mr. Palen, Mr. Bardo, and yourself I have continued my activities in your behalf and in your interest to get action on a naval building program which is now assured. By request and instructions I am devoting considerable extra time and endeavor to the merchant-marine program as laid down and approved by members of your group. Considering the extra work assigned me and the expense involved, I believe a part of my bonus should be paid me March 5, 1928. Also I feel the time has arrived for me to come out in the open, as sug-

gested by Mr. Palen and Mr. Wilder, in the interest of all who are seriously interested in the shipbuilding industry and adequate seapower.

Very truly yours,

W. B. SHEARER.

The Cloak of Benedict Arnold has received a number of indorsements, congratulations, and demands from patriotic organizations.

I have supplied small numbers on request to the War College, etc., in addition to copies sent Congress, Army, Navy, and the press of the United States.

The oldest and foremost patriotic society in the United States has requested at least 100,000 copies for distribution throughout the Nation. They are not, however, prepared to pay the printing, therefore I am unable to grant their request.

The pacifist convention opens January 15 at the Washington Hotel. This is but the start against the Navy building program.

The sinking of the S-4 has changed public opinion. The attacks through the press and the press itself has swung against the Navy; this is reflected in Congress. A million copies of my book should be sent out.

Mr. Wakeman and the other shipbuilders thought otherwise, however. In fact, they had thought that they had paid Shearer \$225, the cost of printing "The Cloak of Benedict Arnold," in order to suppress it. Also they thought that they were finished with him financially when their agent, Henry C. Hunter, had written to Shearer on December 17, 1927:

Dear Mr. Shearer: We have now fully completed our commitments to you and you in turn have carried out the obligation you assumed toward us, which was to keep us informed regarding your observances at the Geneva disarmament conference. Therefore you will please regard our arrangement at an end.

With best wishes, I remain, very truly yours,

HENRY C. HUNTER.

When he was questioned before the Senate committee, Shearer admitted that he had no firm contract for \$25,000 a year, but that he had an understanding to that effect:

"Mr. Shearer," Senator Shortridge asked, "did I understand you to say that that contract was to extend over a period of 10 years at \$25,000 a year?"

"That was my proposition to them."

"Did they accept it?"

"Well, no. What they said was 'Don't worry. You will be taken care of.'"

Shearer also testified:

"I would always be a part of the 'big thought' as it were, as they expressed it, to keep the Navy and the Merchant Marine situation before the public. I was the only man that had ever given them service, though they announced that they had paid Ivy Lee \$150,000, but they got very little or nothing out of it."

"But you were to receive \$25,000 a year?"

"Yes, sir."

While his controversy with the shipbuilders over his pay was still going on, Shearer was working in Washington with Mr. Wilder on the propaganda for the Jones-White Act, with the 4-day liner project as bait. In February, 1928, he and Clinton L. Bardo had a forty-five-minute quarrel at the Hotel Carlton. Bardo, who made a memorandum of the incident for his fellow shipbuilders, reported that Shearer "began in a raised voice to tell me that the Fall-Sinclair-Doheny scandal was primarily due to the failure of the above trio to keep a promise to pay some one on the list \$250,000 as their share in the Teapot Dome scandal." Shearer, Bardo wrote, then threatened that if the shipbuilders "undertook to throw him overboard that there would be a new era in scandal which would jar the nation from its center to its circumference."

Shearer was particularly incensed at Samuel W. Wakeman, of the Bethlehem company, and, according to Bardo, he threatened "to kill him—shoot him down like any other dog in the street . . . and get the front pages if necessary to air his grievance." He also threatened to show up the war activities of Charles M. Schwab, Bardo claimed.

"You did not threaten to kill anybody?" Senator Shortridge asked Mr. Shearer.

"Well, I would not threaten to kill anybody who owed me money," Shearer replied. . . .

"I think," said Senator Allen, "there is no more amusing episode in American life than that they should give you now in addition to what they have given you, \$250,000 —"

"I am worth it," Shearer interrupted.

The shipbuilders had already given Shearer a total of \$51,230.

Shearer wrote to C. L. Bardo on February 21, 1928, pointing out that he had been employed by the shipbuilders "to go out and get more business," that his activities in Washington and Geneva had resulted in orders for eight new cruisers distributed equally among the three firms he represented and a large navy building program, to the success of which he felt he had contributed. He added:

The issue is not whether I am a German, which has been disproved, or whether I am socially qualified to associate with shipbuilders or something worse. The issue is whether the American Brown Boveri Electric Corporation, the Bethlehem Shipbuilding Corporation, and the Newport News Shipbuilding Co. benefited by my campaign in their interest, for which my expenses were paid and now acknowledged.

He then pointed out that at the close of the Geneva conference, the European press had announced: "The triumph of the theses of William Shearer, the American, gave yesterday, the drop of the barrier to the most formidable marathon of modern times. Tomorrow the race of armaments will recommence." He expressed himself as ready to get justice.

During the remainder of 1928 Shearer was still trying to collect money from the shipbuilders. But he was also giving his spare time to other activities. During the summer of 1928 he wrote an answer to Dr. Nicholas Murray Butler's objection to the Big Navy ideas in Herbert Hoover's acceptance speech. Shearer's answer to Dr. Butler was sent out by the Republican Campaign Committee to more than 2,000 editors, and Lawrence R. Wilder, shipbuilder, paid the bills. Then, according to Shearer, he was sent to Boston by Senator Moses, Representative Bacon and Mr. Archer, of the Hoover campaign committee to get publicity for Hoover's Big Navy idea. His main tack was to denounce the British in order to win

the Irish vote in Boston for Hoover. Shearer also published an article in the *Gaelic American* attacking the British and advocating a big navy. He issued a memorandum in September, 1928, declaring his intention of exposing the sinister influences of the shipbuilders and their co-operation with certain foreign interests.

But while hinting at what he was going to do to the shipbuilders, Shearer kept up his efforts to creep back into their employ. In the fall of 1928 he was seeing F. P. Palen, of the Newport News company, who seemed still to believe in him more than the others. Mr. Ferguson, president of Mr. Palen's company, testified that when Shearer wanted to go to Washington to work for the company on the new 15-cruiser bill, he had told him "to keep away from Washington so far as he was concerned." But Mr. Palen, Mr. Ferguson's subordinate, hired Shearer anyway. Shearer wanted \$1,000 a month for this work, and Palen wanted to pay only \$500 a month. "Mr. Shearer allowed as how he afterwards was employed at a thousand dollars a month; that he had discussed it," Mr. Ferguson testified. Finally, Mr. Ferguson ordered Mr. Palen to give Shearer \$2,500, get his receipt, "and let's get rid of him." "But he is very easy to employ," Mr. Ferguson told the Senate committee, "and that is the explanation of this."

During 1928, Mr. Palen lent Shearer money from time to time and took his notes for the sums, giving him the money in cash and turning the notes over to the Newport News Shipbuilding & Dry Dock Company. He claimed that he had done all of this out of the generosity of his heart, but he saw to it that his company reimbursed him for his generosity. The Senators seemed to have their doubts about Mr. Palen's unalloyed generosity. The first loan Palen made to Shearer was one of \$500 on June 25, 1928. Then, on July 5th, Shearer came back again for another \$500.

"What was his grievance on that day; or what reasons moved you and melted your heart that day, on July 5?" Senator Shortridge asked.

"Practically the same thing," said Mr. Palen.

"Oh, Mr. Palen!" Senator Shortridge exclaimed. He then asked what Shearer's plea was on July 5th, when he came to borrow again.

"Principally," Mr. Palen answered, "that he was still financially distressed and that he was still working in general for the merchant marine,

and so on; he was working in the cause of shipping, and that was some expense to him."

"Working for you?"

"Well, working—yes; I would say working for me to the extent that it benefited our business." . . .

Shearer came again a month later, on August 2, 1928, and got another \$1,000.

"Did he say in terms, or by inference, that he possessed information which might be unpleasant to be disclosed?" Senator Shortridge asked.

"Not at all; not at all, to me."

"He did not suggest that perhaps he had information concerning you or your company which might be distasteful to you to have made public?"

"Not at all; not at all. If he had, our relations would have ceased right there." . . .

"When was the next money you advanced to him?"

"It was quiet on the west bank of the Hudson until December 28."

On December 28, 1928, Mr. Palen gave Shearer another \$1,000. That, he said, was the first payment on the \$6,000 which the Newport News company had decided to pay Shearer for his hire subsequent to the Geneva conference, "and to get rid of him." Mr. Palen insisted in answer to Senator Shortridge's insinuations, that nothing moved him to give Shearer more money except that he felt that Shearer was entitled to more because of his work for a large merchant marine, "and, after long discussion, I finally made a remark that I might go as far as paying him \$500 a month for a year in order that he might get started in something besides this publicity business." Senator Shortridge wanted to know why the payments to Shearer were always made in cash.

"Because I thought it would not be quite as public," Mr. Palen answered.

"You did not want the newspapers, or the public at large, to know that you were loaning, or giving, money to him?"

"Yes."

"Or paying him for services rendered, or to be rendered?"

"I think that is correct."

"May I suggest, Mr. Chairman," said Senator Allen, "that great men are often modest about their charities?"

The payments to Shearer went on until March 27, 1929, when Palen gave him \$2,500 and took a final receipt from him. The Newport News company reimbursed Palen for all of his generous "loans" to Shearer. Shearer claimed that he was not to repay Palen for his "loans" until the Newport News company settled Shearer's claims against it for additional compensation. "How would I get any money?" Shearer asked. "I don't know; I imagine several ways," Senator Shortridge remarked.

At the beginning of 1929, Shearer, who had started a new business, the Seapower Oil Company, Inc., to deal in marine oils and paints, was writing the shipbuilders again in the effort to interest them in employing him as well as giving him contracts for marine oils and paints. In a letter to C. L. Bardo he mentioned the legislative work necessary to pass the new cruiser bill and maintain in it a time-limit clause, and he added that he found it necessary "to release, bit by bit, a British secret document that has come into my possession." "There is much that I could tell you which I don't care to write on the evidence in my possession," he added. Then he asked for some money, which he claimed had been promised to him by William Flook, president of the American Brown Boveri Electric Corporation. It appeared that Shearer just would not stay "fired," but Mr. Bardo was also firm in his intention to have nothing further to do with Shearer. He answered Shearer's letter by pointing out that "the shipbuilding and ship repair companies have created an organization for the purpose of taking care of the requirements of the industry in a commercial and legislative way." Mr. Bardo added that Mr. Flook had left it up to Bardo whether or not to employ Shearer, and that in view of the heavy expenses of the new organization for "commercial and legislative" requirements, to which his company contributed, he would not require Mr. Shearer's services.

Then Shearer tried to go over the head of Bardo by writing to Flook. He felt that there was a misunderstanding, that Mr. Flook had really hired him and had ordered his secretary, Miss Howe, to give Shearer \$250 and had told Shearer: "When you need any more just ask for it; but

anything that was big would have to come through the shipbuilders' organization." Shearer claimed that he had accepted that as "final instructions" and had proceeded to carry on his publicity for shipbuilding. Then Shearer dropped a hint about his "British secret document," which, he said, was creating a great stir in the newspapers to which he had sent it. "I will appreciate a check as soon as convenient, as I have obligations to take care of incurred by this last campaign," Mr. Shearer concluded. He also sent some of his more recent publicity releases under separate cover.

When Mr. Flook returned from Europe to find Shearer's letter, he answered it at once and pointed out that he did not see how there could be any misunderstanding, that he had given Shearer \$250 for the specific purpose of paying his expenses to the American Legion Convention in Washington, where Shearer had coached Commander McNutt, of the American Legion, for a speech advocating a big navy. "I told you repeatedly," Mr. Flook wrote, "that I would not authorize any campaign of any kind, or any material expenditure, without the full approval of Mr. Bardo; but that I was willing to advance the two or three hundred dollars necessary to cover your mere living expenses in Washington for the few days of the convention there."

To this letter Shearer replied without mentioning money. He told instead of the pessimistic and dangerous attitude he had found in Washington. The town was full of "pacifists" and Congress was full of "little Navy men." He had sent publicity broadcast to Congress and the public, but it "was not enough to stem the tide." However, "something did happen."

I became the possessor of a secret British document [Shearer wrote], so vital and amazing in its construction that I took it to the Navy Department where, under the high authorities, this document was photographed. On the evening that a photostat was handed to me I immediately placed it in the hands of a United States Senator, and the press of this Nation reflected the power of his voice when he turned on them and called them traitors. You have but to inquire and you will learn that the speech for the cruisers goes down in the history as the greatest speech ever made in the United States Senate.

I realize in writing you all this I am acquainting you with some in-

side facts, but my sincere efforts in the interest of national defense destroy all fear of consequences, and that I was being supported by men who have the best interests of the Nation at heart is no crime when you consider millions are contributed to defeat this Nation as a naval power.

I could never understand how anyone interested in national defense could be sincere and yet oppose me.

You are too intelligent for me to attempt to split hairs with you. You know the case thoroughly, and so do I, and no one could possibly believe that I have ever been treated fairly.

The "secret British document" to which Shearer referred so mysteriously in his letters to the shipbuilders seeking money turned out to be a brazen fraud. Shearer told the Senate committee investigating his activities that he had got the document from Judge Summers, of California, who had formerly been a member of the Department of Justice under Daugherty. Judge Summers, according to Shearer, had got the document from a United States Secret Service man named Wheeler, whom Shearer said he had met at lunch with Judge Summers. The document was supposed to be an account of the activities of Sir William Wiseman as head of the British Intelligence Service in the United States during the war.

Shearer testified that he took the document over to the Navy Department's Intelligence Service in Washington, where it was photographed and the name of Sir William Wiseman added in black ink. Then, Shearer testified, he took the original document and some photostats which he had received from Commander Powell, of Navy Intelligence, to his Washington hotel. He called Senator James A. Reed on the telephone, because, Shearer said, "His stand throughout had always been for national defense." He gave Senator Reed a copy of the "secret British document" and told him how he had got possession of it. Senator Reed also spoke on the telephone at Shearer's suggestion to Commander Powell and Captain Johnson, who had made the photostats for Shearer at the Navy Department. Then Senator Reed used the "secret British document" in passing in a speech in the Senate against the Kellogg-Briand peace pact.

Shearer admitted that he had never made any attempt to ascertain whether his "secret British document" was authentic but had taken the word of the Navy Intelligence, who had taken his word for its authen-

ticity. Then, after the document was referred to by Senator Reed, A. S. Merrill, a Navy Department expert, reported that the document was spurious both from internal and external evidence, and that the photostats made at the Navy Department were made from a printed and not a typewritten document. He branded it as a fraud. Meanwhile, S. K. Ratcliffe, British journalist, identified Shearer's "secret British document" as the same thing as a pamphlet called "The Re-Conquest of America," which Dr. William J. Maloney, a New York nerve specialist of Irish birth, had published in the United States in 1919 as a satire on Lord Northcliffe's propagandist activities in the United States during the war.

Dr. William J. Maloney was called as a witness before the Senate committee investigating Shearer and the shipbuilders on January 11, 1930, some months after Shearer's testimony had been made public. He identified his pamphlet and Shearer's "secret British document" as one and the same. He said that he had written the pamphlet as a satire and had circulated it for 5 cents and then for 10 cents in June, 1919. The document had been sent out in the interests of "The Friends of Irish Freedom" and was an entirely fictitious satire purporting to come from Sir William Wiseman to Lloyd George concerning the best way to overthrow the independence of the United States. Parts of it had appeared in the *New York World*; it had also appeared as a newspaper serial in Canadian newspapers, and Lincoln Colcord had read it as an amusing skit at a dinner given to Senator Borah in Washington. Five hundred thousand copies of the pamphlet had been sent to editors, ministers, publicists and individuals who wrote for it.

Shearer and his naval officers had not even taken the trouble to have Dr. Maloney's pamphlet retyped. Senator Allen showed Dr. Maloney a photostatic copy of Shearer's "secret British document," "so vital and amazing in its construction," and Dr. Maloney testified: "The only difference is that there it is made smaller and photostated." Dr. Maloney also said that he "had practically forgotten the pamphlet existed," until newspapermen came to him and called his attention to the Shearer secret document.

"During the years from 1919, or 1921, at the time you wrote this explanation, up until 1928 when this comes to the surface as a photostatic

copy of a secret document, had you heard anything about this pamphlet?" Senator Allen asked Dr. Maloney.

"No, sir," Dr. Maloney answered.

"It ceased to circulate in 1919?"

"In 1919; yes, sir. With the end of the fight on the League, the purpose of the pamphlet was finished." . . .

"And then interest in it died?"

"Yes, sir."

"Until it was reinterpreted?"

"Yes, sir."

"It did not occur to you when you wrote this to label it as a satire?" Senator Allen asked.

"If you label a thing 'satire' the effect of the satire is ruined," Dr. Maloney answered.

"Have you any future plans for authorship?" Senator Allen asked.

"No, sir, I am sticking to medicine."

Dr. Maloney's pamphlet, which Shearer used in his efforts to induce shipbuilders to support him and Congressmen to pass legislation, was so obviously satire that it is difficult to believe that anyone could have been fooled by it into believing it a secret British document. It may be that Shearer showed only sentences from it or used excerpts from it in his press propaganda work, for he wrote one of the shipbuilders that he was "releasing" it "bit by bit." For instance, Dr. Maloney's pamphlet contained the following passage on the cost of converting an American into an Englishman:

Tables of cost and efficiency which I submitted to the Foreign Office on December 1, 1916, showed then that the average duration of the resistance of Americans to anglicization was in England 37 days, in America 104 days; that the average percentage of anglicization obtained, measured by the standard Foreign Office unit, was 53.28; and that the percentage of failure was 9.31. The cost per converted American was \$31.02, but this figure does not represent actual outlay, as it includes titles and court presentations at market price, as well as extravagant sums charged against us by other departments whose activities supplement ours.

The author then goes on to say that by intensive application he was able to reduce the average time it took to convert an American into an Englishman, and that he had succeeded in reducing the time to 14 days in England; "in America to 29 days, 3 hours, 16 minutes" and that he had reduced the cost to "\$.53 per colonist."

Dr. Maloney adds that during the war:

We encouraged the common people to spy upon and to denounce their neighbors; and an orgy of persecution followed which our secret commission investigated (White Paper on American Atrocities, appendix 15). Some idea of the extent of this persecutory mania may be gathered from the commission's conclusion that had the war continued the rank and file of the army soon would have been all incarcerated in military prisons, and the officers thereafter would have sought to satisfy their frenzy by the court-martialing of one another.

In suggesting gratitude to various supporters of the anglicization campaign, Dr. Maloney wrote in 1919:

I would especially call attention to the beneficence of Messrs. Insull and Doheny, who were the generous supporters of the diversion—devised by Messrs. Taft and O'Connor—entitled "Ireland Stabbed England in the Back." These contributions doubtless will be, or have been, appropriately rewarded by His Majesty's Government.

Mr. Palen had given Shearer his last \$2,500 on behalf of the Newport News Shipbuilding & Dry Dock Company on March 27, 1929, but Shearer still would not stay fired. He wrote a long letter that day to Homer L. Ferguson, president of the Newport News company, pointing out his past valiant services in behalf of shipbuilding and the crying need for continuing the good work because of the activities of "pacifists and internationalists." Nine of the twelve Senators who had opposed the Navy cruiser bill, Shearer wrote, "are recorded in the Department of Justice records with past affiliations with the Communist Party." Could it be that Shearer had been visiting with Harry Daugherty?

But Mr. Ferguson had had enough of Mr. Shearer, and he answered his letter under date of April 2, 1929:

My dear Mr. Shearer: Referring to your letter of the 27th ultimo:

I have never made any agreement with you, verbal or otherwise, nor have I ever asked you to do anything for me or for this company. Every time I have seen you it has been as a result of your own insistence, as I have never sent for you or asked to see you.

Yours very truly,

H. L. FERGUSON.

Mr. Ferguson's letter was technically accurate. He himself had never had dealings directly with Shearer, but his vice-president, Mr. Palen, had had many financial dealings with Shearer and had hired him for service with the knowledge of Mr. Ferguson.

Shearer was on no shipbuilder's payroll, and he was hurt. He had, it was true, received a total of \$51,230 from the shipbuilders between December, 1926, and March, 1929. But the cost of propagating "sea power" was heavy, for one had to dress well and entertain newspapermen, naval officers and Congressmen. On April 8, 1929, Daniel F. Cohalen, Shearer's lawyer, wrote to Homer L. Ferguson, who was then president of the Council of American Shipbuilders as well as of the Newport News company, advising him of Shearer's claim against him and his associates for \$257,655 with interest from March 27, 1929, and costs of legal action. In addition Shearer had threatened to sue his old friend Laurence R. Wilder for \$10,366.63 for work on behalf of the imaginary 4-day liners. Mr. Wilder had received a lawyer's letter, too, but he replied that Shearer had no claim on him whatsoever, and he heard nothing further about the matter. But the other shipbuilders were not so fortunate. Shearer's announcement of his suit made public his relations with the shipbuilders. On September 6, 1929, President Hoover gave the reporters at his regular press conference a scathing denunciation of the shipbuilders for hiring Shearer to go to Geneva. Then the Senate passed the resolution introduced by Senator Borah calling for a complete investigation of Shearer's activities at Geneva by the Senate Committee on Naval Affairs.

In the meantime Shearer had still been busy at his propaganda work, and this time the bills were being paid by William Randolph Hearst. Shearer had suggested to Mr. Hearst's representative, T. V. Ranck, in the spring of 1929, that it would be a good idea for Shearer to organize the

patriotic societies of the United States against the World Court movement, and Mr. Hearst had agreed to back the effort financially and with the aid of his newspapers.

"So I immediately started to send out my bulletins to the patriotic organizations of the United States," Shearer told the Senate committee, "and they immediately started sending in their resolutions opposing the World Court. As fast as I would receive them I would hand them to Mr. Ranck, but I would always send in advance to Mr. Ranck the proposed bulletin, and the understanding was that if he did not object, then I would have it mimeographed and sent out."

For this work Shearer received \$2,000 a month.

"Let me ask you a question, which I think will shorten this," Senator Allen said. "At what time did your employment with Mr. Hearst close?"

"The minute you called this investigating committee," Shearer replied, "all my connections, social and otherwise, closed. I found myself walking the streets talking to myself."

"Did Mr. Hearst dismiss you from his services?"

"Immediately. That is, Colonel Knox dismissed me. Mr. Hearst was in California. Mr. Knox wrote me a letter that this ended my value as a writer for the Hearst organization, and that was the end of it." . . .

"Did he pay you for the articles you wrote for him from Geneva?"

"Never."

"Those were just free-will offerings?"

"Always; yes, sir."

"Did the Chicago Tribune pay you for this page article written about the Geneva conference?"

"I gave that. I never served two masters. When I was employed by the shipbuilders I gave free to Mr. Hearst. When I was employed by Mr. Hearst I gave free to the shipbuilders. I was never employed by two groups at the same time."

CHAPTER SIX

Monopoly in the Air

THE PIONEER industry of the world after the war was aviation. From a successful experiment, aviation had developed into valuable merchandise, and men became active in the endeavor to create airways throughout the world. In 1918, the United States government started its first air mail experiment, which was operated as a government enterprise. Gradually private operators of airplanes developed traffic lanes throughout the country, managed largely by men who had gained flying experience in the Army during the war.

In February, 1925, Congress passed an act authorizing the award of contracts to private companies to carry air mail. Under this act the private air transport operators were to receive payments not to exceed four-fifths of 80 per cent of the postage on the letters and parcels they carried, and the contracts were to be let only after competitive bids were submitted. This act had to be amended after one year, because it was discovered that counting the letters in the post offices to determine the amount of money to be paid air mail operators caused great delay and defeated the very purpose of air mail, speed. It was then provided that contractors were to receive not more than \$3 a pound of air mail for each one thousand miles they flew and 30 cents a pound for each additional one hundred miles. But, as with the pioneer development of the American railroads, it did

not take long for pioneer entrepreneurs to cheat. In the case of the airplane, the essence of the enterprise being speed, the speed with which the government was cheated was proportionately greater than the speed of cheating engaged in by the more cumbersome railroad enterprises. Men were charged with loading their airplanes with lead shot, stove lids, flat-irons and telephone books, mailed to themselves, to anybody or to nobody, in order that they might get more money as air mail pay.

Meanwhile, aviation was booming, along with the general business activity which followed the after-the-war depression. Bankers, stock-brokers and railroad executives began to realize that there were huge potential profits in the air. Then in May, 1927, Charles A. Lindbergh, one of the pilots employed by Major William B. Robertson, of St. Louis, to carry mail and express, flew from New York to Paris alone in one of Major Robertson's planes, *The Spirit of St. Louis*. The dramatic and daring nature of the flight aroused interest throughout the nation in the commercial possibilities of aviation. Lindbergh with unusual self-restraint resisted all efforts to make of him a motion picture star, a vaudeville performer and an endorser of cigarettes and other products; instead, he allied himself with bankers, lawyers and railroad executives and devoted himself to the large-scale development of aviation as a commercial enterprise. Other spectacular flights added to the American interest in aviation, and companies and combines began quietly to organize for the exploitation of the air traffic of the country.

Major William B. Robertson, Lindbergh's backer in his famous flight, had been one of the pioneer aviation operators, together with his brother Frank. Major Robertson, like so many of the other pioneers, had learned to fly in the government's air service during the war, and after the war he and his brother organized the Robertson Aircraft Corporation of St. Louis, Missouri. This company operated a flying school, carried passengers up in the air for joy rides, rebuilt airplanes and bought and sold surplus war planes and spare parts. The Robertsons also established an airway between St. Louis and Chicago, selected airport sites and developed the passenger, mail and express business in their territory. They had three pilots at the time, Charles Lindbergh, Phil Love and Freddie Nelson. Major Robertson raised the money for Lindbergh's flight and aided him with technical advice.

When Lindbergh returned from Europe, Major Robertson, Lindbergh and two of their associates, Harry Knight and Major Lamphier, called on W. W. Atterbury, president of the Pennsylvania Railroad, and suggested the formation of a transcontinental air line in conjunction with the Pennsylvania Railroad. General Atterbury said that at the moment he was working on an air transport scheme with Colonel Paul Henderson, of the National Air Transport. Meanwhile, Major Robertson and his associates went to see C. M. Keys, a New York stockbroker, who later organized, in conjunction with the Pennsylvania Railroad, the Transcontinental Air Transport—but Major Robertson was left out of the enterprise. He had developed aviation, contributed money and technical advice, but the bankers did not find him necessary for their scheme of things. Lindbergh, however, they had use for, because of his advertising value primarily and his technical aid and knowledge as well.

The Pennsylvania Railroad contributed \$500,000 of the capital for Transcontinental Air Transport—known as T. A. T.—and called, in the advertisements, the “Lindbergh Line.” Lindbergh, besides a position with the company, received gratis 25,000 shares of stock, which were then worth \$10 a share, and he was advised to sell it soon. D. M. Sheaffer, chief of passenger transportation of the Pennsylvania Railroad, was a member of the board of directors of T. A. T., as were: Colonel Henry Breckinridge, Colonel Lindbergh’s friend and adviser; Charles Hayden, of Hayden, Stone & Company, who had been so active with his friend Secretary of War John W. Weeks in the Harding administration in the effort to get the Wright-Martin war claims settled; Richard Hoyt, of Hayden, Stone & Company, Leonard Kennedy of that company, and William H. Vanderbilt.

At about the same time, in the spring of 1928, another large aviation enterprise, Aviation Corporation, was formed. The board of directors consisted of Richard Hoyt, of Hayden, Stone & Company, Leonard Kennedy, of that company, William H. Vanderbilt, Cornelius Vanderbilt Whitney, S. Sloan Colt, of the Bankers Trust Company, George Mixer, of Stone & Webster, Boston bankers, Robert Lehman, of Lehman Brothers, New York bankers, D. K. E. Bruce, son-in-law of Secretary of the Treasury Andrew W. Mellon, and R. K. Mellon, brother of Andrew Mellon, Pitts-

burgh bankers. Aviation Corporation began its activities by buying up active aviation companies which had developed pioneer routes.

Meanwhile, the laws governing air mail had been amended again, and contracts good for four years were provided. But the air mail operators wanted longer contracts, and the Kelly amendment, passed in 1928, gave them the right to surrender their contracts to the Postmaster General after they had operated to his satisfaction for two years and to receive in lieu of them route certificates. These route certificates were to be good for ten years from the date the operators had started to fly the mail; the operators were to adjust the rates of air mail pay every year with the Postmaster General, with the provision that the rates of pay must never exceed the original bids of operators for the contracts. The same law reduced the rate of postage for air mail from 10 cents to 5 cents, and air mail was encouraged tremendously as a result. Meanwhile, Herbert Hoover was elected President of the United States. Postmaster General New, Coolidge's Cabinet officer, carried out the provision of the law reducing the postage to 5 cents and left the administration of the other provisions of the law to his successor, who was to take office on March 4, 1929.

Walter F. Brown, of Toledo, Ohio, had been one of the Ohio group of Republican politicians for many years. We have already seen that he was an active worker for the nomination and election of President Harding in 1920, and he had been Harding's floor manager at the Chicago convention in that year. Brown was born at Massillon, Ohio, on May 31, 1869. He had been graduated from Harvard in 1892 and thereafter from the Harvard Law School. Then he practiced law at Toledo with his father. In 1908 he campaigned for President Taft, which was his first active political work. In 1912 he had left the regular Republican organization to follow Theodore Roosevelt into the political desert, but he had got back into the favor of the regular Republican organization soon thereafter and was a candidate for the nomination of United States Senator from Ohio in 1920, but was defeated by Frank B. Willis. Brown was, however, generally recognized as the Republican boss of the city of Toledo.

After the election in 1920, President Harding offered Walter F. Brown

the appointment of Ambassador to Japan, but he declined it. Instead he accepted the post of chairman of the Joint Congressional Committee on Reorganization of the Executive Department of the Government. Its duty was to submit a plan for the co-ordination of the departments, and it worked for several years on an efficiency plan for the national government. After Harding's death, President Coolidge asked Brown to continue his task, and a report was finally submitted in May, 1924. Then Brown went back to Toledo, and remained there until October, 1927, when he was appointed Assistant Secretary of Commerce under Herbert Hoover and became manager of Hoover's boom for the presidential nomination of 1928. The other Assistant Secretary of Commerce under Hoover was William P. MacCracken, Jr., who was in charge of the Aeronautics Bureau of the Department of Commerce, which had supervision over the safety and other regulations of aviation. Just as Daugherty, more than any other man, had helped to elect Harding President of the United States, so Brown managed the political details of Hoover's candidacy. After the election Hoover appointed Brown Postmaster General of the United States.

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WHEN Brown took the office of Postmaster General, which carried with it the administration of ocean and air mail contracts, the air mail map of the United States had developed into an extensive collection of connected routes for passenger and mail traffic. Colonel Paul Henderson, of National Air Transport, and later of United Aircraft & Transport Corporation, testified that between 1925 and 1930 lines had developed which carried mail on competitive contracts from New York straight through to San Francisco, connecting at Chicago. Other lines ran from Chicago to Dallas, Texas, from Chicago to Minneapolis, St. Paul and St. Louis, from Chicago to Atlanta, Georgia; from New York, through Atlanta, to Miami, Florida; from Atlanta to New Orleans, to Houston and Galveston, Texas; from Fort Worth to Dallas, Texas; from Seattle

to San Francisco; from Salt Lake City to Pasco, Washington; and from Boston to New York, connecting with the lines to Chicago, the Middle West, the Far West, and the South and Southwest. "It would seem to me," Colonel Henderson testified, "that that was a great deal more than a few disconnected air lines. They were all connected and made a co-ordinated air-mail service that was approaching Nation-wide character."

James G. Woolley, who was the vice-president and publicity representative of Western Air Express, testified that after the inauguration of President Hoover in March, 1929, Harris Hanshue, an executive of Western Air Express, returned to California from Washington, D. C., "and he was quite worried." "He said at the Gridiron Club dinner he had been introduced to the new Postmaster General, and Mr. Brown greeted him with an expression something like this: 'You are one of the fellows I am going to get after.'" Shortly after that Postmaster General Brown delivered an address at Cleveland, in which "he rather poo-pooed the idea of air-mail service—he was not sympathetic. I don't think he will deny that. That summer, of course, I set out, naturally, right away as my job to try to convert these people to aviation, to figure out some way we could change his attitude, and several of the other companies apparently had done the same thing.

"As the result of our efforts," Mr. Woolley continued, "the Postmaster General flew from Sacramento to Los Angeles in a Boeing plane on his way home, then took a Western airship as far as Kansas City. I was in Washington at that time and expecting the arrival of Hanshue from the West, and when he got in he told me he had been fortunate in getting the same train from Chicago down here that Mr. Brown was on—just accidentally—and Mr. Brown and his wife had enjoyed the flight, and he had called Mr. Hanshue into his stateroom on the train and told him his opinion of aviation had changed; that he felt that modern, multi-motored ships were the only type of ships to travel the western deserts in, and he was going to try to do something for the passenger lines and aviation generally."

In September, 1929, Postmaster General Brown called the air mail operators to Washington to negotiate with him for the surrender of their contracts and the issuance instead of route certificates good for ten years,

as provided in the Kelly amendment of 1928. In the middle of October, 1929, these conferences at the Post Office Department were abruptly ended, and W. Irving Glover, Brown's Assistant Postmaster General, requested the air mail operators to work out among themselves formulæ for compensation for carrying the mails. Conditions differed on different air lines, but the Post Office Department was trying to develop a formula for all lines, so that it would not have to negotiate with each one separately. Mr. Brown had always preferred doing things in a large way to doing them in a detailed way. It proved impossible, however, to work out the complicated problems by formulæ, and Brown decided that he needed further legislation from Congress, in order to permit the development and alterations of the air map of the country. He issued extensions of their present contracts to the operators for six months, and meanwhile appealed to Congress for further authority.

Postmaster General Brown sought legislation which would give him the authority to put mail on airplanes and fix the rates of compensation himself with the air mail operators according to the airplane mile flown by each one. The necessity for competitive bidding hitherto required would have been eliminated by his plan. Competitive bidding, Brown told a Congressional committee, was only "a myth" anyway. The postal laws at the time permitted the Postmaster General to put mail on railroad trains without the necessity for competitive bidding, but the rates of compensation for carrying these mails were fixed by the Interstate Commerce Commission and not by the Postmaster General.

There was opposition in Congress to granting the Postmaster General such wide powers, and Congress amended Brown's bill, cutting out his right to let contracts on consultation without competitive bidding. The bill as passed in March, 1930, known as the McNary-Watres Act, did, however, contain this useful section:

The Postmaster General, in establishing air-mail routes under this act, when in his judgment the public interest will be promoted thereby, may make any extensions or consolidations of routes which are now or may hereafter be established.

Lehr Fess, son of Senator Fess, of Ohio, a friend of Postmaster General

Brown's, helped the air mail companies to get the McNary-Watres Act passed, according to Congressman Bulwinkle, and he received for that service a fee of \$3,000. Colonel Paul Henderson testified that he paid Lehr Fess the \$3,000 for his services in Washington in connection with air mail legislation. After his part in these activities was made public in 1933, Lehr Fess wrote his father a letter, which Senator Fess read into the *Congressional Record*:

I may be so steeped in the alleged immoralities of the "premisdeal era" that my conscience is hardened, but I sincerely fail to see anything wrong in my accepting proper employment in Washington. The matter is not of sufficient importance to warrant my asking for a hearing, but, of course, if the committee should request me to appear I will respond notwithstanding my personal conviction that nothing is sought or intended by the investigators except the opportunity to muckrake in the interest of destroying the confidence of the people in the sound principles of government upon which our past progress has been made. The whole outfit are playing a farce that will end in the real American tragedy.

It is, however, questionable whether lobbying is not one of the real elements of the American tragedy.

In addition to the employment of Lehr Fess, and the son of Senator Smoot, Colonel Henderson also lent \$10,000 to Chase Gove, assistant to W. Irving Glover, assistant to Brown in charge of air mail. Colonel Henderson testified that he had been an intimate friend of Gove's for four years, since the time when Colonel Henderson had been Second Assistant Postmaster General himself, from 1922 to 1925. He also got a job for the nephew of W. Irving Glover with T. A. T. and tried to get a job for another son of Senator Smoot's, Harold Smoot, with United Aircraft. On February 8, 1930, Colonel Henderson wrote to D. M. Sheaffer, of T. A. T.:

Dear Dan: . . . I would like to be able to tell Glover on Monday that his nephew is fixed up some place on the western division of T. A. T., as per my wire to you of Friday. I think this is extremely important. Glover will have more to do with the mail subsidy allocations than any other one man.

When the McNary-Watres Act was finally passed to take effect April 29, 1930, Brown told the air mail operators that "it was not quite what he wanted, but he thought he could act under it. He wanted to get some opinions on it, and he would call us back after he got his opinions."

Then, in May, 1930, Postmaster General Brown called the leading air mail operators of the country to a conference in the so-called Gold Room of the Post Office Department, which later became popularly known as "the spoils conference."

The air line operators, some of whom had contracts with the government for carrying mail and some of whom did not, met with the Postmaster General by invitation on May 19, 1930. The invitations were sent out by telephone through Brown's assistants, and only those large operators whom Brown wanted in the conference and some smaller operators who already had mail contracts, were permitted to be present at Postmaster General Brown's private party. Postmaster General Brown delivered a short talk to the operators. He told them that under the McNary-Watres Act he had the power to extend existing air mail lines into territory not then being served by air mail. He wanted the operators present to consider a plan whereby those extended contracts could be sublet to companies which did not have mail contracts at the time. Some of the largest financial combinations which had been formed by bankers, brokers and railroad executives were not then possessors of mail contracts, and it was these Mr. Brown had in mind, including the company in which the family of his Cabinet colleague, Andrew W. Mellon, was financially interested. Mr. Brown told the operators that he would like to avoid competitive bidding if possible. The law called for competitive bidding, but Mr. Brown resembled Secretary Albert B. Fall in one respect: when he wanted to do a thing he considered wise from a broad point of view, he did not let the law stand in the way.

In other words, Postmaster General Brown wanted the existing contractors for air mail to have contracts calling for larger areas, provided they themselves would agree among themselves—with his aid and arbitration—to farm portions of these out to lines which did not then enjoy the government's bounties. Colonel Paul Henderson, an executive of one of the leading companies which then had an air mail contract, National Air Transport, testified later that at the time he heard Brown's speech,

he considered the plan Brown put forward as "so contrary to the spirit of the law, . . . that I personally took the thing as a joke and immediately made application for all the air lines I could think of that might connect with our line. After a while I learned it was serious."

Colonel Henderson also testified that after the Postmaster General had finished his opening address, Brown asked several of the leading operators present for their opinion of his plan. Henderson was the first called on, and he testified that he replied that the thing was very new to him, but that the air mail operators had sympathy with those air line operators who did not have mail contracts, and who were losing money rapidly, and then he added, "if we had the rights which he had expressed himself as believing that we had, I felt sure myself and my associates would favor the plan." "As I made that statement," Colonel Henderson testified, "I remember this distinctly. When I said, 'if we have the rights that you have indicated that you believe we have,' I was interrupted by the Postmaster General, and he said, 'I don't say that you have any rights; I say that I have the right.' Then I continued my statement as I have told you."

After listening to other opinions of the operators present, some of whom agreed that competitive bids should be avoided like the plague, Postmaster General Brown left them to work out a new air mail map for the United States, under the chairmanship of William P. MacCracken, Jr., who had been associated with Brown as an Assistant Secretary of Commerce before Hoover became President, and who was now the Washington lawyer for the leading air lines. Colonel Henderson, after listening to Brown and making his short reply, still was doubtful whether the Postmaster General had the authority he so arrogantly claimed to alter the air map of the United States at his will by the simple device of adding routes to existent routes. When the Postmaster General left the room, Henderson testified that he moved over into a chair adjoining that of William P. MacCracken, who had just been chosen chairman of the meeting, and said: "Bill, I wish that you would adjourn this meeting immediately." "He asked me why, and I told him I thought it was a great mistake to go on with it further until we had some more definite information about the legality of the plan that we were supposed to consider." "What did he say?" Senator Black asked. "He said that I was crazier than hell, and that he would not adjourn the meeting."

But Colonel Henderson, who had been Second Assistant Postmaster General himself under Postmasters General Work and New, and who realized that the usual legal method of doing business at the Post Office Department was by competitive bids for contracts, was still worried about the legality of what he and his fellow air mail operators were doing at the request of Postmaster General Brown. He testified that he called Chester W. Cuthel, who was a lawyer representing air lines, into the corridor, "and told him that I believed this meeting was an improper one and we should adjourn it at least until we learned something more about it." Colonel Henderson testified that Mr. Cuthel replied: "I quite agree with you; if we were holding this meeting across the street in the Raleigh Hotel, it would be an improper meeting; but, because we are holding it at the invitation of a member of the Cabinet and in the office of the Post Office Department, it is perfectly all right." Colonel Henderson said that he replied: "Well, Chick, that does not seem common sense to me. I am not a lawyer, but I do believe if I should happen to go down the street and tell a policeman I intended to go up in your office and shoot you, I would be no less guilty of shooting you after I got up there and did it."

That evening Colonel Henderson and some of his air line associates discussed the propriety of the meeting, and after dinner, at the suggestion of Colonel Henderson, they called on Judge John Edwards, Assistant Secretary of the Interior, who was a friend of Colonel Henderson's. They put the matter up to Judge Edwards, and he gave it as his opinion that Postmaster General Brown's plan was not workable, and that nothing "could or would or should come of it." He put the matter succinctly by pointing out that the tail of a dog could not be construed to be longer than the dog. Then Colonel Henderson and his associates went back to the "spoils conference" next day and remained as "interested spectators," as he put it, but they also made bids for all the air mail routes they could think of as within their territory.

Many of the leading air mail operators were opposed to Brown's extraordinary, extralegal plan, even though some of them would benefit by it, because it gave some large lines tremendous advantages over others, and some of the operators could foresee legal trouble. On June 2, 1930, Colonel L. H. Brittin, of Northwest Airways, wrote to his secretary, Mrs. R. R. Clark:

Thanks for yours of the 29th. The air-mail contractors are having a desperate session in Washington. The Postmaster General was not able to get the necessary legislation in the Watres bill to enable him to grant air-mail contracts to passenger-carrying lines without competitive bids. He has made up his mind to do this anyway and has hit upon a plan that is causing the operators no end of trouble. He has conceived, probably in iniquity, a plan for three main "transcontinental routes" competitively operating and several north and south lines as well. To work things out he called the operators together, handed them this map and instructed them to settle among themselves, the distribution of these routes. The operators have been meeting every day for 2 weeks and to date have arrived nowhere. The Postmaster General meets with them about once a week, stirs them up a bit and keeps them going.

Other air line operators besides those invited to Postmaster General Brown's exclusive conference were not welcomed at the sessions where the air mail map of the United States was being carved up. Thomas H. McKee, who was connected with the Wedell-Williams Air Service Corporation, which operated a passenger service between New Orleans and Fort Worth and Houston, Texas, arrived in Washington on May 15, 1930, four days before the "spoils conference," to petition the Post Office Department for an official air mail route for his company and to bid on an air mail contract for that route. He talked first with W. Irving Glover and submitted a formal petition. Glover told him that the matter would be given consideration. He tried to see Glover again but was unable to, and he made several attempts to see Postmaster General Brown, but he was told by Brown's secretary, Mr. MacPherson, that the Postmaster General was too busy to see him. Then he heard a rumor that the air mail contractors were in Washington "attending a very mysterious meeting in the Post Office Department."

Mr. McKee tried to find out from Brown's secretary about the conference and to get an invitation to it, but MacPherson said that he knew nothing about it; he also tried Glover's secretary, who also claimed to know nothing about the meeting; McKee tried the press, and they knew nothing about it. Then he telephoned to Brown's secretary, MacPherson, from his hotel room, "and tried—told him I was an important official of

one of the air mail contractors. . . . He said the meeting was to be held in the anteroom of the Postmaster General at 10 o'clock."

"I walked in," Mr. McKee testified, "and laid my brief case on the table and found 14 or 15 men talking and discussing in an atmosphere of blue smoke." Then Mr. MacCracken approached Mr. McKee and asked who he was. He replied that he represented the Wedell-Williams group and was in Washington to get an air mail contract for his line:

"He said, 'I do not believe that you would be interested in these proceedings.' He said, 'It just happens that I and my associates have been delegated by the Postmaster General to draw up an entirely new air mail picture for the Nation'; and he said, 'At the present time I am not familiar with your activities down in the Gulf section. . . . Where do you operate?' I told him. So he got out a map, took a pencil and drew a line from New Orleans to Shreveport and then over to Dallas and Fort Worth."

Mr. MacCracken then said that he would bear in mind what Mr. McKee had told him and would have a talk with Postmaster General Brown about the Wedell-Williams line, and if Brown wanted the conference to consider that line in its deliberations, McKee would be invited to appear at the conference. Mr. McKee testified that when he entered the secret conference as the unbidden bidder, MacCracken spotted him at once:

"Was there any open discussion when you were there?" Senator McCarran asked.

"No, sir; heavy silence came over the room." . . .

"Did he ask you any questions as to the financial standing of your line or its capability of carrying on the business?"

"No, sir; he was hopelessly 100 per cent disinterested."

That afternoon Mr. McKee called at Mr. MacCracken's office, "and he came out just a moment and said he had talked to Postmaster General Brown and General Brown was just shot through with regrets—it was not just possible to give any consideration to our petition specifically at that time, but that the matter would be referred through channels—through

Glover's office, as I recall it—and given earnest consideration. . . . I was rather frozen out, so to speak.”

Mr. McKee was also told by Earl Wadsworth, superintendent of air mail, at the Post Office Department, he testified, that it was the opinion of the Post Office Department “that any line, regardless of the provisions of the Watres law or otherwise, any line that operates on a route less than 700 miles long, is bound to be an uneconomical enterprise and therefore the Department is not going to be interested in any such group petitioning for mail.” Mr. Wadsworth then added, after McKee's protest against the “spoils conference” way of doing business, that the reason the small operators had not been invited by the Post Office Department to the conference was “because they are probably not interested. . . . Many are operating on a shoe string, and they probably cannot afford to send a representative.”

Mr. McKee then began to see his Congressmen about Mr. Wadsworth's extraordinary interpretation of the Post Office Department's attitude towards the law and the independent operator. Congressman Numa Montet, of Louisiana, wrote to Mr. Earl Wadsworth asking if he had made such statements to Mr. McKee, and Mr. Wadsworth did not bother to answer his letters. Meanwhile, Mr. McKee went to see Mr. Ernest Lee Jahncke, Assistant Secretary of the Navy in the Hoover administration, who also came from New Orleans. After Mr. McKee had told his story, Secretary Jahncke said that he did not want to go to Brown personally just at that time, but he suggested that Mr. McKee write Jahncke a letter outlining the situation, and that he would then forward this letter to Postmaster General Brown, with a personal note asking for consideration for the Wedell-Williams line.

Mr. McKee pointed out in his letter that the Postmaster General's conference to carve up the air mail map of the United States among the large operators was unfair and undemocratic, and he added what must have annoyed the arrogant Postmaster General greatly: “I have been advised confidentially that there is likely to be a congressional investigation into this situation. I hope it may be had.”

Three days after sending this letter, Mr. McKee received a telephone call from Secretary Jahncke's secretary asking him to come to his office:

“. . . and when I arrived I could see that there was a disturbed atmosphere, and I asked what was the matter, and the young lady told me. She said, 'Your letter was sent to Postmaster General Brown and it was then sent back by one of his messengers, and he (Brown) phoned the Secretary (Jahncke) to the effect that my letter was one of the most insulting letters he had ever read, and that unless I sent them an oral apology that I could have nothing further to do with his office in connection with this petition of the Wedell-Williams group for mail, and, mark you, all I did was to set forth in a plain, straight-from-the-shoulder manner what I have related to this committee. . . .

"After I received this shocking news from Postmaster General Brown, that I would have to go up there and apologize to him, after the way he was carrying on, I decided that just violated my sensibilities and I called Mr. Williams in New Orleans, and, in the meantime, I had sent him a copy of the letter by airmail, and he had just received it when I got in touch with him, and he said that no apology was necessary. He said, 'I am flying to Washington tonight and will see you at the Mayflower Hotel.'"

Two days later McKee's employer, Williams, went to Postmaster General Brown's office in the company of Senator Sheppard, of Texas, and Congressmen Montet, of Louisiana, and Lanham and Sumners, of Texas. Brown told them that he intended "to do what was right by the independent operators," but that "it would take a little time to iron the proposition out." After the conference with the group of Congressmen, Brown took Mr. Williams aside into his private office. When he came out, McKee asked his employer what had happened. "Well, it looks pretty good," Williams replied, "I am going to get a contract."

"Did you get a contract?" Senator Black asked Mr. McKee.

"No, sir." . . .

"What happened to Mr. Williams' line?"

"Mr. Williams' line finally folded up in November, 1931, after he had made probably the most handsome gesture to the development of the pioneer aviation industry of any man in the country, with the possible exception of Erle Halliburton. I think both those men were outstanding in their contributions to the early pioneer air industry."

After the first conference meetings in the office of Postmaster General

Brown, the air line and air mail operators met among themselves at Washington hotels and in the Washington law office of William P. MacCracken, in the effort to distribute the air mail map among themselves amicably. But they could not agree on the distribution of certain lines, and they reported back to Postmaster General Brown what they had accomplished and what they could not agree upon, deciding to abide by his decisions on various routes. Brown and his assistants received the report on June 4, 1930, and read it several times. Then W. Irving Glover, Second Assistant Postmaster General in charge of air mail, returned to the room where the operators were waiting to hear what Brown thought of their report. He told them that the Post Office Department was somewhat disappointed in their report, "inasmuch as they had in effect 'taken all the meat and left the bones.'" They then decided to submit a supplemental report.

Meanwhile, Postmaster General Brown decided that he ought to submit to the Comptroller General of the United States, Mr. McCarl, the question of whether he had authority to extend existing air mail routes. It was thought best to do this, for if the Comptroller General should decide later, after the contracts and extensions were granted, that they were illegal, it would have been impossible for the air mail contractors to get their pay from the government. The McNary-Watres Act gave Brown power to extend existing lines where the public interest was served thereby, but it was questionable whether the Postmaster General under this provision had the right to "extend" a line by making the extension of it larger than the original line, and thus award contracts without the necessity of calling for competitive bids, which the law required. The Comptroller General handed down a decision on July 24, 1930, that it was illegal for Brown to extend the lines as he had planned and make the extensions longer than the original lines.

"And when Mr. Brown found out he could not let them by extension," Senator Black asked Mr. Hinshaw, of Aviation Corporation, "I will ask you if you did not tell Mr. Woolman that Brown almost had a stroke of apoplexy when the Comptroller General's decision came out?"

"He probably did," Mr. Hinshaw replied. "When I made the explanation that Mr. Brown hoped to do the thing directly by extensions——"

"He did not want to advertise any of them?"

"I think that was the way he wanted to do it."

Postmaster General Brown also took an active part in the movement of the larger financial combinations to purchase the active flying services of the smaller independent companies, and he was active in persuading the independents to sell their lines to the larger companies. Brown's object was to form three main transcontinental lines which would cover a northern route, a central route and a southern route across the country, with connecting links in other parts of the country. Monopoly and co-ordination, according to Brown's way of thinking, were efficient, and independence was a nuisance and had to be squeezed out, no matter what the original rights of the independents. Brown was insistent on monopoly, and even granting that his ideas would result in a more efficient service—which many air line operators did not grant—the methods used in forcing companies out of the air mail picture were ruthless and improper. An alternative proposition had been put up to Brown, which provided for two competing passenger lines carrying mail over each important route, thus giving the protection of good service and proper financial management. But Brown would not hear of it, for he believed in the efficacy of large-scale mergers. He had tried to merge the government's departments, when he was working for President Harding, but his ideas were not followed. Now, in the growing air line industry, he was determined to carry out his monopolistic ideas to the limit.

It was necessary, now that the Comptroller General had decided that Brown did not have the power to grant huge extensions without competitive bidding, for the Post Office Department to call for bids on the three great transcontinental routes. But smaller, pioneer air lines were advised that it would be better for them in the long run if they did not bid, and that the larger air lines would "take care of them" by buying them out. It will be remembered that Secretary Fall had used similar methods when he told those oil companies which claimed rights in Teapot Dome that Sinclair would "take care of them."

When Postmaster General Brown applied to Congress for unlimited power over air mail contracts in March, 1930, he told the Post Office and Roads Committee:

"I recommend this provision, not because I want any such responsibility. Personally I should be glad to have anybody else have it, but because we can think of no other way in which, in the present condition of the aviation industry and the art of flying, we can save to the United States the experience of the men who have done the flying for the last 10 years and in no other way protect what we believe to be an equity, if not a right, of the pioneers who are in this business."

But Mr. Brown's actions in regard to the pioneers of flying were quite different from his words to Congress. In every instance he favored the financial combinations in their efforts to gain control of the growing aviation industry by processes of stockjobbing, and in many instances his actions in favor of those combines forced pioneers out of the aviation business entirely.

Clifford Ball had operated an air line between Cleveland and Pittsburgh. Ball attended the "spoils conference" at the Post Office Department on May 19, 1930. As early as the previous February he had been told by his attorney, Mr. Orgill, that he would have to sell his line. There was a charge against Ball that he had sent out mail advertising the air mail service on his line and had collected air mail pay for it. Almost every two weeks during the spring of 1930, Ball testified, Pittsburgh Aviation Industries, in which the Mellons were interested financially, made efforts to buy out Clifford Ball. At the time the Mellon company owned nothing but an impractical airport thirty-five miles outside Pittsburgh. Mr. Ball met Mr. George Hann, of Pittsburgh Aviation Industries, in the corridor of Postmaster General Brown's office after the first meeting of the "spoils conference":

"I said, 'This is called for air-line operators and you have no air line. What are you doing here?' And he said, 'We are here to get our share of the air-mail dollar, and we don't propose to be denied.' He said, 'We have influence with Senator Reed; we have influence with two Cabinet officers,' and he said, 'We will go into the White House if we have to.'"

Mr. Ball also received a telephone call from Richard K. Mellon, brother of Secretary Mellon, who "said he was interested in Pittsburgh Aviation Industries, and hoped that some arrangements could be made whereby

our organizations could be joined together for our mutual advantage." Ball's contract for carrying air mail was to expire in two days, and it was arranged, with the mediation of Postmaster General Brown, that he was to sell his company to the Pittsburgh company and receive a job with the latter as well as money for his stock. Brown even suggested how much Ball's salary should be—\$1,000 a month—which was the salary he received when the merger was finally completed. After Mr. Ball had agreed to sell out to Pittsburgh Aviation Industries, his company received a renewal of its air mail contract, which was to be good until May 6, 1936.

Mr. Ball received \$137,500 for his stock in his company and \$30,000 in salary before he severed all connection with Pittsburgh Aviation Industries. The job he received at \$1,000 a month was of minor interest and importance compared with the work he had previously done for aviation in his territory. Senator Austin, Republican member of the air mail investigating committee, put a question that implied that Mr. Ball had not received such a hard bargain:

"Yes, Senator, I do think it was a hard bargain," Mr. Ball answered. "You understand I had inaugurated this line with practically no capital; I had devoted from 3 to 4 years without any salary of any kind to building it up. I had accumulated considerable prestige, and I had considerable pride in this enterprise, and it was taken from me."

Mr. Ball, incomprehensible as it seemed to some minds, was interested in aviation. Mrs. Ball told Mr. Hainer Hinshaw, who wrote it to Mr. Hann, of Pittsburgh Aviation Industries:

"What would happen to Cliff? He has given the best part of himself to building up this line. He would not know what to do with the money if he got it, and neither of us would be happy unless we were in aviation." I am of the opinion that Ball is more concerned with what would happen to him if he were to relinquish control of his company than as to the price he might get for it.

Other pressure was also used by the officers of Pittsburgh Aviation Industries to force Ball to sell his company to them, according to Ball's

testimony. He said that Mr. Robbins, of the Pittsburgh company, came into his office, "and in the presence of my employees, said, 'Are you willing to sell your company?' And I said, no, I wasn't. And he said, 'We are going to report you to the Post Office Department for mailing telephone books over your line, and we are going to force you to sell,' and that was said in the presence of my employees." "Had you been sending telephone books over?" Senator Black asked. "Never," Mr. Ball replied. After Mr. Ball had obeyed orders and sold his company to the Mellon company, the Post Office Department agreed to give him the \$12,224.25 for carrying mail which the government had been holding up because of the controversy over the quality of the mail.

"May I ask," Senator Black asked Mr. Ball, "if it is true your route went into the hands of a company that had never flown a plane over it?"

"That is correct."

"And you were the one that had done the pioneering?"

"That is correct."

"And you did object to selling it out?"

"I did, sir."

Erle P. Halliburton, pioneer aviation manager of the Southwest Air Fast Express, had been operating a line between Kansas City and St. Louis, Missouri, and Forth Worth and Dallas, Texas. He had offered to fly the mail between Atlanta, Georgia, and Los Angeles, California, for 70 cents a pound for the first 1,000 miles and 7 cents a pound for each additional mile. At the time the Post Office Department was paying as high as \$3 a pound to carry mail on that route. Mr. Halliburton had modern planes and was an experienced operator and a pioneer in aviation in the United States. He was told that he would have to sell out to American Airways, a subsidiary of Aviation Corporation of Delaware, the Mellon company, of which Pittsburgh Aviation Industries was also a subsidiary.

Mr. Halliburton testified that it "was generally understood that all of the operators had to abide by the wishes of the Postmaster General or contracts would positively be canceled." W. Irving Glover, Brown's

assistant, said to Mr. Halliburton: "I will ruin you if it is the last act of my life; you have tried to buck this thing all the way through, and you are not going to do it."

"What reason did they [Brown and Glover] give to you for insisting you sell out to the American Airways?" Senator Black asked.

"They did not give me any reason," Mr. Halliburton answered. "They alleged that I was offering to carry the mail too cheap, using that as an excuse. Outside of that reason I don't know of any particular reason."

W. G. Skelly, Republican national committeeman from Oklahoma, who was a stockholder in Mr. Halliburton's air line, telegraphed to Halliburton on August 4, 1930:

After thorough analysis of the air-mail situation I am firmly convinced that it would be for best interests of you and your associates in Safeway to work out consolidation with T. A. T.

W. G. SKELLY.

Mr. Halliburton answered on the same day from the Mayflower Hotel in Washington:

W. G. Skelly, Skelly Oil Co., Tulsa, Oklahoma.

I do not intend to merge with, or become connected with, or associated with T. A. T. who prostituted names of Lindbergh and Earhart to general public and then asked the taxpayers to pay for such prostitution. If you care to sell your stock to T. A. T., I have no objection.

ERLE P. HALLIBURTON.

Finally, Halliburton realized that he would never get a mail contract from the government if he refused the request of Postmaster General Brown that he merge with a large combine, and he agreed to merge with Aviation Corporation, the holding company in which the Mellons were interested, which also owned some of the stock of T. A. T. Mr. Halliburton sold his company, including 11 Ford planes, three Lockheeds, a hangar, machinery and other assets for \$1,400,000. They were worth between \$700,000 and \$800,000 he testified. In answer to Senator Black's question,

he could not say whether the gentlemen who bought him out were told to buy, just as he had been told to sell. But they were glad to buy at a high price and get a profitable mail contract from the government. Another pioneer was thus out of the way. Halliburton estimated that if his bid for carrying the mails had been accepted, the government would have saved several millions of dollars a year on that one contract alone.

One of the most flagrant examples of the treatment of a pioneer by the Post Office Department was that of Major William B. Robertson, who had financed Lindbergh's flight. Lindbergh was now a part of the large financial combine backed by the Pennsylvania Railroad and others, but his backer and employer was operating an independent air line between St. Louis and New Orleans, for which he wanted to get a mail contract. Postmaster General Brown promised Major Robertson that he would give him a mail contract, Robertson testified. But the company did not get a contract. Then, in 1931, Major Robertson and his brother Frank met a man named Sacks, whom they had never heard of, but who turned out to be connected with the Republican Party in Missouri. Mr. Sacks offered to get the Robertsons a mail contract from Postmaster General Brown in return for 5 per cent of their profits on the contract. He also suggested that it would be a good idea for the Robertsons to contribute to the campaign fund for the election to Congress of L. C. Dyer, of Missouri. William Sacks testified that he was a member of the Republican State Committee of Missouri, that he had always been active in Republican politics in Missouri, and that he had known Harry Daugherty and Jake Hamon. On May 7, 1931, Mr. Frank Robertson wrote to his brother, Major William B. Robertson:

Sacks says that the P. M. G. wants the favor of him which we are confident is votes in the State of Missouri for the next election, as you know the entire campaign is being lined up for the next election, and if Hoover is not elected Brown, of course, will not be P. M. G. Sacks is credited with obtaining 48 delegates out of 52 from the State of Missouri in the last election against Hoover in favor of Lowden, and it seems that Brown has propositioned Sacks that he would help us and Williams together if Sacks would throw his support to Hoover in the next election, which, of course, seems very logical.

Postmaster General Brown wanted to satisfy two disgruntled pioneers with one air mail contract by combining the Wedell-Williams line with the Robertson line. But the Robertsons refused to deal with Sacks and pay him a commission, and Postmaster General Brown commented to Major Robertson that he and his brother "had given Mr. Sacks a cool reception." Instead of Major Robertson's company receiving a mail contract, the contract was awarded to the large combine, American Airways, a subsidiary of the Aviation Corporation of Delaware, which the Mellons were backing financially. This company proceeded to compete with Robertson's line, and, having a government subsidy in the form of a mail contract, it was able to put him out of business. He testified that the Post Office Department paid American Airways \$345,000 a year to carry the mail, which he had offered to carry for \$175,000 a year. After three or four months of trying to compete with the combine, Major Robertson had to go out of the business and junk his planes. Postmaster General Brown then told him that he had made a mistake and was sorry and intended to help Major Robertson establish a line from Tulsa, Oklahoma, to Charleston, via Atlanta and Savannah. Brown, according to Robertson, had offered to help raise the capital for this line and give it a mail contract. Robertson spent time and money surveying the line, and then he never received contract or capital.

There were also other instances of pioneer, independent air lines that were driven out of business because of Postmaster General Brown's favoritism towards the large financial combinations owned by men who had never had anything to do with airplanes, but who knew the stock market from A. T. & T. to Western Union. The independents had offered to carry the mails for much less than the prices awarded by Brown to the large financial groups. Paul R. Braniff, for example, of the Braniff Air Lines, who operated a passenger service without a mail contract between Oklahoma City, Tulsa, and Chicago, St. Louis and Kansas City, testified that if his company had received 10 cents a mile for carrying mail, "we would have been rolling in wealth." "You have not been paying \$100,000 salaries or more and bonuses to anybody?" Senator Black asked. "Not yet," Mr. Braniff answered. Braniff said that the Post Office Department paid no attention to his offers to carry the mail at cheap rates, and that he

had even offered to carry the mail for his competitors at half the price they were getting from the government, and still make a profit.

In addition to forcing small independents into the arms of stockjobbing monopolies, the Post Office Department under Brown forced large companies to merge when that was required to suit the plans Brown had for three main transcontinental airways. Before Brown had been at all interested in aviation, Western Air Express was a large operating air line on the Pacific Coast, with the financial backing of several of Herbert Hoover's close friends and backers, including Harry Chandler, owner of the Los Angeles *Times*, Henry M. Robinson, of the Security First National Bank, and William May Garland. Western Air Express had built up a valuable passenger service between Los Angeles and Salt Lake City, and was the pioneer operator of that service. The company also had a passenger service between Los Angeles and San Francisco, and was working on a plan to extend its services east from Salt Lake City to Chicago and connect with the railroad trains, offering a combination train and plane service across the country. Meanwhile, the combination of eastern capital, with the Mellons and the Pennsylvania Railroad as financial supporters, had formed Transcontinental Air Transport, "the Lindbergh Line." C. M. Keys, stockbroker, who was one of the financial organizers of T. A. T., invited Western Air Express to merge with T. A. T. and form one large transcontinental service. Western Air Express, however, wished to keep its identity and saw great advantages in doing so.

W. Irving Glover, Assistant Postmaster General, wrote to Harris Hanshue, of Western Air Express, on May 16, 1928, expressing regret that Western Air Express had not merged with T. A. T. "In expressing to me his regret," Mr. Hanshue testified, "that we were not in the T. A. T. picture, Mr. Glover, at the same time warned me that things were moving pretty fast in the passenger game, and he hoped that we would not be 'squeezed' out of the picture."

Then Herbert Hoover was elected President of the United States and appointed that astute politician, Walter Brown, who had done so much to elect him, as his Postmaster General. Meanwhile, Western Air Express had developed a passenger line from Los Angeles to Texas, via Kansas City, Missouri. T. A. T. started in June, 1929, its combination airplane

and railway service from New York to Los Angeles. Western Air Express, in order to compete with the line of the eastern bankers, made arrangements with western railroads to carry its passengers by night between Kansas City and Los Angeles. The Western Air Express schedule made the journey between New York and Los Angeles two hours faster from coast to coast than its competitor, and also gave passengers five daylight business hours in Chicago.

Then came Postmaster General Brown's effort to map the air mail lines of America according to his own ideas and the financial interests of his friends and political associates. He urged Western Air Express, Mr. Hanshue testified, to merge with T. A. T., with the tacit understanding that this was the only way in which Western Air Express could get mail contracts which would make it possible for them to stay in business. Brown suggested the formation of the new Transcontinental & Western Air by a merger of the two companies. Each company was to receive 47½ per cent of the stock of the new company in return for its assets; the other 5 per cent of the stock was to be sold to the Pittsburgh Aviation Industries, which was the Mellon company that had bought out by force the pioneer, Erle P. Halliburton.

Mr. Harris Hanshue, of Western Air Express, did not want to merge on these terms, for, as he testified, his company, he considered, was capably and economically organized and T. A. T. was "poorly conceived and wastefully managed." Besides, Western Air Express had only sold \$1,072,000 worth of stock, whereas T. A. T. had sold \$3,900,000 worth. He and his vice-president in charge of public relations, James G. Woolley, sat up until three o'clock in the morning with Brown's friend William P. MacCracken, air line lawyer, discussing the merger plans.

Woolley testified that he advised Hanshue not to go into the merger deal and warned him that as a newspaperman he had had experience with such things, and "told him I thought the whole thing was a pretty bad mess, and it might be construed as conspiracy." Woolley testified that MacCracken answered this argument with the statement that "if the Administration wanted it done that way it would be all right." Woolley still insisted, however, that Hanshue should fight Postmaster General Brown on this merger deal: "He said to fight Brown on this thing would take a million dollars. I said, 'You better spend the million than to give

them [T. A. T.] 6½ million without a fight.'” Mr. Hanshue seemed convinced by Woolley’s arguments, but he said that he would like to telephone to California. He went into the next room in their hotel suite at the Carlton Hotel. “I understand,” Mr. Woolley testified, “he called Mr. Chandler or Mr. Garland—couldn’t get one of them and got the other.”

“Who is Mr. Chandler?” Senator Black asked.

“The owner of the Los Angeles Times,” Mr. Woolley replied, “who was one of the principal supporters of Mr. Hoover in the campaign of 1928. Mr. Garland is the Olympic man, a very wealthy man, a delegate to the Republican National Convention of 1928. They are both men of business standing and friends of Mr. Hoover.”

When he came back from the telephone, Mr. Hanshue said that the friend of Mr. Hoover he had talked to had “told him not to do anything that would embarrass the President.” Mr. Woolley also testified that these wealthy Californians had invested in Western Air Express as a matter of local pride, and that their investments were an infinitesimal part of their financial holdings; therefore, they could afford the luxury of not embarrassing the President by obeying the merger orders of his close political associate, Postmaster General Brown.

Mr. Hanshue then came to the conclusion that he could not afford to oppose Postmaster General Brown’s wishes and run his lines for six months at a loss without a mail contract. He agreed to merge with T. A. T. and to sell the Western Air Express line from Los Angeles to Dallas, Texas, at a loss of \$600,000 to American Airways, the large eastern combine with Mellon money. Western Air Express and American Airways could not agree over the price for this line, and so Postmaster General Brown fixed it for them at \$406,000.

The new combination, known as TWA—Transcontinental & Western Air—had to agree to take over the interest of the Mellon company in the Butler Airport at Pittsburgh, in return for 25,000 shares of the new company. Meanwhile, the eastern combine had succeeded in forcing Halliburton to sell his company to them, as we have seen, and the new TWA had to pay the bills for this, the price being \$1,400,000 for a line which Mr. Halliburton himself testified was worth between \$700,000 and \$800,000.

The Pittsburgh company had never flown any airplanes on any schedule and had merely developed an airport of doubtful value. But they had money, important connections with the Pennsylvania Railroad, which was the main financial backer of T. A. T., and with the Republican Party, of which Postmaster General Brown was a leading member. Neither the Pennsylvania Railroad nor the Republican Party at this period in American history would have left a Mellon company out of anything in which it wished to be included.

“Who first suggested to you the Pittsburgh Aviation Industries should be let in on it?” Senator Black asked Mr. Hanshue.

“Well, the Postmaster General,” Mr. Hanshue replied.

When Postmaster General Brown went to California in the summer of 1931, D. M. Sheaffer, an official of both T. A. T. and the Pennsylvania Railroad, wrote to R. W. Robbins, an official of T. A. T., who went to the Pacific Coast in order to be there while Brown was there: “Another thing: You should arrange to furnish Mr. Brown, while in California, a brand new Lincoln automobile.” Perhaps Mr. Sheaffer had in mind at the moment that Mr. Brown was the Cabinet official who had insisted that the government pay for a brand-new Lincoln car for him, because the one provided for his use at the Post Office Department did not fit his high hat unless he stooped before getting into it.

After all the independents and pioneers who were in the way of Postmaster General Brown’s vision of air monopoly had been forced out of business or into mergers, Brown was ready to call for bids for air mail contracts on two of his transcontinental routes. He hated to do it, but there was that pesky report by Comptroller General McCarl which had declared it would be illegal to award the contracts by making the tail of the dog longer than the dog itself and farming out the pieces.

Before the advertisements for competitive bids were sent out, it was deemed best to make it as difficult as possible for anyone to bid whom the Post Office Department and the combination of air mail operators did not want to bid on the contracts. James G. Woolley, of Western Air Express, testified that after a conference at the Postmaster General’s office William P. MacCracken asked him and several other air mail operators to come to his office.

"Mr. MacCracken told us," Mr. Woolley testified, "the Postmaster General had told him he had to get some provisions that would stop the possibility of wild-catters coming in, and he suggested that maybe if we made them fly a thousand miles of night flying for 6 months before maybe that would stop them. I was getting to be quite a chronic objector at that time, and they sat down on me pretty hard, and we had three lawyers in the room, and they were going to put in some other provision—a man that had never flown an air-mail route—I think they finally wound up merely taking in night flying. I was so damned mad that night I could not sleep. I went out and got drunk."

When the advertisements for bids for the two transcontinental routes went out from the Post Office Department in August, 1930, they contained the arbitrary provision which the McNary-Watres Act of Congress did not contain, that to qualify a company must have had at least six months' experience in night flying over a route at least 250 miles in length. Mr. Woolley testified:

"What I mean, Senator, is this: To an operator of air lines, if he wants to be honest about it, the night operation is no different from the day operation if your pilots know the route and have got the equipment to fly with. All of these lines went to night flying with no trouble whatever. The provision requiring a man to have night flying experience before you would let him have a mail contract when you did not know that he was going to have a night schedule, even, was to my mind quite ridiculous."

And Mr. Earl B. Wadsworth, Brown's superintendent of air mail contract service, admitted to the Senate committee that when the provision requiring night flying experience was put into the advertisements by the Post Office Department, there were no lights on a large number of the routes and could be no night flying on them. The provision, however, accomplished its purpose, and limited the possibility of obtaining contracts to eleven air mail operators who already had contracts, and to companies willing to merge with these lines. It disqualified the independent pioneers in the air transport business.

On August 5, 1930, Erle P. Halliburton wrote a letter to Secretary of War Patrick J. Hurley, who was a close friend and political associate of

President Hoover's. Halliburton pointed out the unfair requirements in Brown's advertisements for bids and added that the small air mail companies had been instructed that if they combined to bid on either of the two transcontinental routes, which Brown wanted to let to TWA and Aviation Corporation, the Post Office Department would not issue new route certificates to them in exchange for their expiring contracts, and that they would be granted no extensions of their mail routes until after Brown had let the two big transcontinental routes as he wanted them to be let.

It is generally known in the industry [Mr. Halliburton wrote to Secretary Hurley], that the Post Office Department intends that Western Air Express and Transcontinental Air Transport are to organize an operating company for the transportation of mail over the central route from New York via St. Louis to Los Angeles and that a subsidiary company of the Aviation Corporation is to be awarded a contract over the southern route from Atlanta, Ga., via Fort Worth, Dallas, and Los Angeles.

Why the Transcontinental Air Transport, which prostituted the names of Lindbergh and Earhart to the general public and then expected the taxpayers to pay for this prostitution, should be favored by the Postmaster General is beyond my understanding of all that is just.

If these contracts are awarded, as above outlined, I am quite certain it cannot help but result in an investigation of the Post Office Department, and due to the connection of Herbert Hoover, Jr., with the Western Air Express and the part which they will play in connection with the operation, I am sure it will result in serious criticism of Mr. Hoover himself, and for that reason, as well as personal reasons, I am passing this information on to you for whatever purpose you may care to use it.

With kindest personal regards,

Respectfully,

ERLE P. HALLIBURTON.

In spite of Brown's desires, a combination of smaller air lines, which was formed in August, 1930, and was called the United Avigation Company, dared to present a bid on the transcontinental air mail contract over route 34, which was being arranged for the Transcontinental & Western Air combine to get. The United Avigation Company's bid offered to carry the mail for 64 per cent of the government's postage, and the bid of TWA

was 97½ per cent of the postage. The TWA, however, got the contract, and the loss to the government was estimated to be \$833,215 for each year of the ten-year contract, or more than \$8,000,000 on the entire contract. This loss was calculated on the basis of one trip each day, but TWA made three trips daily, so that the difference in the cost to the government was even greater. The bid of the United Avigation Company was thrown out on the grounds that "this company was really not a company that was formed for anything except to get the mail contract." That statement applied equally to all the companies which Postmaster General Brown had forced to merge in order to get mail contracts.

The United Avigation Company protested the award of the contract to the high bidder, TWA, but the Post Office Department ignored the protest. Then it was up to Comptroller General McCarl to decide whether the award was legal and whether TWA could legally get the money from the government. TWA then hired Ernest Smoot, son of Senator Reed Smoot, who had been secretary to his father for some years, to help Comptroller General McCarl make up his mind in its favor. Senator Smoot was one of the most influential Republican Senators, and on October 24, 1930, Mr. Woolley wrote to Mr. Ernest Smoot:

Dear Ernest: Enclosed is a draft of approximately what we would like your father to say in a letter to Major General McCarl.

Not knowing how friendly the relationship between the Senator and the Comptroller General may be, the form of address and the language used in this draft are formal. It may well be that you will prefer to redraft it on the basis of your closer knowledge of their relationship. In substance, what we would like is for your father to use his very potent influence with Mr. McCarl to persuade the latter that the award as made should stand as being in the best interest of the public.

Knowing that you will fulfill this one additional mission for us and counting upon the continued good will of yourself and your father as one of our major assets, I am

Yours very truly,

JAMES G. WOOLLEY.

JGW:GM

Will appreciate immediate action—Jim.

The enclosed draft for Senator Smoot to send to Comptroller General McCarl read as follows:

Previously to the awarding of an air-mail contract on the middle transcontinental route from New York to Los Angeles, I informed myself as to the responsibility, experience, and proposal of the two bidders for that contract, and became convinced that, regardless of the fact that they were the high bidder, the best interests of the Government would be served by awarding the contract on the joint bid of Transcontinental Air Transport and Western Air Express. Since the award to this company I have been confirmed in my opinion.

I can assure you that, in my judgment, in view of all the circumstances, the Postmaster General should not have taken any action other than he did. Any alternative he might have taken would either have seriously impaired development of commercial aviation in America or committed the Government to an operation in which safety of the mails and protection and service to the travelling public would not have been of prime importance.

P.S. Not knowing the Comptroller General's initials nor knowing how the Senator might address him, I have left this point for you to decide.

Senator Smoot, however, was an old hand at politics. He had reluctantly and sullenly presided over the Teapot Dome investigating committee for a time, and he was not so foolish as to take such a distinct stand in favor of a controversial contract as the above draft would have committed him to. Instead, he wrote the following letter to Comptroller General McCarl on December 12, 1930:

My Dear Mr. McCarl: Appreciating the fact that you have numerous things before you, as we all have these days, I hesitate to write you in this matter but I have been asked by certain constituents of mine if it is not possible to expedite the decision on the Transcontinental-Western Air case which is before you. If it is possible for you to do so I shall greatly appreciate it.

With kindest personal regards, I remain,

Yours sincerely,

REED SMOOT.

That same day Mr. Ernest Smoot wrote to Mr. James G. Woolley:

Dear Jim: So that you may keep posted, this is to advise you that I prepared a brief that father and I submitted to Mr. McCarl, asking him to expedite the consideration of your contract which is before him.

I wired you and phoned Doc as to the status of this last week. I have no doubt but what the whole matter will be cleared up for us by the middle of next week. Jim, this has been an awfully "tough" job.

I have not heard anything further from Frank and I think it is about time that some definite arrangement be made. I air-mailed you today copies of the Senate appropriation hearings. No doubt this bill will be passed the first of next week. Will keep you posted as to progress. Let me know if Doc is coming East.

With kindest regards.

Yours sincerely,

ERNEST W. SMOOT.

While Mr. Ernest Smoot was working for TWA on this "tough" job with the Comptroller General via his father, he was also busy for them with the appropriations committees of Congress. At the time he was on the government payroll for \$3,325 a year as secretary to his father.

Comptroller General McCarl answered Senator Reed Smoot's letter by pointing out the importance of the matter for decision by him, since the bid of TWA was 97½ per cent and that of the United Avigation was 64 per cent. He wrote that Postmaster General Brown's acceptance of the higher bid was predicated on the theory that the specifications called for at least six months' night flying experience over a route of at least 250 miles in length. This, McCarl wrote, made it necessary to get additional facts from Brown, and that he would render a decision at the earliest possible moment and send a copy of it to Senator Smoot.

On January 2, 1931, Mr. Ernest Smoot telegraphed his employers:

Have assurance that the whole matter will be settled next week. Stop. Sorry it couldn't have been a New Year's present. Hope to see you in about two weeks.

Meanwhile, Comptroller General McCarl had written to Postmaster General Brown on December 16, 1930:

I feel compelled to state that the stipulation for night-flying experience is not supported by law and in the absence of legislative authority other than now appears, it is to be interpreted as restrictive of competitive bidding and contracts hereafter made under such stipulation in specifications inviting proposals, must be objected to by this office in the performance of its duty to see that the withdrawal of public money from the Treasury be in the discharge of valid obligations of the United States only, and if that were the sole deficiency of the low bidder relied upon by you in accepting the high bid in the instant matter, it would be the duty of this office to make objection to proceedings had and to withhold approval of payments from public moneys under the contract made accordingly.

Apparently Postmaster General Brown was able to convince Comptroller General McCarl that the lack of night flying experience was not "the sole deficiency" of the United Avigation Company, the low bidder, for on January 10, 1931, McCarl rendered a decision in favor of TWA, in view of the additional facts submitted by Brown. Meanwhile, Harris Hanshue, of TWA, had been getting upset. He had been forced to merge Western Air Express with T. A. T. and now he was in danger of not getting the government's money after all. He urged that strong pressure should be brought on Brown, and also that the matter be brought to the attention of President Hoover, whose son was a radio engineer in the employ of Western Air Express, and whose friends were members of the board of directors of that company. Mr. Hanshue felt that the matter of the TWA contract being approved by the Comptroller General should be made a Cabinet issue. But this was not necessary after Postmaster General Brown had supplied Comptroller General McCarl with additional information.

On February 2, 1931, Ernest W. Smoot wrote the following letter to Harris Hanshue, president of Transcontinental & Western Air:

Dear Mr. Hanshue: I am enclosing my bill for specific services you instructed me on November 13 to perform in Washington.

Both of these projects, the decision of the Comptroller General of the

United States on the matter of domestic air mail appropriations have now reached a successful conclusion. You will note in my bill that I have taken into consideration the \$2,500 advance made by James Woolley on December 17, 1930.

With kind personal regards and best wishes, I am

Yours sincerely,

ERNEST W. SMOOT.

(Enclosure)

Bill

To Transcontinental & Western Air for services rendered under authorization from Messrs. Hanshue and Cuthell.....	\$15,000
Less (advance by James Woolley of 12/17/30)	2,500.

Mr. Smoot testified before the Senate committee investigating the contracts that his other services besides the matter of the decision of the Comptroller General of the United States consisted of work before congressional committees with reference to appropriations for air mail. He had, he said, "contacted the Post Office Committee; talked to different members of the committee with regard to it—what they thought about it; what they thought about the air-mail situation." He said that he had also talked with his father about the situation and with Senator Warren, of Wyoming, chairman of the Senate Appropriations Committee.

The officials of TWA thought Mr. Smoot's bill of \$15,000 was pretty stiff for the work done, and they did not pay it. They considered that he had received enough when he got the original \$2,500 which James G. Woolley had sent him five days after Senator Reed Smoot had written his letter to Comptroller General McCarl. At one moment Ernest Smoot thought of suing TWA, and, he testified, he had consulted Colonel Donovan, of the Washington law firm of Donovan & Bond, for whom Ernest Smoot had also done work before government departments, "and he advised me not to go any further in the matter."

Postmaster General Brown continued to ignore the opinions and rulings of the Comptroller General, in spite of the tight squeeze by which his letting of the contract to TWA had been approved. Even after McCarl's stern opinion of December 16, 1930, that the provision for night flying experience was illegal, Brown continued to reissue it as a specification in

the regulations for bidding issued by the Post Office Department on the following April 13, 1931.

“What was the object of reissuing that order after the Comptroller’s decision, as you did issue it, in 1931?” Senator Black asked Mr. Brown.

“I have no recollection of that matter, Senator,” Brown replied, “but of course the Comptroller General was running the accounting office. I was doing the best I could to run the Post Office.”

Postmaster General Brown had certain resemblances to Louis XIV as well as to Secretary Albert B. Fall.

Postmaster General Brown also ignored the ruling of the Comptroller General that he did not have power to let air mail contracts by extending existing routes. Between May, 1930, when he held his famous “spoils conference” with the air mail operators, and May, 1932, Brown had created 12,095 miles of new air mail routes. Of these 4,500 miles had been created by competitive bidding, as required by law, and more than 5,000 had been created by granting extensions of existing lines on Post Office Department orders, under the loose provision of the McNary-Watres Act which gave the Postmaster General some power to extend existing lines in the public interest. No other contractors but the existing ones had any opportunity to bid for these new 5,000 miles, and the bids on the other 4,500 miles were made after the bidders had been in constant consultation with the Post Office Department and had made efforts, it was said, to find out what their competitors might bid.

3

BETWEEN 1930, when Postmaster General Brown called his “spoils conference,” and 1933, when he went out of office, \$78,084,897.09 was paid to air line operators for carrying the mails within the United States. The government paid for more than twice the space actually used to carry the

mails, with the understanding that the difference was in the nature of a subsidy for aviation development. Much of this money, however, went into the bank accounts of executives of the air monopolies which Postmaster General Brown had helped to create.

Mr. Frederick B. Rentschler, brother of Gordon Rentschler, president of the National City Bank, was one of the promoters of the large combine known as United Aircraft & Transport, which consisted of air lines and airplane equipment manufacturing companies, including the large Pratt & Whitney Company, which did much work for the Army and the Navy. The United Aircraft & Transport, with which Colonel Paul Henderson was also associated, as a result of mergers, had a profitable mail contract with the government. Mr. Rentschler owned 1,265 shares of Pratt & Whitney Aircraft Company stock. He had paid 20 cents a share for these, or a total of \$253. In November, 1928, the Pratt & Whitney Company declared a stock dividend of 79 shares for each share a stockholder owned, which gave Mr. Rentschler 101,200 shares for his 1,265. Then the Pratt & Whitney Company became a subsidiary of United Aircraft & Transport Corporation, and Mr. Rentschler received 219,604 shares of United Aircraft for his 101,200 of Pratt & Whitney. In May, 1929, the original 1,265 shares, which had been transformed into 219,604, and for which Mr. Rentschler had paid \$253, were worth \$35,575,848. Mr. Rentschler sold \$9,514,869 worth of his stock. When he testified before the Senate committee investigating air mail contracts in January, 1934, he still owned 60,000 shares, which were then worth an additional \$2,100,000.

In addition to this profit from his shares in United Aircraft, Mr. Rentschler was let in on the ground floor when his brother's National City Bank's National City Company floated the stock of the Boeing Airplane & Transport Company. Rentschler's profit on this transaction was \$92,176.50. Mr. Rentschler and other executives of the United Aircraft were permitted by the National City Company to buy Boeing stock at \$25 a share when it was offered to the public at \$97 a share. The National City Company itself made a profit of \$5,895,311.39 on United Aircraft stock, which it sold to an hysterical public stimulated to hysteria by its salesmen and sales advertising. The National City Company also made arrangements to maintain the price of the stock at a high level while it was selling to the public.

Besides Mr. Rentschler's enormous stock profits out of United Aircraft

and Boeing airplane stocks, others in his company were making huge profits in the same way. Charles W. Deeds, son of the Colonel Edward A. Deeds who Justice Charles Evans Hughes had recommended should be tried by military court-martial for his activities as head of the equipment division of the United States Air Service during the war, bought 200 shares of Pratt & Whitney stock for 20 cents a share at the time Mr. Rentschler received his shares at that price. Mr. Deeds was treasurer of United Aircraft, of which his father was chairman of the executive committee. The elder Deeds was also associated with the National City Bank. By stock dividends and merger, Mr. Deeds's shares were worth \$5,624,640 in May, 1929; he had paid \$40 for them. By January 16, 1934, when he testified, Mr. Deeds had sold part of his \$40 investment for \$1,060,314.90, and he still had left 15,000 shares worth \$450,000. Mr. Deeds was thirty-one years old in 1934, had never taken any active part in the development of aviation and had no technical knowledge of it whatsoever.

In addition to the huge presents to themselves of stock and stock dividends, the airplane executives drew enormous and exorbitant salaries and bonuses from the companies which were subsidized so heavily by Brown's bounty. Mr. Rentschler, for instance, in 1929 had received in salaries and bonuses \$429,999, according to his own testimony. In 1930 he received from United Aircraft \$243,736 in salaries and bonuses and \$2,825.25 in director's fees. In 1931, a bad depression year, his salary went down to \$48,125.30, but his bonus that year was \$96,122.23, making his total for the year \$144,247.53. He also received \$2,090 in director's fees that year. In 1932, Mr. Rentschler did rather better, though the world was in a very low financial state. He drew \$192,500.61 in salaries and a bonus of \$6,650, making his total takings for that year \$199,150.61. He also got \$1,470 in director's fees. For the first ten months of 1933, Mr. Rentschler had received \$98,646.06 and \$2,330 for director's fees. Between 1927 and 1933, Mr. Rentschler had received more than one million and a half dollars from the United Aircraft company in salaries, bonuses and director's fees.

Mr. Charles W. Deeds and Mr. George J. Mead, vice-president of United Aircraft, also received large salaries and bonuses. Mr. Mead testified that in six years he had drawn \$499,124.66 out of the company, and he had made about \$7,800,000 from his stock, which had cost him \$207. He still owned \$750,000 worth of the stock at the time he testified in January, 1934.

Mr. Deeds had drawn \$293,789.88 out of the company in salaries and bonuses.

"What rate of pay do you pay your pilots?" Senator Austin asked Mr. Frederick B. Rentschler.

"I cannot answer that question exactly," Mr. Rentschler replied.

"Is it the American Federation of Labor wage scale?"

"I think it is, probably. It must be in line with that, at any rate. As to pilots, maybe I was not clear in answering your question entirely. I have some idea and can say the average salaries range anywhere from six or seven thousand dollars up to ten or twelve thousand dollars a year, which I think is probably the maximum." . . .

"Have you had a pilots' strike recently?" asked Senator Black.

"There have been difficulties, yes."

"When was the last strike of your pilots?"

"Well, I think along in the fall of this year."

"The fall of last year you mean?" [1933]

"Yes, it was."

"What were you paying then, do you know?"

"I would not answer that question exactly."

"As a matter of fact, you don't know much about the salaries they pay them at all?"

"I think I do. I mentioned the range within which they fall, and I think that is correct." . . .

"I have the record of what the Government has paid to the United Air Lines, for instance, since 1926," Senator Black said, "and I find that it paid \$40,174,412. Now, only a very small part of that went to the pilots, didn't it?"

"Well, yes. I don't know just the figure off-hand." . . .

"Mr. Rentschler, do you think it is right for the United States Government to subsidize any company where the officers draw salaries and bonuses, either from the subsidized company or any of those with which it is affiliated and buys its goods, and the officers draw salaries and bonuses of three or four hundred thousand dollars? Do you think that is right?" Senator Black asked.

"Well, that depends on just what extent the subsidy is."

"Where it is 40 million dollars, for instance?"

"I can't tell you what part of that is a subsidy. Some of it is service—a good part of it."

"There is no question about that, but, Mr. Rentschler, as a citizen now and not as an officer of the company, if the Government is going to subsidize lines, do you not think that it should see that the Government gets a square deal on salaries and bonuses and upon purchases of equipment to the line which aids by subsidizing?"

"I think it is right to look into that. Why not?" said Mr. Rentschler.

"Do you not think it should limit that?"

"No; I don't know. I agree it certainly has a right to a full investigation before conclusions."

"Do you not agree that that has developed that through the company itself and by its interlocking companies and associates it develops that one individual draws in a period of 6 years a million and a half dollars in salaries and bonuses, that the Government ought to limit hereafter salaries and bonuses if it is going to aid in the operation? Do you think that is the truth?"

"Yes; I think so." . . .

"Then, if it is true that those companies could have been making this money so as to pay these large salaries with a subsidy, there isn't any reason to have a subsidy at all, is there?"

"I can't answer that entirely, but I can answer that the United Aircraft have made profits in part because it has been a well managed and apparently efficient company, or the things I have just mentioned could not be true."

"If it had not gotten this \$40,000,000, do you believe these salaries and bonuses could have been paid?"

"I can't answer that exactly."

"If it had not gotten this \$40,000,000, is it your judgment that the bonuses and salaries amounting to over \$400,000 to one man could have been paid?"

"Possibly not."

"Is it also not true that if it had not been for the subsidies, then stock could not have gone up from a value of \$253 to a value of \$35,000,000?"

"Possibly not."

"As a matter of fact, it would not, would it, Mr. Rentschler?"

"I say possibly not."

"That is your best judgment, is it not?"

"I think you are right."

"That is all, Mr. Rentschler. Thank you. (Witness excused.)"

Chairman Black asked Colonel Paul Henderson, who was associated with United Air Lines, the subsidiary of United Aircraft:

"Do you believe that it was fair to the people of the United States to make such mail business that in 1 year a company will make a million dollars' profit of a \$750 investment?"

"There is only one answer to that, sir," Colonel Henderson replied. "It is no; it is no; of course, not."

4

BY THE spring of 1931 Postmaster General Brown had arranged the air mail map of the United States to suit himself and the large air line companies which he had helped to develop. On July 10, 1931, a meeting of the passenger air lines without mail contracts which operated in that area was held at Kansas City, Missouri. The independents were of the opinion that only by a campaign of publicity could they correct the evils which they felt Postmaster General Brown had created. For six months before their meeting E. W. Savage, adviser for the Ludington Air Lines, had been engaged in research on the entire air mail situation and had gathered a mass of data. Mr. Paul R. Braniff, of the Braniff Air Lines, an independent, wrote to Mr. H. P. Williams, of the Wedell-Williams line, which had been frozen out by Brown, concerning Mr. Savage's work: "He has developed a mass of facts, which, if made public, might prove very embarrassing to the present postal administration and most effective in obtaining satisfaction for the independent operators. He has set up an organization, including G. P. Putnam, New York publisher, and Captain J. J. Reiley, public-relations counsel, who handled the details of the Byrd Antarctic Expedition, which organization offers its services to member lines."

The first attempt of the independents to organize their own propaganda service and lobbying service did not accomplish much, but on November

22, 1932, two weeks after Franklin D. Roosevelt had defeated Herbert Hoover for the Presidency, the independents felt that they had a chance to be heard, and they organized the "Scheduled Air Transport Operators' Association." The statements issued by this organization called attention to the fact that the administration of Postmaster General Brown had fostered "an absolute trust" and that the stifling of all competition had resulted. The big lines, the organization pointed out, could afford to spend in advertising and traffic promotion twice the revenues the small lines could possibly receive without mail contracts, and still make four times the income of the small lines by operating empty ships and carrying nothing but mail at a lower speed, if they so desired.

"Such a condition," Paul R. Braniff told the House Committee on Post Offices, "can only result in an absolute monopoly by the chosen few who are favored by the Post Office Department, and the peculiarity of these chosen few is that they have, with a few exceptions, been backed by large New York banking houses. Issues of their stock were sold to the public at prices from four to twenty times their present value, and were they forced to stand on a competitive basis with unsubsidized air lines in the obtaining of mail contracts, none of them could exist under the present system of extravagant operation."

Mr. Braniff also maintained that companies that had offered to carry the mail for much less than the large combines were bought out or given part of a mail contract by the large companies. Mr. E. L. Cord, for instance, had offered to carry the government's mail for 50 per cent of the price at which it was being carried. Then, suddenly, Braniff claimed, there was a pilots' strike on Cord's Century Airlines, and afterwards Mr. Cord, when he was ready to listen to reason, was permitted to buy an interest in American Airways, the large eastern combine. "Twenty million a year subsidy warrants some pretty sharp practices and plenty of politics," Mr. Braniff concluded.

The gossip in Washington and in air line circles concerning Postmaster General Brown's administration of the McNary-Watres Act had been going on for a long time, and soon after the Democratic administration came into power, the Senate passed its resolution calling for a special

committee to investigate air mail and ocean mail contracts under the chairmanship of Senator Hugo L. Black, of Alabama.

In the course of the testimony brought out by the special committee, it developed that when Postmaster General Brown left office on March 4, 1933, the files concerning air mail and ocean mail contracts had been emptied out; some of the correspondence had been destroyed, and Mr. Brown took some of it with him to the Barclay Hotel in New York City. The files of previous Postmasters General had been stored on the eighth floor of the Post Office Department.

James Maher, stenographer in the Postmaster General's office during the administrations of Hays, Work, New, Brown and Farley, testified that a few days before March 4, 1933, Mr. MacPherson, Brown's secretary, had instructed him to get out the copies of letters in the twenty-four filing drawers in the Postmaster General's office and put them on his desk. Mr. MacPherson then examined the letters sent and received by Brown, and ordered Maher to see to it himself that those MacPherson had picked out as useless were burned in the incinerator of the Post Office Building.

"Were those all the files in his office?" Senator Black asked.

"Yes, sir," Mr. Maher replied, "we destroyed everything. The last couple of days we threw the whole bunch away."

Mr. Maher said that he and Frank Hauser, another stenographer in the Post Office Department, who were watching the fire of correspondence, had a conversation about it:

"I just mentioned to Frank in an offhand way," Mr. Maher testified, "that we should not destroy the files; that someone in the next administration might want to see them. He agreed with me, but we were ordered to destroy them and we did so."

"Were there letters or files of any kind that were in the Postmaster General's office that you did not destroy?" Senator Black asked.

"We destroyed everything," Mr. Maher replied. "But what he took with him—whatever personal he took—I did not look to see what he took out. I destroyed everything he gave me back."

"How did you take them to the furnace?"

"I carried some down myself and the messengers put the rest on the trucks."

The files of W. Irving Glover, Brown's assistant in charge of air mail, were also destroyed, according to the testimony of James J. Doran, an inspector at the Post Office Department, who made a search for correspondence for the Senate committee. Raymond L. Johns, in charge of the files in Glover's office, who had worked for Glover for twelve years, testified with great reluctance that the correspondence in twelve drawers had been disposed of as waste paper at the order of W. Irving Glover. Four to six sackfuls were thus destroyed, he testified. After much effort Senator Black dragged out of Mr. Johns the fact that his former employer, Mr. Glover, had telephoned him to ask if he had been called to testify before the Senate committee yet.

"You deny that he told you that—that he told you to tell the inspectors and this committee they were personal files and not official files?" Senator Black demanded.

"He did not tell me to tell anybody, but he said, 'these were personal and unofficial files and you know it,'" Mr. Johns testified.

When questioned about his previous examination by the inspectors for the Senate committee, Mr. Johns said: "I did not say anything to them, but they said I was the dumbest witness they ever examined. (Laughter.)"

When he finally testified before the Senate committee himself, Walter F. Brown told a strange tale concerning the disappearance of his files. He testified that he had told his secretary, Kenneth MacPherson, to go over all his personal correspondence and pack up for him any letters that might have "a permanent interest or value to me, and to dispose of the parts he thought had no permanent interest or value." The personal correspondence to be preserved was packed in a long box, "like a coffin," together with books, and sent to the Shoreham Hotel in Washington after March 4, 1933, then to the Securities Storage Company in Washington and finally to the Barclay Hotel in New York, when Brown moved there. The box of correspondence, Brown said, had reposed in the cellar of the Barclay Hotel until the Senate investigation of air mail and ocean mail contracts began to hold its air mail hearings. Brown said that he was so disturbed by the publicity of the committee hearings that he finally decided to refresh his memory on some things and looked into the coffin-like box. He and Mrs.

Brown opened the box together in their hotel suite, "and there in one corner were two tied-up packages or folders, apparently containing correspondence, one labeled 'Merchant Marine,' and the other 'Air Mail.'"

"Now, then, what did you do with the files?" Senator Austin asked.

"Well, I was terribly shocked by the thing. I have never been so upset, I think, in my life, when I saw those things. I had just time to get my train, and I said to Mrs. Brown, 'These files will have to go back to Mr. Farley just as quick as I can get them there, and you lock them up where you know nobody can get at them, and I will come back from Ohio just as quick as I can get there, and will take them over to Mr. Farley'—and I then went to my train and went on my way."

Mr. Brown testified that he was so disturbed—the testimony on the destruction of Brown's files had been given to the Senate committee by James Maher about a week before—that he did not sleep that night on the train, and that instead of going to Cleveland, where he had a board of directors meeting to attend, he took the train to Chicago to see his former secretary, Kenneth MacPherson, and have a talk with him about the missing correspondence which had turned up in Brown's box. From Chicago Brown said he went to Toledo, where he had some business, and dictated a letter to Postmaster General Farley to one of his very faithful secretaries in his law office. He took this letter with him to New York and showed it only to Mrs. Brown while he was shaving on the morning of his return to the Barclay Hotel. Then Brown took the train to Washington, with the package of correspondence and his letter to Farley in a zipper brief case.

Brown testified further that Postmaster General Farley "was very cordial," and took the correspondence Brown had brought back and the letter, which was a detailed account of much the same story that Brown had told on the witness stand, but with some further implications and innuendoes. There were, he wrote, three possible theories as to how the correspondence had got into his personal belongings. The first was carelessness: "Inquiries which I have been able to make convinced me that this theory is altogether improbable," he wrote. "Second, that the official files were placed in the box above described intentionally by someone of

my personal staff. No motive that would appear to the intelligence of a 6-year-old child can be assigned for such an action. . . . There remains only one other theory, to wit, that these official files were surreptitiously placed among my personal papers at the instigation of someone who was engaged in a conspiracy of character assassination. There is some evidence to support this theory."

But the only evidence which Mr. Brown offered to support his theory of "character assassination" would not have appealed to the intelligence of a six-year-old child. He merely said in his letter that the box had been at his hotel in Washington, had been moved to a storage warehouse and had then been moved again to his hotel in New York. The implication was that someone interested in assassinating his character could have slipped into the cellar of the Shoreham Hotel, the storage warehouse of the Securities Storage Company in Washington, or the cellar of the Barclay Hotel in New York, opened the box and slipped the correspondence in, but he had no evidence that anyone had done so.

Brown also wrote in the letter he brought to Farley that among the correspondence he was returning were some letters from President Hoover, of no particular importance, which he would like to have back, if Farley decided that they were not needed in the Department. Brown concluded:

I am delighted to be able to return the official files relating to air mail and ocean mail unscathed by their fantastic experience in the fiery furnace as were Shadrach and his companions of old.

With personal regards and best wishes for the New Year, I am

Very truly yours,

WALTER F. BROWN.

But the correspondence which Brown returned was only a very small portion of that contained in the twenty-four filing drawers in the Postmaster General's office, which had found its way to the fiery furnace in the cellar of the Post Office Department. Brown's folders contained no correspondence concerning his personal and business relations as Postmaster General with the leading air mail operators.

Brown testified to an interesting scene between himself and the man who

enjoyed the intimate political association with President Franklin D. Roosevelt which Brown had occupied with President Hoover:

"Did he read the letter in your presence?" Senator Austin asked.

"Oh, yes," Mr. Brown answered.

"What conversation followed?"

"Well, I handed him the letter and he read it and he said, 'What do you want me to do?' I said, 'Nothing, Mr. Postmaster General. After you have thought it over you may think you ought to make me some acknowledgment of the receipt of these letters.' He reached for the button and he said, 'I will do it now.' He reached to call a stenographer. I said, 'I would rather you would not. This is a matter of some importance, I think, and I would rather you would talk it over with your staff and your advisers before you write me anything.' He said, 'All right.' Then he said, 'You know, I haven't any sympathy with these political investigations.' And I said, 'Well, I have always thought you were too good a sportsman to hit a fellow below the belt because he happened to belong to the other party.' And he said, 'I would not hit anybody below the belt.' Then he went on and told me about some friend of his who was a victim of a political investigation upstate in New York some years ago and he said, 'That fellow was cleared entirely, but it ruined him. We ran him for office and he got beaten to death.'"

"Did he mention the name of the party?" Senator McCarran asked.

"I think he did."

"Do you remember what it was?"

"But I can't remember it. It was a case I had never heard about, but he was very interested in it. Then I said to him, 'Well, I can't understand what this is all about, Mr. Postmaster General. The only time that I remember seeing Senator Black was back in my administration, and he came to see me with Senator Heflin, and I am sure he was treated with every courtesy. I don't understand it.' And he made a remark of a personal nature that I do not feel at liberty to repeat."

"Repeat it," said Senator Black. "You say he said something—repeat it."

"I want it repeated," said Senator McCarran.

"After he made it he asked me not to repeat it," Mr. Brown said.

"The committee calls on you to repeat it now," said Senator McCarran.

"I can't repeat it."

"Do you wish the ladies excluded from the audience?"

"No; it was not obscene at all."

"Then I want to call for it, as a member of the committee," Senator McCarran insisted.

"Well, Senator, the minute he said it he said, 'I don't want you to repeat that.' And I said, 'I won't,' and I am not going to unless he gives his consent."

"Well," said Senator Black, "we will get him up here and give his consent to you to repeat anything you say he said. Who was there when the conversation took place?"

"Just the Postmaster General and myself."

The day after ex-Postmaster General Brown testified concerning this conversation which he had promised not to repeat, Postmaster General Farley was called before the Senate committee. After other testimony by Farley concerning air mail contracts, Brown was recalled to the stand, and the two political manipulators of the rival parties faced each other:

Senator McCarran. Mr. Brown, what was the statement made by Mr. Farley relative to Senator Black, to which you testified and made reference in your testimony of yesterday?

Mr. Brown. Mr. Postmaster General, am I at liberty to say anything—

Senator McCarran. It is not a question of liberty.

Mr. Brown (continuing). With respect to our conversation on the 19th of January?

Postmaster General Farley. Am I to answer?

Senator McCarran. Yes.

Postmaster General Farley. Mr. Brown is perfectly at liberty to make any statement I am supposed to have made.

Mr. Brown. I said to the Postmaster General—

Senator McCarran. I am asking you what Mr. Farley stated to you, not what you stated to him.

Mr. Brown. I am going to connect it so you will understand it.

Senator McCarran. I want you to answer my question.

Mr. Brown. I will state it my way.

Senator McCarran. You will answer the question my way, and then make the explanation afterward. What was the statement Mr. Farley made to you relative to Senator Black?

Mr. Brown. Well it had reference —

Senator McCarran. What was the statement?

Mr. Brown (continuing). To my request —

Senator McCarran. Mr. Brown, will you answer my question, please?

Mr. Brown. Yes, sir; I will; and I will answer it clearly.

Senator McCarran. What was the statement? Make it now, and then explain it afterward.

Mr. Brown. No; I will answer it my way.

Senator McCarran. You will answer it the way I want it answered. What was the statement made by General Farley to you relative to Senator Black—and then make your explanation afterward?

Mr. Brown. It is not an explanation. It is just connecting it with my question.

Senator McCarran. What was the statement made with reference to Senator Black?

Mr. Brown. I asked him what it was all about, and why Senator Black was pursuing me, and he said, "He is just a publicity hound"—and then he added, "but don't tell anybody I said so, because I have to get along with him."

Senator McCarran. Mr. Farley, did you, in substance or effect make any such statement with reference to Mr. Black?

Postmaster General Farley. Mr. Chairman, I made no such statement.

Senator McCarran. That is all I have to ask.

The Chairman [Senator Black]. Is that all of it?

Mr. Brown. Yes; are you finished with me?

The official correspondence of the Post Office Department was not the only correspondence which was tampered with as soon as the Senate committee began to get on the trail of the relations of Brown and the air line monopolies. Colonel L. H. Brittin, of Northwest Airways, whose offices were in Washington, was permitted to remove correspondence from the files of the law office of William P. MacCracken, chairman of the "spoils conference." Mr. MacCracken testified that this was merely correspondence which Colonel Brittin had dictated in Mr. MacCracken's office, but there seemed to be great haste to get this correspondence out of Mr. MacCracken's office before the next session of the Senate committee when MacCracken would have to appear for a second time. On the first occasion he had declined to submit the files of his clients without their permission,

and he had been instructed to telegraph for such permission. Mr. MacCracken demanded the privilege of the confidential relationship between attorney and client, but Senator Black maintained that he deserved no more privilege than an interior decorator would, for he had acted as negotiator and chairman of the "spoils conference" and not as an attorney in court. Mr. MacCracken, however, still refused at the second session to waive this privilege, and both he and Colonel Brittin were cited for contempt of the Senate, and were arrested. Colonel Brittin served ten days in jail, but Mr. MacCracken appealed his sentence.

Gilbert L. Givvin, a representative of Western Air Express, also took some correspondence out of the MacCracken files after the Senate committee had subpoenaed them; two inspectors for the Senate committee were sitting in the offices of MacCracken & Lee all day long, but the correspondence disappeared anyway. Mr. Givvin took the correspondence, which he testified was selected by Mr. MacCracken while he looked over his shoulder, and sent it to Mr. Harris Hanshue's apartment in the Essex House, New York. But, meanwhile, Mr. Hanshue had read the newspaper accounts in New York about disappearance of correspondence and contempt of the Senate, and he sent the correspondence extracted on the grounds that it was personal, back to the Senate committee by Mr. Givvin. When opened, it proved to contain letters concerning the air mail contracts:

"This says down here," said Senator Black:

"The deal for the aero port was barely completed when we were advised by the P. M. G. that we must sell the Standard Air Line to Aviation Corporation and combine our Kansas City and San Francisco divisions with T. A. T.'"

"Do you consider that personal?" Senator Black asked Mr. Givvin.

"Yes," Mr. Givvin replied, "I considered it a personal matter to Mr. Hanshue."

When Mr. Brown was examined about his relations with the air line operators concerning air mail contracts, he denied that there had been any intention to avoid competitive bidding and insisted that every one of his arbitrary acts had been taken in strict accordance with law, and that every one of them had been in the public interest as well as in the interest of fairness to all concerned.

There were some of Mr. Brown's relations with Joseph H. Bagley, which he was also called upon to explain. Brown had first met Bagley, he said, when Brown had come to Washington in 1921 after the inauguration of President Harding, to reorganize the government departments. They got to be good friends. Bagley was vice-president of the American Bank Note Company. Both he and Brown lived at the Wardman Park Hotel. On January 30, 1929, after Brown had worked hard to elect Herbert Hoover President of the United States in the previous November, the stock brokerage firm of G. M-P. Murphy & Company opened a joint stock trading account in the names of Joseph H. Bagley and Walter F. Brown. The account traded in the stock of the American Bank Note Company and stock of the International Mercantile Marine, which had contracts for mail with the Post Office Department. The firm of G. M-P. Murphy & Company was one of the original handlers of the stock of National Aviation Corporation, and Mr. E. O. McDonald, a partner in Murphy & Company, was president of the National Aviation Corporation.

Brown testified that Bagley and he had been old friends, that Bagley had been "a very successful speculator, . . . and he thought he would like to help me make some money." Brown said that he was not sure whether he had ever put up any money for the Bagley-Brown joint trading account, and that he had no record anywhere of having done so.

Mr. Bagley had a contract with Bruce & Company, which manufactured a patent block wood flooring, and also with Henry Klein & Company, which sold fireproof wood for buildings where records were stored and for steamships. Bagley's contract with the Bruce company provided that he was to represent them in the effort to sell their special block flooring for use in government buildings. He was to receive a commission of 12½ per cent of the price Bruce & Company received for their flooring from the government. He wanted 20 per cent, but the company refused to give him that much, and he also wanted an option on stock in the Bruce company, which they also declined to give him. Bagley told W. J. Wood, sales representative of Bruce & Company in Washington, that "his crowd assumed that he had this option all the time from the start."

Frank E. McMillin, post office inspector, testified before the Senate committee:

"Were you formerly connected with the Post Office Department?"
Senator Black asked.

"Yes, sir."

"When?"

"I left there on June 30 at half past 4, 1932. (Laughter.)"

"Were you retired?"

"Yes, sir. I was told at 2.15 that I would be through at half past 4 and I thanked them for giving me that advance notice."

"What were your duties just at the time and before you left there?"

"I was superintendent of engineering and research. . . . I was post-office inspector in the field. I was inspector in charge of the Washington division and later post-office inspector for all the service."

"During that time did you have anything to do with inspecting the flooring of post offices?"

"Well, I had charge of the plans for the interior part of the Federal buildings which, of course, included flooring."

"Did you know anything about the flooring of Bruce & Co.?"

"Yes, sir."

"Did you know Mr. Bagley?"

"No, sir."

"What position did you take in connection with limiting the bids to this particular type of block?"

"Well, I told him [Fourth Assistant Postmaster General] I would not approve the installation of the Bruce block in the workroom space of the post offices."

"Why?"

"Well, it was a very fine ballroom floor, about 1 1/32 inches in thickness, and I did not believe that it would hold up where we were dragging trucks around the floor, and what I call 'a heavy-duty flooring' was needed. It would be all right for an office or postmaster's room, or something of that kind."

"What did Mr. Philip say?"

"He told me that it was—the orders came from the Postmaster General to use the flooring."

"Who was the Postmaster General?"

"Walter F. Brown."

"What did you say then?"

"I told him if the Postmaster General ordered it, of course, he could get it or anything else that he ordered."

"And what did you do then with reference to this particular block?"

"Went ahead and specified it to be installed at different post offices."

Mr. McMillin testified that then he drew up specifications to include the Bruce block, which would not apply to any other block, as the Bruce company had a patent on this particular type of flooring. The specifications for buildings under construction at the time, he testified, were changed to include the Bruce block and discard other types of wood flooring. The Bruce block was used in the post office at Louisville, Kentucky, in the new Federal Building at Philadelphia and at Newark, New Jersey, and in the Parcel Post Building in New York.

Brown testified that he had never told anybody to use the Bruce flooring. "I did have a very thorough investigation made of the merits of it," he added, "and approved the specification that was finally drawn by the committee." He also said that his friend Bagley had never told him that he was an agent for the Bruce company and was getting commissions from it. Bagley died in November, 1932, and Brown was named executor of his estate and residuary legatee. Brown testified that Bagley "had always been interested in wood, interested in it in an aesthetic way—he had beautiful wooden furniture, he had at his apartment a panel from ceiling to floor, with wood." Bagley was so much interested in wood, both aesthetically and financially, that he thought it would be a good idea to sell wood to the United States Government for its "heavy-duty" flooring and other parts of its post office buildings, and it so happened that his close friend, Walter Brown, was Postmaster General at the time and would have to approve the specifications for the buildings; it also happened that he and his friend Brown had close financial relations.

It was only after Bagley's death, Brown testified, that he learned that Bagley "had received some payments from, I think, the First National Bank of Boston in connection with the purchase by the Government of a post-office site there, and I remember the circumstances." According to Brown, the circumstances were that two or three sites were under consideration for a post office site in Cambridge, Massachusetts. Brown testified that as he had lived in Cambridge for six years himself, he knew the terrain, "and would have approved the site if Mr. Bagley had not been interested in it. I did not know that his interest was a pecuniary one at

the time." Perhaps Mr. Brown thought that Mr. Bagley's interest was an aesthetic one, when he talked with Brown about the desirability for a post office site of the ground on which the First National Bank of Boston had a mortgage; Brown also said that "one of the officers of the First National Bank was an old, old friend of his."

Brown testified that when he was going in the train to Grand Rapids with the body of his friend Bagley, one of Bagley's friends, Mr. Whiteford, told Brown that Bagley had been trying to get options on sites for government buildings, "and Mr. Whiteford wanted to know whether now that Mr. Bagley was gone, any consideration would be given to them."

"I was very much surprised to find that Mr. Bagley had gone into that sort of transaction," Brown testified. "I was devoted to him, and still have every faith in him. The only reason I can think of that he did not talk to me about it was that in the autumn of 1932, when that happened, I was away a good deal. I was a little interested in the campaign and I was in Ohio quite a bit, and Mr. Bagley never said anything to me about it."

Mr. Bagley was also interested in the campaign to re-elect Herbert Hoover President of the United States, which Walter F. Brown was helping to manage. On September 27, 1932, Mr. Alfred C. Flather, of G. M-P. Murphy & Company, wrote to Mr. Otis J. Glazebrook, Jr., one of the partners of the stock brokerage firm:

Dear Otis: I have seen Mr. Bagley and had a very pleasant chat with him. . . .

As you know, he is very close to the Postmaster General. He tells me that Mr. Brown says that Ohio is absolutely safe for Hoover, but, as he puts it, the funny thing is that he says nothing about any other State. Bagley, I believe, has always been a Republican and has for years had a pretty close working relationship with several administration officials when that party has been in power, but I believe he is a little skeptical of the outcome in November. He told me he was not letting any grass grow under his feet, but was lining up two or three friends on the other side. He further said if he gets any information of a political nature that he thinks might be helpful to me, he will pass it along.

After the revelations brought out by the Senate investigation into mail contracts under the administration of Walter F. Brown, Postmaster General Farley, after consultation with President Roosevelt and Attorney General Cummings, decided that the air mail contracts had been let in circumstances that pointed to collusion. Meanwhile the Department of Justice had made its own inquiry, and so had the Post Office Department. On February 9, 1934, Postmaster General Farley issued an order canceling all the air mail contracts then in existence, under which 90 per cent of the air mail subsidy had gone to the three great air monopolies, United Aircraft & Transport Corporation, Transcontinental & Western Air, and Aviation Corporation.

A disastrous experience followed, when the Army carried the air mail in very bad weather and lost the lives of eleven men. This circumstance was taken advantage of to the full by the private air mail lines, but in spite of the criticism of the government for having so hastily turned over a difficult problem to the Army, the air mail contracts remained canceled, and new bids were called for on a competitive basis. If the government had not carried the mail during the interim, it would have been subjected to criticism because it had stopped a valuable service for a few weeks.

When bids were opened for carrying the air mails in May, 1934, they proved to be very much lower than the rates paid to the large combines. Postmaster General Farley calculated that the cost of flying the mails would be \$7,700,238 under the new bids, as compared with the \$19,400,264 spent in 1933.

CHAPTER SEVEN

The Pied Pipers of Wall Street

*"And it seemed as if a voice
(Sweeter far than by harp or by psaltery
Is breathed) called out, 'Oh rats, rejoice!
The world is grown to one vast drysaltery!
So munch on, crunch on, take your nuncheon,
Breakfast, supper, dinner, luncheon!
And just as a bulky sugar-puncheon,
Already staved, like a great sun shone
Glorious scarce an inch before me,
Just as methought it said, 'Come, bore me!—
I found the Weser rolling o'er me.'"*

AT THE end of the examination of the members of J. P. Morgan & Company by the Senate Committee on Banking and Currency on June 9, 1933, Mr. J. P. Morgan submitted on behalf of himself and his partners what he called "a little essay on the question of inflation and banking cures, and that sort of thing," which his partner, Mr. Russell C. Leffingwell, had prepared. "It is quite interesting," Mr. Morgan said modestly, "and it has a lot of wisdom in it. I would like to have that put on the record, if we may."

Mr. Morgan was understating; Mr. Leffingwell's document was full of suggestion and confession concerning the immediate past in American

finance, and in importance it ranks far above the more sensational facts brought out before the committee that, due to the looseness of our income tax laws, Mr. Morgan and his partners paid no income taxes during 1932, and that some of the participants in their stock issues at privileged prices were past and present statesmen.

Mr. Leffingwell's essay began with an historical sketch. He pointed out what President Wilson had pointed out in his message to Congress of December 2, 1919, the obvious fact that Europe could not pay the United States what she owed her as a result of the war and still be prohibited from selling her products to the United States, or giving them to us in return for debts. Instead, the United States chose to lend Europe the money with which to buy our products and pay the debts she already owed us, clinging meanwhile to high tariffs to protect local interests. Mr. Leffingwell wrote of the possibility for a banker or leader in any political or economic field who saw this ridiculous position clearly, as many of them did:

Perhaps the proper thing for anyone to do who understood this situation, was just to do nothing; to reject it, to say that the political and economic set-up left by the war and treaties of peace was impossible, that nothing could be done about it. Perhaps a reasonable man would have followed Rip Van Winkle and taken a long sleep in the Catskills, or at least with Thoreau would have rejected the system and retired to Walden Pond.

That is, however, not the way men behave. It is not for them to file a non possumus, to declare that conditions created by governments, by their wars and their treaties of peace and their settlements—or unsettlements—of reparations and war debts—are impossible. It is not for them to say that the burden of debts, public and private, governmental and intergovernmental, is excessive, and that therefore they refuse to carry on. No, the man of affairs, the public spirited man, yes, even the far-seeing man, decides to carry on in spite of these adverse conditions, and knows he is fighting an uphill fight. He knows, too, that it is better to fight than just to lie down and quit.

In his analysis Mr. Leffingwell failed to mention an important alternative for "the man of affairs, the public spirited, yes, even the far-seeing man." Such men could have chosen to be real leaders instead of leaping joyously

into the stampede of their own followers. Charles E. Mitchell, chairman of the board of the second largest bank in the world, told the Senate committee of inquiry on the establishment of a National Economic Council in 1931, concerning American financiers and industrialists: "Whether they were led or were leaders is difficult to answer, Mr. Chairman." And Otto H. Kahn told the Committee on Banking in 1933: "I think, Senator, that in 1929, there was a general brainstorm. 'Let him who is without sin first cast the stone.'"

While the men of affairs in the boom era had abdicated their positions of leadership for the sake of huge commissions, large personal bonuses and big dividends, the institutions which they controlled still dominated American industry through American finance. It took some time and exhaustive investigation before Congressional committees and bankruptcy courts for the people of the United States to realize that their bankers—their all-powerful medicine men—knew very little more than they did themselves, and that many of the bankers were, in common with their customers, sometimes careless to the point of criminal negligence, and sometimes ignorant to the point of imbecility. In answer to a question by Senator Couzens, Mr. George Whitney, of J. P. Morgan & Company, admitted: "It is hard to answer why we did things. It is even harder to say why we didn't."

But one reason why the bankers and the government didn't do certain things was that there seemed to be money in letting the public have its fling. All of the bankers were not careless and ignorant; some were merely predatory, and some lacked courage. Also ignorance and carelessness were aided and abetted by those in power at the time. If the limited mind of Calvin Coolidge detected any clouds on the restricted horizon of Andrew Mellon, it prompted the President to say nothing about them, and Herbert Hoover was so eager for continued prosperity that he became obstinate at any warnings of its disappearance.

"Well, now, Mr. Whitney," Senator Cameron Morrison asked George Whitney, "the charge is made that the brokers were doing that and leading the thought of the country to make money out of it; but the influence of other people who have the attention and the confidence of the public boosting things could contribute to that inflation as much as anything the brokers said, could it not?"

"Unquestionably, sir," Mr. Whitney replied. "I believe that those others you refer to, whoever they may be, have far more influence or have more standing in their utterances than what may be said by brokers."

"Yes," said Senator Morrison. "If the President of the United States should in such a situation make the boosting statements, Secretary of the Treasury should make the boosting statements, and other great leaders of public thought, it would tend to carry that thing on, would it not, just as much as some broker saying it?"

"Yes." . . .

"About that time the whole country had about reached the state of mind that they thought poverty was about to be abolished in our country forever, had they not?"

"Yes, sir. A new era was with us."

"And great public men were leading the country to think along that line, were they not, as well as brokers?"

"Yes, sir."

"And the whole public thought the days of hard times and anything like poverty had passed away forever and the high-powered salesman was being tremendously aided by the high-powered agent of prosperity, was he not?"

"Yes, sir."

"You gentlemen," said Senator Glass, "are referring to 'a chicken in every pot'?"

"We did not mention it, Senator," said Senator Morrison, "but we had it in mind."

As early as 1928, Mr. Benjamin A. Javits, a New York lawyer, had suggested that industry and finance prepare for its debacle by regulating itself and avoiding disaster. In reply to his interesting proposals he received enthusiastic generalities from the highest powered salesman in the land, Charles E. Mitchell, and from the other sirens of false prosperity.

"It created quite a stir," Mr. Javits told Senator La Follette's committee on an Economic Council in 1931, "but nothing happened, because most of these men were busy and most of them were not fully in sympathy with something that was entirely new. They were altogether too practical, of necessity. I say this sympathetically, because I realize that the average business man, or the average big business man, or the average banker, no

matter how much he may think about a lot of things and how much he may want them, is still tied up very much with what he is engaged in at the moment."

What the businessmen and bankers were engaged in so busily at the moment was revealed by the thorough examination of some of the most important of them which Ferdinand Pecora conducted for the Senate Committee on Banking and Currency.

Mr. Javits and his associates went ahead with their plans for an economic council in 1928, when Herbert Hoover was busy getting himself elected President of the United States. Part of the Javits plan was to have a Congress of Industry meet at Washington one or two days after the inauguration of President Hoover in March, 1929. And he hoped that the new President would address the meeting. The Congress of Industry was to consider such subjects as: "Stabilizing prosperity; level peaks and valleys of employment; progressively increase purchasing power; progressively increase cultural and leisure time for workers; the field of distribution and sound prosperity."

But when President Hoover's friends were sounded out, Mr. Javits and his associates were told that "it might be better not to ask the President to address any such conference on the 5th and 6th of March, the day after he was inaugurated; that he ought to be given an opportunity to get into office and acquaint himself with what was happening. We were requested to take the matter up with him at a later date." Prosperity at the moment was said to be great, though many people knew that it consisted largely of paper fancies, and Mr. Hoover was, above all, delighted to be President of the United States and not at all anxious to give croakings to **business**, which it would denounce, and in denouncing blame him.

The Congress of Industry was held, nevertheless, "more or less in a confidential fashion," as Mr. Javits expressed it. An attempt was made later to get President Hoover to call a conference to discuss the stabilization of prosperity by attacking the major problem of distribution, but nothing was done about it. There were informal talks at the White House, and a meeting was arranged for Mr. Javits and his associates with the Secretary of Commerce. "That meeting took place," Mr. Javits testified, "October 29, 1929, just when the break had begun in American industry."

Even so, Mr. Javits suggested that a real conference of all branches of industry be held at this critical time, but Mr. Hoover preferred to call instead what was termed a "prosperity conference," in which the leading industrialists of the nation were to reassure the dazed people that everything was quite all right, in spite of the earthquake in Wall Street, and that they should go right along the same way they had been going to their destruction.

Instead of expressing any vigorous opposition to the insane credit expansion and speculative mania which was overrunning the country, the bankers were busy building a bridge by loans and credits from America to Europe, as Mr. Leffingwell expressed it in his essay. The bridge, however, was constructed loosely and hurriedly of water, with immediate toll for the building bankers as its motive rather than solid utility as its purpose. In addition to the colossal structure of foreign loans, there was a huge securities factory working day and night in the United States to manufacture securities for the people of the world to buy. Merger followed merger in bewildering and unsound rapidity, and underneath was a sales foundation rather than one of necessity. And meanwhile the Pennsylvania and Connecticut industrialists, who had contributed heavily to the campaign funds of Coolidge and Hoover, were lobbying in Washington for higher and higher rates of tariff in order to collect their pound of flesh at the expense of the rest of the world. Senator Reed Smoot, that glum follower of financial winds, directed the passage of the high tariff by Congress, which had been written for it by the lobbyists of special interests, led by the chief of lobbyists, Joseph R. Grundy.

"You think that the work that you undertook down there, Mr. Grundy, has been fairly satisfactory as to results?" Senator Walsh asked Mr. Grundy concerning his activities at the Capitol on the tariff.

"Well, of course," Mr. Grundy answered, "as I said, I don't like to comment on that until this legislation is completed."

"Up to the present time —"

"There have been a great many things gotten into the bill that will be very helpful to domestic industry and help carry out the pledge made at Kansas City by the party that got 23,000,000 votes."

"Yes," said Senator Walsh, "I suppose that is very close to your heart."

"Very close," said Mr. Grundy. "There is nothing closer but religion."

Senator Walsh brought out that the Smoot-Hawley Tariff Act called for forty-two increases over the high tariff of 1932, eight decreases and fifteen unrevised schedules.

"That is a fair statement of your work, is it, Mr. Grundy?" Senator Walsh asked.

"May I say to you, as I did to Senator Caraway, that you flatter me?" said Mr. Grundy.

Senator Walsh asked Mr. Grundy about his work in raising campaign funds for the Republican Party from Pennsylvania manufacturers:

"This matter of raising money for campaign purposes was not new to you at all in 1928?"

"Oh, no; no, sir."

"How long have you been engaged in similar work?"

"Well, I hate to admit my age, but ever since I have been active in politics."

"Well, we are all quite youthful yet."

"Well, I thank you for the compliment."

"You can not tell us, then, how long you have been engaged in that kind of work?"

"No. I have cooperated—it is not a thing that you jump into."

"Dating, we will say, back to 1896?"

"Yes."

"And apparently in every campaign that is a part of your work?"

"To help."

"And the rest were quite willing to let you."

"Yes; I hadn't any trouble butting in, as it were."

"Can you give us any idea about the amount of money you have raised during that time for campaign purposes?"

"I wouldn't want to hazard a guess. All I could, though. I would like to add that."

It was developed at this investigation into Lobbying and Lobbyists, at which Mr. Grundy was the star witness, that from Pennsylvania manufacturers he had raised \$700,000 for Calvin Coolidge's campaign in 1924

and \$547,000 for Herbert Hoover's campaign in 1928, as well as \$615,000 for the primary campaign of Governor Fisher in Pennsylvania. Governor Fisher reciprocated by appointing Joseph R. Grundy to the vacancy in the United States Senate from Pennsylvania after the Senate committee finished investigating him.

While foreign and domestic securities were being made by wholesale, created out of mergers and sold in huge doses to the public, tariffs were raised higher and higher. Neither Calvin Coolidge nor Herbert Hoover, nor the astute bankers wished to rock the boat, and neither did they desire to steer it, preferring that the winds of popular fervor should do that for them. And in order to keep up prices and wages to an artificial level, cheap money was permitted to flow through the land via the Federal Reserve System. "The cheap-money policy of the last half of 1927," wrote Russell C. Leffingwell, "the indecisive policy of 1928, and the board's veto of a dear-money policy in the first half of 1929—these are the causes of the great superinflation of that period and of all the disastrous consequences." And he added: "When cheap credit is created at the central reservoir, it is the central reservoir which is responsible for the consequences, and not the people who use it." The Hoover administration and its Federal Reserve Board acted like a Department of Water Supply which opened its dams and blamed the people for bathing in a flood.

One reason for the lack of leadership on the part of the government's Federal Reserve Board was that during the boom and the crash the board was dominated by the metropolitan bankers, whose policy was to encourage the entire country to speculate in securities which they themselves issued. In March, 1929, the Federal Reserve Board did make a feeble attempt to halt the speculative mania by issuing a public warning against the great inflation of credit as represented by loans to brokers, who in turn lent the money to their customers to buy more stocks and thus created inflated prices for them. In an effort to stop the wild construction of this insubstantial pyramid, the Federal Reserve Board raised its rediscount rate in March, 1929, making it more expensive for the banks to borrow Federal Reserve money. Then Charles E. Mitchell, of the National City Bank, "told the Federal Reserve Board to go to hell," as Senator Glass put it, and threw \$25,000,000 of National City Bank

money into the call money market. If the government would not lend the speculators money, Mr. Mitchell did not mind a bit using his depositors' money for that purpose.

"And that was regarded as a flaunt on the warning sounded by the Federal Reserve Board?" Mr. Pecora asked Mr. Mitchell.

"It was regarded as that in certain quarters; yes," Mr. Mitchell replied.

"In certain responsible quarters?"

"Yes, sir."

"In other words, at the time when the Federal Reserve Board was seeking to apply the brakes to this inflationary process the National City Bank was nullifying that to the extent that it threw this \$25,000,000 into the call-loan money market."

"That I deny, Mr. Pecora."

Mr. Mitchell maintained that his action was motivated by the desire to avoid a money panic, and to aid honest borrowers who needed money to meet their contracts overnight. "I do not believe that any man who has it within his power to stop a money panic is going to take the responsibility of seeing the money panic develop," Mr. Mitchell told the Senate committee. But the Senators wanted to know whether the investing public would not have been saved many millions of dollars between March and October, 1929, if a money stringency had been allowed to develop in March without the interference of Mr. Mitchell.

"The banker," said Mr. Mitchell, "could not see a panic occurring because of a money squeeze that was minor in its character. Security prices were high, speculators and investors everywhere were borrowing more money than they should; that was a fact that we all appreciated and that we were trying to preach against and educate the public in regard to."

"And the way you did it was to lend them more money," Senator Brookhart commented. "That is what it means."

It also meant that, if in March, 1929, there had been more expensive money, the National City Bank and its securities-selling affiliate, the National City Company, would have found themselves in financial difficulties, be-

cause of the reckless way in which they had handled both their banking and their investment business.

The people of the world in that regrettable period [wrote Mr. Leffingwell] were like marionettes dancing on an invisible wire, subtly influenced by the excessive volume of cheap money. Irresistibly, farmers, merchants, business men, and bankers responded to it, unreasoningly as they would to a drug. Equally and instantly, they responded to the use of dear money as a curative when at last, too late, it was employed in August, 1929.

In addition to the fact that the Federal Reserve Board and the large banking institutions were making money too cheap and thereby encouraging its use for speculation instead of growth, Mr. Pecora brought out another important aspect of the picture. During 1929 many of the largest corporations of the country were pouring millions of dollars daily into the money market to be used by the brokers to lend to their customers so that these customers might continue to speculate in the securities of these large corporations and others. On one day in 1929, for instance, the Bethlehem Steel Corporation lent the brokers \$157,450,000 and on one day in that year the Standard Oil Company of New Jersey lent \$97,824,000 to brokers. These sums of money came from the proceeds of securities which these companies had sold to the public in some instances and also from their surplus earnings, undistributed dividends and from moneys which the companies had on hand for operating and construction expenses. When money was bringing as high as 15 per cent interest, the temptation was great to pour it into the market, no matter what it was used for. The Standard Oil Company of New Jersey, for instance, received \$4,945,217.65 in interest on its call money during 1929. Such loans were also made in huge amounts by General Motors Corporation, Electric Bond & Share Company, Cities Service Company, Sinclair Consolidated Oil Corporation, Pan-American Petroleum & Transport Company, Radio Corporation of America and United Gas Improvement Company.

Such loans were known in financial circles as "bootleg loans," and they created a dangerous body of money with which the public was speculating in the securities of corporations and thus raising the prices of those securities with the money poured out by the companies themselves. In

order to get the money to lend to speculators, some companies even floated securities, borrowing money from the public which the companies did not need in order to lend it to the public which did not need it, and thus created exaggerated prices. And yet some people have been known to laugh at the South Sea Islanders who thought that they could live by taking in each other's washing!

Mr. Leffingwell gave the following reason for the evident lack of control and of leadership during the boom years:

The growth of corporate enterprise has been drying up individual independence and initiative, drying up the life of the big town and the small town, and the hamlet. We are becoming a nation of hired men, hired by great aggregations of capital, theoretically controlled by absentee stockholders, who are however so numerous and whose individual interest is generally so small that their control is inarticulate and difficult to express. This corporate growth in large measure was inevitable and no doubt desirable. To attempt to reverse it would be like turning back the hands of the clock.

Mr. Leffingwell concludes his essay for Congress with this paragraph:

Yes, we have made mistakes, but were we more mistaken than are those prophets of evil, those defeatists, who accept the present level of employment, of prices, of commodities and securities, as final or look for even a lower level ahead? Were we after all wrong in our judgment that it would be possible to build a new and better world on the ruins left by the war? We think not. We do not think our hopes and plans were foolish or thoughtless or ill considered. We hope that the constructive plans for the Administration will lead us out of the deflation, and, by wise monetary management, by lowering trade barriers and by reducing armaments, will justify our hopes rather than the fears of the defeatists.

In his peroration Mr. Leffingwell begged the question. The alternative to uncontrolled speculation was not prophecy of evil, but controlled economy on the part of statesmen who were not keeping their ears so close to the source of campaign funds. So long as special interests are permitted to profit by selling armaments, managing money for personal profit at social expense, and keeping up trade barriers for the purposes of personal

privilege, armaments will never be reduced, monetary management become wise or trade barriers lowered.

2

DURING the era which Mr. Leffingwell called "that regrettable period," peculiar efforts were made to make the people of the world buy those securities which the issuing bankers and borrowing brokers had for sale. There was, for instance, Mr. David M. Lion, publicity agent de luxe for the stockbrokers. The brokers gave Mr. Lion options on stocks in return for publicity work to keep those stocks in the public mind. Lion did his work by means of newspaper articles, his own magazine, and radio talks. For his newspaper publicity he hired reporters and writers to get his boosting articles space on the financial pages of the newspapers, and for his radio publicity he hired a man named William J. McMahan. Mr. McMahan was always introduced over the radio when he talked once a week from the spring of 1928 until the end of 1929, as president of the "McMahan Institute of Financial Research."

"Which was just Mr. McMahan?" William A. Gray, counsel to the Senate Committee on Banking asked Mr. Lion.

"He was the president of the institute," Mr. Lion answered.

"I mean to say that there wasn't any institution known as the McMahan Institute of Financial Research. It was only a name. That is all that it was, wasn't it?"

"It was incorporated," Mr. Lion said. . . .

"He was introduced as an economist of some note, I suppose, when he talked over the radio, wasn't he?"

"He was introduced as an economist. I don't know about the note."

"Each of his talks was devoted to a particular stock, wasn't it?"

"Yes, sir."

"And he was a salaried man on your staff for that purpose, wasn't he?"

"Yes, sir."

"How much did you pay him?"

"I paid him as high as \$250 a week."

"How long did he talk? Was it a 15-minute talk?"

"Yes; he rarely talked longer than 15 minutes."

Mr. Gray asked Mr. Lion what other methods of publicity he had used during the boom years to boost stocks:

"I employed newspapers," Mr. Lion answered.

"You mean writers, I suppose?"

"I don't know what they were. I would give them a copy of an article and sometimes it was in the paper and sometimes it wasn't."

"Did you give them anything else besides an article?" Senator Couzens asked.

"Yes."

"What did you give them besides an article?"

"Sometimes I gave them calls."

"You mean by that options on certain stocks?"

"Yes."

"Did you give them cash?"

"Sometimes."

"But it depended upon who the writer was or the publication that he was employed by? Was that how you regulated the amount you gave him?"

"Yes, sir."

"So that the committee may understand the extent of your work, Mr. Lion, how many such operations would you have on hand at one particular time?" Mr. Gray asked.

"I had over 30 at one time." . . .

"And by whom would you be employed?"

"By pool operators." . . .

"Also by individual traders?"

"Yes."

"And also by pool operators who were members of brokerage firms and were operating pools for their own houses at the time; isn't that correct?"

"Yes, sir."

Among those whom Mr. Lion worked for was Ruloff Cutten, of E. F. Hutton & Company, who was operating a pool in Kolster Radio stock. Mr. Lion received an option on 15,000 shares of that stock for his work; he put up no money and realized \$40,000 on this deal, he testified. When asked for his profit on his transactions, Mr. Lion said:

"I would say my personal profit was a half a million dollars."

"You mean after taking your expenses off?" Mr. Gray asked.

"No, just profit."

"Lion," said Mr. Gray, "didn't you tell me the other day that you made between a million and two million dollars?"

"I said—I did not say that I made \$2,000,000, Mr. Gray. . . . Yes; but there were expenses there that I couldn't call my profits."

He also worked for a pool in Sinclair Consolidated Oil stock and received options for his work from Hayden, Stone & Company, Eastman, Dillon & Company, Hirsh Lilienthal & Company, and others.

In Chicago, Halsey, Stuart & Company, who issued huge quantities of securities for Samuel Insull, sponsored a radio program by "Old Counselor," who told the folks at the fireside about their investments. The National Broadcasting Company selected the name "Old Counselor," who was, in the flesh, Professor Nelson, of the University of Chicago, who received \$50 a week for the use of his name and his delivery.

"Is he still at the university?" Senator Reynolds asked Mr. Harold L. Stuart, of Halsey, Stuart & Company.

"I think so," Mr. Stuart replied. "Of course, everything he delivered was written for him. He was simply the deliverer of it."

"Who wrote it?"

"It was written in our office."

Upon the initiation of the "Old Counselor" program over the National Broadcasting Company's network, Congressman Louis T. McFadden, of Pennsylvania, then chairman of the Banking Committee of the House of Representatives, delivered the introductory talk at the solicitation of Mr. Harold Stuart, Mr. Stuart testified.

Congressman La Guardia presented before the Senate Committee on Banking evidence to show that A. Newton Plummer, a public relations counsel and head of the so-called Institute of Economic Research, a publicity organization, was paid to have stories placed in the newspapers boosting stocks at the time when pools and syndicates were eager to have those stocks purchased by the public at the high prices the pools and syndicates were creating for them. Mr. La Guardia presented evidence that payments by check had been made to financial writers on the *Wall Street Journal*, the *New York Times* and the *New York Herald Tribune*. Mr. Plummer had paid out \$286,279 for publicity on stocks.

While the brokers and pool operators were hiring press agents to purchase newspaper writers and radio artists for the boosting of their wares, the larger banking houses were employing more dignified means of gaining influence for their issues of securities and purchasing the goodwill of important personages. J. P. Morgan & Company and Kuhn, Loeb & Company had what the newspapers dubbed "preferred lists." These lists included the names of politicians, public officials, editors, lawyers, officers and directors of banks, trust companies, insurance companies, railroads and industrial corporations. There were rumors that King George of England, King Albert of Belgium, and Mussolini, of Italy, were on the preferred list of the London and Paris house of Morgan for shares of the United Corporation, and also that leading politicians in France were allotted shares in that issue at the special bargain price at which J. P. Morgan & Company had purchased them.

Among those who received securities at cost from J. P. Morgan & Company were Hoover's Secretary of the Navy, Charles Francis Adams, who probably would have been on the preferred list anyway, for he was also the father-in-law of Mr. Morgan's son Henry; Franklin D. Roosevelt's first Secretary of the Treasury, William H. Woodin; and Newton D. Baker, Secretary of War in Wilson's Cabinet. John J. Raskob, chairman of the Democratic National Committee in 1928 and an executive of the General Motors Corporation, received a letter from his friend George Whitney, offering him \$40,000 worth of the shares of Alleghany Corporation, the Van Sweringen holding company, at the cost price to Morgan's of \$20 a share. He wrote in reply:

Whitehall, Palm Beach.

Dear George: Many thanks for your trouble and for so kindly remembering me. My check for \$40,000 is enclosed herewith in payment for the Alleghany stock, which kindly have issued when ready, in the name of John J. Raskob, Wilmington, Del. I appreciate deeply the many courtesies shown me by you and your partners, and sincerely hope the future holds opportunities for me to reciprocate. The weather is fine and I am thoroughly enjoying golf and sunshine.

Best regards and good luck.

JOHN.

"What position did Mr. Raskob occupy at that time," Mr. Pecora asked Mr. Whitney, "that could have enabled him to reciprocate the many courtesies shown by you and your firm, of which the invitation to subscribe to these shares was one?"

"My recollection is," Mr. Whitney answered, "that Mr. Raskob was no longer an officer of General Motors where I had known him for 10 years. I am not sure of this, but did he not have something to do with the Democratic National Committee?"

"I don't know," said Mr. Pecora. "Don't you know whether he had or not?"

"I don't follow those things," said Mr. Whitney.

The preferred list of J. P. Morgan & Company also contained the name of Joseph R. Nutt, who, besides being a close associate of the Van Sweringens and thereby entitled to appear on the Morgan preferred list of the issue of the Van Sweringen securities, was in his spare time treasurer of the Republican National Committee. Cornelius N. Bliss, financier and former treasurer of the Republican National Committee and Charles D. Hilles, former chairman of the Republican National Committee, were also among those invited to grow rich along with Morgan's at reduced rates. Henry E. Machold, Speaker of the New York State Assembly, and chairman of the Republican Party's organization in New York for many years, was also on the Morgan list.

Aside from their political affiliations, it was natural that some of these men should be on the preferred lists, for they had important financial connections which brought them into contact with the house of Morgan.

The report of the Senate's banking investigation issued in 1934 had this to say about the propriety of preferred lists:

When officials of financial institutions which invest heavily in securities accept such favors, it is plain that the temptation exists to reciprocate directly by exercising their power to purchase securities from the bankers on behalf of their institutions without regard to the nature of the risk. By virtue of the influence gained by the granting of favors to persons who hold multiple directorships in important corporations the bankers are enabled to exercise substantial control over the affairs and the resources of those corporations. Public officials who consent to participate in "preferred lists" swiftly find themselves in a position where their usefulness is seriously impaired and they incur the danger of forfeiting the respect of the public.

Implicit in the bestowal of favors on this magnificent scale is a pervasive assumption of power and privilege. Implicit in the acceptance of such favors is a recognition of that power and privilege. The "preferred lists," with all their grave implications, cast a shadow over the entire financial scene.

Mr. George Whitney insisted that the five Morgan preferred lists—he objected to the use of the word "preferred"—were made up largely of men who had been personal friends of the partners for many years and men with whom the firm had done business and had close association for many years. He also testified that the purpose of the preferred lists was to enable the firm of Morgan to underwrite the five stock issues without making a public distribution by sale of stocks which the firm regarded as speculative. Since they were speculative, J. P. Morgan & Company, Mr. Whitney said, wished to put these stocks in the hands of men of means who were friends of the house and who could afford to take losses if there were to be losses. Many of them made profits on their allotments from Morgan, and others took losses. When the stocks were sold publicly—at much higher prices—the public took huge losses in those same stocks, but that was attributed to the public's speculative greed and its desire to share in the opportunities of the insiders. The rumors of the preferred lists, however, stimulated the sale to the public on the stock market, for men believed that what was good enough for

Morgan's and their friends was good enough for them. And rumors in the financial world travel wider and faster than in any other circle of society, because of the widespread facilities for spreading them and the lure of the money return from them.

Bankers, like other merchants, have to get rid of their goods, and at the investigation into the sale of foreign bonds, which was held by Senator Hiram Johnson in 1932, there were indications that the large banking houses of the eastern cities practically forced issues of securities upon the smaller bankers of the country. The practice was for the banking house or its securities-selling affiliate to allot a certain portion of each issue to distributors of them to the public throughout the nation, and to telephone or telegraph to these distributors what their individual allotments would be. Then the country banker practically had to take the security, whether he liked it or not, for if he refused, he was denied participation in issues which he might want later. Otto H. Kahn made the statement to the Senate investigating committee on the sale of foreign bonds that those dealers who took securities from bankers and sold them to the public had the right to decline them if they thought they could get better value for their money elsewhere, and that the public had the same right. But he did admit that it was not unlikely that dealers who refused securities which they did not think were good would lose their connections with the houses of issue in New York. He insisted, however, that the dealer "is still free to decline or not to decline." "He is just as free," remarked Senator Couzens, "as our seven or eight million unemployed are free to either work or not work. But in practice they are not free."

Senator George asked Mr. Kahn whether it was not a fact that because of the method of distribution of bonds and other securities for sale the small banks of deposit throughout the country did not become converted into "brokerage houses, just to put it bluntly, and did not too many banks in this country become mere brokerage houses?" "Yes, emphatically yes," Mr. Kahn answered. In answer to a statement by Senator Johnson that many small bankers had complained to him that securities were forced on them, but that they were afraid to come before the committee and testify because of the punishment which would follow, Mr. Kahn gave it as his opinion that the small bankers were eager to get the securities allotted

to them and only complained to Senator Johnson about those which went badly for them. Kuhn, Loeb & Company, he said, had had to turn away dealers who were eager for their bonds. But that made it all the more likely that a regular distributor for a banking house would hesitate a long time before taking the risk of offending by refusing any securities offered to him by the banking house.

Senator Glass burst forth at the banking investigation with this statement to Winthrop W. Aldrich, of the Chase National Bank:

"The public cannot conceive of the harm done by these affiliates. One of them was your bank, too. I am not trying to embarrass you. You know that. Everybody else knows it, for that matter. Nobody can conceive of the damage done by these affiliates. They literally loaded the portfolios of interior banks with foreign securities approved by this abominable State Department here, which had not anything more to do with it than my stable boy—not a bit."

"Senator Glass," said Senator Gore, "I would like to interject at this point to make this observation with reference to these affiliates unloading their securities on other banks. I think we all know that there was a practice on the part of the affiliates of these big banks and these big underwriting houses of unloading foreign bonds on other banks throughout the country."

"With the approval of the State Department," said Senator Glass.

"Yes," said Senator Gore. "I am afraid a little more than that. The little banks took the word of the big banks that these securities were good."

"And they were afraid not to take them," said Senator Glass.

"They were afraid not to take them," continued Senator Gore. "At the same time the bank examiners were going to and fro in this country urging these little banks to establish secondary reserves and to buy bonds, bonds, bonds. Those two things worked together, and I have no doubt there was a conspiracy going on."

3

DURING the years of our inflated boom, when America became a lender for reconstruction of Europe instead of a borrower for its internal construction, the alleged words of General Pershing when landing in France might have been paraphrased by Ivar Kreuger as he stepped off his favorite transatlantic liner: "Jay Gould, I am here!"

Between 1914 and 1931 there were \$14,883,633,000 worth of foreign securities floated in the United States. As of March 1, 1934, there were outstanding \$8,193,237,200 worth of foreign securities, both industrial and governmental, and of these \$2,930,422,600 were in default. Mr. Charles E. Mitchell told the Senate Committee on Finance in 1932: "Many of us have found a real inspiration in the fact that in the issuance of this large volume of foreign loans we were playing a part in the development of American trade and industry. That is our first motive always." The profit motive, however, was naturally strong, too, with Mr. Mitchell and his fellow bankers. To take Mr. Mitchell's organization, for example: the National City Company made a total net profit of \$13,393,502.21 on its sales of the foreign securities which it managed, and a net profit of \$11,363,501.26 on securities in the sale of which the National City Company participated as part of a syndicate. These profits were over the period from 1919 to 1930, and during that time the National City Company managed issues totaling \$1,171,955,000 and participated in issues totaling \$3,260,407,000.

During 1931 there was a rumor that the international bankers in the United States were agitating for cancellation of governmental war debts, so that they might safeguard private loans which they had floated. It was this rumor which caused Senator Johnson to hold the investigation concerning the sale of foreign bonds in the United States, and at that time Mr. Charles E. Mitchell told the Senate Committee on Finance that the National City Company had in its portfolio only \$350,000 worth of the more than three billions of foreign bonds it had floated, so that it could not be accused of a personal stake in cancellation. The public held the stakes, but, at the same time, it was naturally to the interests of the bankers

to get their loans collected so that they might sell more securities. Mr. Mitchell's testimony shed an interesting light on how little financial stake the affiliate of his bank had in the loans it had sold to the public, and the same was true of the other large underwriting houses and bank affiliates.

"With reference to foreign bonds," Senator Connally said to Mr. Mitchell, "you are like the saloon keeper who never drank. His whisky was made to sell, not to drink."

"With respect to bonds generally, we are merchants," Mr. Mitchell replied.

"That is what I mean," said Senator Connally.

"We are merchants," said Mr. Mitchell.

The competition among the merchants of foreign bonds for merchandise to sell to the public was so great at this time that South American governments and European ministries found bankers on their doorsteps begging them to take money from America. The quality and safety of the merchandise was ignored by even the largest and most reputable houses in the effort to compete for merchandise to sell. The report in 1934 of the Senate banking investigation stated:

The record of the activities of investment bankers in the flotation of foreign securities is one of the most scandalous chapters in the history of American investment banking. The sale of these foreign issues was characterized by practices and abuses which were violative of the most elementary principles of business ethics.

At the height of the debauch, some of the more reputable individuals protested against the methods of their fellow craftsmen. Mr. Thomas W. Lamont, of J. P. Morgan & Company, warned in 1927 against "rash and excessive lending" and the competition "on almost a violent scale." S. Parker Gilbert, then Agent General for Reparations, warned in 1926 against the recklessness of American bankers who were offering the securities of German states and municipalities on the theory that reparations were not a prior claim over private loans, a theory which was not accepted by the other foreign governments. Secretary of State Kellogg issued a circular letter to bankers in which he wrote concerning this situation: "The

department believes that you should consider whether you do not owe a duty to your prospective clients fully to advise them of the circumstances." But the bankers, including some of the largest houses, did not feel the same sense of duty, and they paid no attention to either Secretary Kellogg or Mr. Gilbert and gave improper information to their customers. In the following year, 1927, S. Parker Gilbert issued a solemn warning that Germany was overborrowed and was overspending, but still the loans from America went on. Some of the bankers lent the money directly to German states and municipalities, and some of them lent it to Ivar Kreuger, ostensibly to make matches, and Mr. Kreuger lent it in turn to Germany.

Otto H. Kahn testified that Germany had used the money borrowed from the American investors to make life more bearable for the German masses, for artistic and cultural improvements, and for reconstruction of its factories and economic life. To which Senator Gore remarked: "If a revolution should come in Germany and it should be followed by repudiation of these debts, Germany has the improvements and we have the bonds." And that was exactly what did happen in Germany not long after the advent of Adolf Hitler.

Although there was competition among bankers to lend the American public's money to Germany, the great field for cutthroat competition was in South American and Latin American countries. The heaviest losses which American investors have suffered have been in those risky loans to Latin American countries which bankers from the United States were so eager to float that they did not hesitate to bribe government officials and their relatives in those countries for the privilege of selling their governments' bonds to the American public.

The Department of Commerce had in its Finance and Investment Division a very valuable service which was available to American bankers at all times, and this division warned against loans to some South American and Latin American governments which it knew from its studies to be overborrowed. Mr. Grosvenor M. Jones, chief of that division of the Department of Commerce, testified before the Senate Committee on Finance in 1932:

"On this particular Bolivian loan I remember very distinctly talking with Arthur Young, or Mr. Livesey over at the State Department, and

telling them that we thought that Bolivia was borrowing too much in this market. There was a good deal of hemming and hawing, and the upshot of it was that we reluctantly gave our consent to it, for the reason that at that particular time our diplomatic relations with Latin America were a little upset. Our Government was under considerable attack for its Nicaraguan policy, its Haitian policy, and so forth. There was shortly to be held, I believe, a Pan American conference. As I recall it, the State Department said that it might result in embarrassment if we turned down this loan proposition."

In other words, the Department of State was willing to throw \$23,000,000 of American investors' money into Bolivia in 1928 in order to take away the bad odor of its own adventurous policies in behalf of American financiers in Nicaragua and Haiti. Before foreign loans were made by American bankers, they were always submitted to the State Department, which could object to any it thought undesirable from the point of view of the foreign policy of the government, though the department was always careful not to give positive approval to any loans.

The experience of American bankers and American investors in the Republic of Peru was an interesting one, and though it had unique circumstances, it was declared by bankers in their own testimony to be not unusual in South American countries. F. J. Lisman & Company, investment bankers of New York, heard that they might be able to obtain the business of floating loans for the Republic of Peru. Harold Bolster, a promoter, was introduced to Lisman & Company as a man who had great influence in Peru. The banking house made a contract with Mr. Bolster to pay him a commission on any business they might get in Peru within the next five years.

Meanwhile, F. J. Lisman & Company, feeling that the business was too large for them to handle alone, consulted the larger firm of bankers, J. & W. Seligman & Company. Lisman's had sent one of their men, Mr. Thomas V. Salt, to Peru, and he had reported that Bolster's influence consisted largely of his acquaintance with a photographer there, who took up with foreigners but who had very little influence. Mr. Salt then tried to get an introduction to the President-Dictator of Peru, Augusto Leguía, but he soon discovered that in order to get to the President it

was first necessary to cultivate the young son of the President, Juan Leguia. Salt finally agreed on behalf of F. J. Lisman & Company that Juan Leguia was to be a member of the promoters' group for Peruvian loans, and was to receive the largest share of the group's commissions on any business which Lisman & Company and their associates might get from Peru. Frederick J. Lisman testified before the Senate Committee on Finance in 1932 concerning Juan Leguia:

"I do not think he had any influence particularly with his father, except a negative one, and he was known around Lima as spoiling business for anybody who might start something, because if you wanted information around the departments—I know Mr. Mannasse told me that he tried to see the President and Juan kept him waiting at the palace for four hours, and, I believe, he did not see him that day. . . .

"My partners remind me of the fact that there was more or less discussion at the time and that the conclusion was arrived at that the group had better pay something to Juan Leguia, otherwise all the money we spent on the business would be lost. In other words, as I look upon it, Juan Leguia blackmailed us into paying him. I do not believe his father got a cent."

"What did you pay him for?" Senator Johnson asked Mr. Lisman.

"For nuisance value," Mr. Lisman replied. "It was not a bribe, it was a blackmail." . . .

"Do you run across that sort of thing often in Latin American countries?"

"I had heard of it quite often; yes."

"That is, somebody who is related to the reigning power, or some particular official, will queer the whole pitch unless he is taken care of?"

"Those are the rumors one hears." . . .

"Let us say, then, do you know of any other instances where anybody interested in the government was paid?"

"Not within my own experience. One does not know about other peoples' negotiations. They are generally carried on pretty quietly."

"You had a shrewd suspicion about some of them?"

"I have a suspicion about some of them, but no knowledge." . . .

"Did Juan Leguia have any other occupation except that of son of the President?"

"That is a mild way of describing it, but I would say that is about it." . . .

"Were there others who were competing with you for the loan there?"

"We understood there were several banking houses there."

"All of them trying to get the loan from the Peruvian Government?"

"As usual."

"That is so all over Latin America?"

"It was so during the period from 1925 to 1928, all over, I would say."

"Seeking in every way to obtain such loans as you could for flotation here?"

"To satisfy the public demand for securities."

"To satisfy the public demand for securities?"

"Yes."

"That was the sole purpose?"

"Well, bankers do not knowingly float bad loans. But the purpose is to do a good business at a profit."

After F. J. Lisman & Company had mentioned the Peruvian business to J. & W. Seligman, that firm sent as their advance man to Peru, S. A. Maginnis, who had been American Minister to Bolivia in the Wilson administration. He was said at the time to have a large "entertainment fund." Oliver C. Townsend, commercial attaché of the United States at Lima, Peru, in 1927, wrote in a memorandum for the American Ambassador to Peru, Miles Poindexter:

The ex-minister [Maginnis] is a big chap of about 50—ex-newspaper man—probably a lawyer by present profession—loud voiced—glad handed—just a little short of being offensive in his jovial familiarity. . . .

The puzzle suggested to my mind is: Why has all this undignified scramble and promotion atmosphere become an accepted feature of the program for disposing of an issue of Government bonds? There is something about such scrambling that is highly appealing to Latin American officials—who encourage the intrigue and delays accompanying them—as a coy maiden flirts with a group of suitors—not in any spirit of indecision but for the long drawn out pleasure afforded by the game.

Mr. Townsend testified that when he was commercial attaché at Lima

from December, 1926, until December, 1929, he had constantly warned the Department of Commerce about the weakness of Peruvian finance, and was "severely reprimanded for my pessimism." "It was clearly stated that optimistic reports were what we needed," Mr. Townsend testified. Dr. Julius Klein, who was one of President Hoover's leading advisers, was head of the Bureau of Foreign and Domestic Commerce of the Department of Commerce at this time, and he was pouring forth optimism in speeches and articles. Mr. Townsend told the Senate Committee on Finance: "In other words, I think any of your gentlemen who have heard Doctor Klein's repeated offering on that subject will realize that he did not want a subordinate of his department stating anything that conflicted with his chronic optimism."

On March 1, 1927, the banking houses of J. & W. Seligman & Company, National City Company, F. J. Lisman & Company, E. H. Rollins & Sons, Graham Parsons & Company, and Ames Emerich & Company floated a loan of \$15,000,000 for the Republic of Peru. The 7 per cent sinking fund gold bonds were offered to the American public by the bankers at 96½, and the bankers received a gross spread of 5.03 points. The National City Company, which participated in this loan, had refused to participate in previous Peruvian financing after reports from its representatives that Peru was not a safe risk. But in March, 1927, business was booming, and the National City Company ignored its representatives' advice.

Having successfully floated this loan of \$15,000,000, J. & W. Seligman & Company were eager to do more business with Peru. On April 5, 1927, Juan Leguia was staying at the Ritz Towers in New York. He had a talk that day with Henry C. Breck, a partner in J. & W. Seligman & Company, according to a memorandum from the files of the Seligman company, and they agreed that Juan Leguia was to receive the lion's share of a commission of one-half of one per cent on all the financing of Peru which Seligman and its associates handled. Two days later Mr. Leguia had lunch at the Midday Club with Messrs. Breck, White and Bailie, of J. & W. Seligman & Company, and a formal agreement to that effect was reached. On April 8th, Seligman & Company opened an account for Juan Leguia on its books. Within the next two years Juan Leguia received \$415,000 in commissions from the bankers. The agreement with him was never put in writing, the Seligman partners testified. In addition

to the commission of \$415,000 paid to Juan Leguia, the bankers paid \$67,373 to Harold Bolster, the original promoter of Peruvian finance with F. J. Lisman & Company, who knew a photographer in Lima; \$40,000 to S. A. Maginnis, the "glad-hand" American promoter; and \$10,000 to T. V. Salt, representative of Lisman & Company in Peru.

Mr. Breck, of J. & W. Seligman & Company, testified that Juan Leguia lived at the rate of \$250,000 to \$300,000 a year, and that his bills were paid out of his banking account with J. & W. Seligman & Company.

"Did you convey to anybody to whom you ever sold these bonds the fact that you were giving to the son of the President of Peru half a million dollars to get the right to sell these bonds to Americans?" Senator Johnson asked Mr. Breck.

"No."

"Was there ever any indication of any kind or any sort given by you, in writing or otherwise, through the press or in any way, directly or indirectly, as to the transaction that occurred in relation to the payment to the son of the President of Peru for the purpose of obtaining the sale of these bonds by your house?"

"No."

"Why not?"

"It is not customary."

"It is not customary? Is the transaction such as you had a customary transaction with international bankers?"

"I think it is quite customary for commissions to be paid in connection with financing."

"Particularly South American loans?"

"Yes."

Mr. Breck testified that his firm had paid \$25,000 to a Mr. Alvarado, a Costa Rican citizen, for helping them to get business lending money to Costa Rica.

"Were there many such people running around?" Senator Johnson asked.

"A great many of them," Mr. Beck replied.

In addition to paying commissions to Juan Leguia, J. & W. Seligman & Company granted him loans of \$30,000 and \$15,000, which were re-

paid with interest during 1928. Miles Poindexter, American Ambassador to Peru, was alleged to have referred to Juan Leguia at a luncheon in New York as "the Crown Prince of Peru." The New York *Times* contained the following item on April 29, 1930:

Juan Leguia, 24-year-old son of the President of Peru, arrived yesterday on the Santa Maria and heard for the first time of the attempt to assassinate his father on Good Friday. Young Leguia said he was on his way to Europe for polo and that the attempt on his father's life would not change his plans. He will be in New York for several days, stopping at the Ritz Towers, and will sail later for Europe to spend several weeks there. He had already sent over a shipment of polo ponies from his ranch in South America, he said.

At the Senate inquiry into the munitions industry on September 5, 1934, it was brought out that the Electric Boat Company had paid Juan Leguia \$50,000. None of the officials of the company seemed to know why this sum had been paid, but they testified that in South America it was necessary to pay what they termed "special commissions" before selling submarines.

On December 21, 1927, J. & W. Seligman & Company, the National City Company, Blyth, Witter & Company, the Guaranty Company of New York, F. J. Lisman & Company, and the Central Union Trust Company floated an issue of \$50,000,000 of 6 per cent bonds for the Republic of Peru, which were offered to the American public at 91½ and sold rapidly. The gross spread to the bankers was 5 points. Between the sale of the \$15,000,000 issue of bonds nine months before and the sale of the \$50,000,000 issue conditions in Peru had not improved, and the firms of J. & W. Seligman & Company and the National City Company were so informed by their representatives in Lima. In the circular prospectus for the \$50,000,000 loan, the bankers said: "The Republic of Peru is the third largest country in South America, with an area of approximately 550,000 square miles. It has a population estimated at 6,000,000." In a letter to Charles E. Mitchell on July 27, 1927, five months before this circular was issued, Mr. J. H. Durrell, vice-president and overseas manager of the National City Bank, wrote:

As I see it, there are two factors that will long retard the economic importance of Peru. First, its population of 5,500,000 is largely Indian, two-thirds of whom reside east of the Andes, and a majority consume almost no manufactured goods. Second, its principal sources of wealth, the mines and oil wells, are nearly all foreign-owned, and excepting for wages and taxes, no part of the value of their production remains in the country. . . . As a whole, I have no great faith in any material betterment of Peru's economic condition in the near future.

He added that President Leguia was in bad health, and that, although the President was "reputed to be absolutely honest," he was "surrounded by a group of rascals."

Lawrence Dennis, representative of J. & W. Seligman & Company, reported against further loans to Peru before the \$50,000,000 loan was issued. The government of Peru, which was the dictatorship of Leguia, was spending far more than its income and managing to do so by means of its heavy foreign loans. "They were building up real-estate suburbs, plotting land, and paving streets out in the desert," Mr. Dennis told the Senate Committee on Finance. "It was an exhibition of all sorts of follies." When he came back to New York for conferences with the Seligman partners, Mr. Dennis testified, "they said that I was pessimistic, and that these things would work themselves out." Then a Seligman partner went to Peru, and the firm, in association with the same bankers who had issued the loan of \$50,000,000 on December 21, 1927, issued another loan of \$25,000,000 for Peru in October, 1928, at 91, with a gross spread to the bankers of 5 points. Before this loan was made both Seligman & Company and the National City Company had received adverse reports from their representatives in Peru but did not mention those reports in their sales literature to the American public when they were getting rid of their bonds at a profit. The upshot was that the American public bought in all \$90,000,000 worth of bonds of the Republic of Peru, which are in default. Seligman & Company made net profits of \$601,000 and gross profits of \$5,475,000 on the loans to Peru; the National City Company made a net profit of \$681,000 on the three loans.

Seligman & Company noticed that President Leguia was spending for political effect rather than financial return the money they had helped

him to borrow. His object was to keep his dictatorship in power at all costs. They could do nothing, the Seligman partners testified, about dictating how the money was to be spent; they could, of course, have refused to lend more, but that never seemed to occur to them. In August, 1930, the people of Peru decided that they would do something about President Leguia's cruel and extravagant dictatorship; Leguia had filled the jails with his political opponents, exiled many of the leading citizens and murdered some of his opponents. The President had increased the national debt from about \$10,000,000 when he took office in 1919 to \$110,000,000 when he was deposed by a revolution on August 25, 1930. Leguia, who had welcomed President-elect Hoover warmly in 1928 and had distributed foreign concessions lavishly, was hailed in turn as the Theodore Roosevelt, the Napoleon and the Julius Cæsar of Latin America. When he was deposed, Leguia said: "I hereby close another chapter in Peruvian history."

After the revolution Leguia and his sons were imprisoned on the island of San Lorenzo, in the harbor of El Callao, where he was wont to send his political enemies when he was dictator. Their property was confiscated, and they were charged with "illegal enrichment," according to Henry C. Breck, of Seligman & Company, who did not like the word "bribery" when Senator Johnson used it. Leguia and his sons were fined \$7,625,000 by a revolutionary tribunal, but it was rumored that the family had an immense fortune, deposited in Great Britain.

In February, 1933, at the time of the hearings before the Senate Committee on Banking and Currency, the Peruvian \$15,000,000 loan, which had been sold to the American public for \$96½, was worth \$7 per bond; the \$50,000,000 bonds and the \$25,000,000 bonds, sold for \$91½ and \$91, were selling in 1933 for about \$4. Mr. Lawrence Dennis told the Senate Committee on Finance that the bankers had a custom of "rigging the market" for Peruvian and other bonds when they were about to place a new issue before the American public. This was done by forming a syndicate to buy up Peruvian bonds of the previous issue before the new issue was floated. The syndicate paid high prices for the old bonds, and took a loss of between \$200,000 and \$300,000, which loss was charged against the expenses of floating the new issue. "You cannot bring out a 6 per cent Peru bond at 91 when other issues of 6 per cent Peruvian bonds

are selling at 88," Mr. Dennis remarked. "Then, after the bankers have marketed the new issue," he added, "they pull the plug and let the bonds find their proper level in a free and open market." This same practice was called in the English courts "as gross a fraud as has ever been committed" and declared to be a criminal offense, but it was perfectly legal and very prevalent in the United States during the boom era.

Other American bankers were engaging in peculiar activities in Latin American countries. In the summer of 1921, Mr. Robert Otis Hayward, a member of the firm of Dillon, Read & Company, was in Rio de Janeiro, Brazil. He met Dr. Carlos Sanpaio, mayor of the city, and heard from him about his program of municipal improvements. In order to finance these improvements, Dr. Sanpaio wanted to float a loan of \$12,000,000 in the United States, and Mr. Hayward took an option on the loan for Dillon, Read & Company.

The principal municipal improvement which the loan was to finance was the leveling of Morro de Castello, or Castle Hill. This was a steep hill in the center of Rio de Janeiro and constituted the slum section of the city where 5,000 people lived in hovels. All around the hill was the most valuable property in the city, and for many years it had been the ambition of each mayor to tear down Morro de Castello. "It is a very common thing in the case of Latin American officials," Mr. Hayward testified, "to select some item of public works which they can tackle during their term of office, and leave to posterity something with which their name can be attached."

Mr. Hayward went with Mayor Sanpaio to look at the hill, and he noticed that the attempt to level it was going on slowly and inefficiently with pick and shovel labor and donkey cartage. He estimated that it would have taken about twenty years to level the hill at that rate of speed; he also noticed that the drivers who carted off the dirt were malingering and grafting. The mayor was very sad about the situation, for he realized that unless more efficient work were performed, the hill would never be removed during his term of office, and the great work would not be associated with his name. He asked Mr. Hayward to recommend American contractors who could do the job quickly and economically. Mr. Hayward recommended Kennedy & Company, American contractors.

Clarence Dillon, of Mr. Hayward's firm, and Mr. Dillon's family owned 45 per cent of Kennedy & Company.

The plan was to sell lots on the level ground after Morro de Castello was removed, and to pay off the city's debt with the proceeds, for the land adjacent to the hill was then selling for as much as \$11 a square foot. When Mr. Pecora, counsel for the Senate Committee on Banking, asked Mr. Hayward concerning the adequacy of the land as security for a public loan, Mr. Hayward replied:

"I would rather have this as security for a bond than I would, for instance, the bonds of a neighboring government which are secured by the droppings of birds on a desert island. I would be rather afraid that my security might be dropped in the wrong country which did not recognize the right of recapture."

In October, 1921, Dillon, Read & Company issued \$12,000,000 worth of bonds of the city of Rio de Janeiro to the American public, the proceeds of which were to be used to remove Morro de Castello and to build a municipal slaughterhouse. In 1929 the hill was not yet completely removed, although more than \$5,000,000 had been spent for the work. Mr. Hayward testified that he had taken a great personal interest in that hill. He was in Brazil in 1922, 1923, and 1924, and again in 1927, and each time he always went around to see how the hill was coming down. "In fact," he testified, "there was nothing going on in Brazil that interested me personally more than to see how this hill was coming down." But Mr. Hayward and his associates showed a surprising lack of interest in just how the government of Rio de Janeiro was using the \$12,000,000 they had helped it to get from American investors. Mr. Hayward admitted that he had made no effort to find out and did not seem to wish to embarrass the government by asking questions. He just enjoyed watching that hill coming down. As for the rest of the money, he testified that he knew "in a general way the balance was expended for municipal improvements."

When it came time to sell the lots where Morro de Castello had been, the world depression was on, and the city of Rio de Janeiro was able to sell only \$230,000 worth of lots. At the time when Mr. Hayward testified

in October, 1933, the bonds which Dillon, Read & Company had sold to the American public for 97 $\frac{3}{4}$ were selling for \$16.

In addition to this loan to Rio de Janeiro, Dillon, Read & Company floated in June, 1922, a \$25,000,000 loan for the electrification of the Centrale Railway of Brazil, which in October, 1933, was still not electrified. Meanwhile, no one in Dillon, Read & Company seemed able to tell the Senate committee what had happened to the \$25,000,000. In 1927, Dillon, Read & Company floated another loan for Brazil of \$41,500,000. In 1933 the bonds were in default. On this last loan Dillon, Read & Company made a profit of \$598,789.69.

For Chile \$90,000,000 worth of bonds were floated in the United States through the efforts of Kuhn, Loeb & Company and the Guaranty Company of New York. At the time the loans were made, between 1925 and 1929, Chile was under military rule. The bankers did not care to put in their prospectus for their loans the words "military council"; somehow it did not sound just right. Kuhn, Loeb & Company cabled to Manuel Foster, its representative in Santiago, Chile: "Is it not correct to refer to council as government council which we prefer instead of military council?" In the prospectus the bankers referred to the government of Chile as a "governing council" and not a "military council." The bankers made no independent investigations of the political, economic and financial condition of Chile before issuing \$90,000,000 worth of bonds to the American public, and they ignored the reports of the Department of Commerce concerning the decline of the nitrates trade, upon which Chile's prosperity was largely dependent. The bonds were sold to the public at prices ranging from 99 $\frac{1}{4}$ for one issue to 92 for the last issue. In 1933, at the time of the Senate investigation, they were selling for 13, and payments on them were in default.

4

IN 1915 the National City Bank of New York opened a branch in Havana, Cuba, as part of its plan to spread out into foreign branch banking. It

began to lend money to Cuban sugar planters, for sugar was selling at the time at 23½ cents a pound because of the scarcity due to the World War. This period in Cuba was known as the "Dance of the Millions," for sugar millionaires ordered tons of luxury goods from the United States with their huge war profits. The early loans of the National City Bank in Cuba were all short-term loans, paid and renewed, and paid and renewed again. But in 1921 the sugar boom collapsed, and sugar which had been as high as 28 cents a pound fell that year to about 2 cents a pound. The National City Bank at the time was carrying between \$30,000,000 and \$35,000,000 in sugar loans.

Mr. Gordon S. Rentschler had been president of the Hooven, Owens, Rentschler Company, of Hamilton, Ohio, which manufactured machinery, especially sugar machinery. In that capacity Mr. Rentschler had become very familiar with the Cuban sugar situation, and he worked during 1921 on the National City Bank's sugar loans. In 1933, Mr. Charles E. Mitchell, Mr. Rentschler and Colonel Edward A. Deeds, who had also become interested in Cuba, went to Cuba to survey the situation. After they returned to New York, they organized the General Sugar Company, which took over valuable sugar plantations in Cuba which could not meet their loans from the National City Bank. Then the National City Bank, through the General Sugar Company, added to its plantation holdings in Cuba, and finally its entire property consisted of between 325,000 and 330,000 acres of sugar plantations with a production of 2,100,000 bags of raw sugar yearly, of 325 pounds to the bag.

Meanwhile, in 1923, Mr. Gordon S. Rentschler became a director of the National City Bank, and in 1925 was made vice-president and assistant to the president, Charles E. Mitchell. Then in 1929 he became president of the bank, when Mr. Mitchell was chairman of the board of directors.

The price of Cuban sugar continued to decline after the National City Bank, through its subsidiaries, the National City Company and the General Sugar Company, went into the sugar business. In 1922 the price of sugar opened at the beginning of the year as low as 1.81 cents a pound and improved later to 4 cents. That was the year when the National City Bank officials organized the General Sugar Company, and that was also the year when the national bank examiners began to criticize the loans of more than \$30,000,000 to Cuban sugar planters which the bank still

had on its books. "It is questionable," said the report of the national bank examiners, "whether or not the management is according stockholders and depositors the proper protection in continuing to operate these properties at a loss of several millions each year." These criticisms went on year after year.

Then on February 15, 1927, Mr. Charles E. Mitchell and his associates decided to form the General Sugar Corporation as distinct from the General Sugar Company. On that same day the capital of the National City Bank and its affiliate, the National City Company, was increased to \$75,000,000 from \$50,000,000. To effect this increase 250,000 shares of stock were issued to the stockholders of the National City Bank at \$200 a share, and an additional \$50,000,000 was obtained from the stock-buying public. Twenty-five of these fifty millions were turned over to the National City Bank to increase its capital and the other twenty-five millions were turned over to the National City Company. On that same February 15, 1927, the National City Company purchased with its new \$25,000,000 the 1,500,000 shares of the new General Sugar Corporation. And at the same time the General Sugar Corporation assumed the debts of the sugar companies in Cuba to the National City Bank. The General Sugar Corporation then gave the National City Bank \$23,000,000 of the cash it had just received from the National City Company and also notes for \$11,000,000 to pay for the \$34,000,000 worth of sugar loans which the National City Bank had been holding until that moment, and which were being criticized as doubtful assets for a bank of deposit to hold. The National City Company received stock of the General Sugar Corporation for its cash.

Mr. Pecora wanted to know from Mr. Mitchell whether that process was "what is known in the vernacular as a 'bailing out' of the bank of a bad loan." But Mr. Mitchell preferred other phraseology. He insisted on calling the process the transfer of a questionable short-term investment of the National City Bank into a good long-term investment for the National City Company, which would have been valuable if sugar became valuable again. But Mr. Pecora persisted in wanting to know whether it was not a fact that by this process of raising money from stockholders the bank had not made its stockholders hold its sugar bags instead of its stock. Mr. Mitchell said: "It may be regarded in the light

of the subsequent write-offs as a reparation of the condition of the institution." Then Mr. Pecora asked Mr. Mitchell the embarrassing question, whether the stockholders of the National City Bank and National City Company had been told "that they were going to make this sort of a reparation that you have just referred to." After a little uncomfortable sparring, Mr. Mitchell answered: "I don't think so, but the record would show it." "You have no recollection of any such thing being told the shareholders?" "No, I have not, Mr. Pecora," Mr. Mitchell answered. According to the record, the shareholders were never told what their money was to be used for.

The National City Bank's investment of its shareholders' money in Cuban sugar without telling them about it was predicated on the assumption that the sugar from their properties would bring a profit of \$3,000,000 to \$4,000,000 a year, based on an average price over a 30-year period of 3½ cents per pound. The price of sugar maintained a fair average during the boom years of 1927, 1928, and 1929, but thereafter, due to the world depression in trade and to the extravagant, terroristic government of Gerardo Machado, which was supported in Cuba by bank loans from the United States with the approval of the Department of State, the condition of the Cuban people became worse and worse and was reflected in the price of sugar. In 1933, when Mr. Mitchell testified before the Senate committee, he said that the price of sugar was then eight-tenths of a cent a pound.

Gerardo Machado, the dictator of Cuba, whom the American bankers liked so much and supplied so lavishly with the American people's money, began life as a cattle raider under his father's tutelage. He took part in the Cuban insurrection against Spanish rule and was elected mayor of his home city of Santa Clara. Under José Miguel Gomez, who became President of Cuba by using strong-arm gangs to enforce his election, Gerardo Machado became Minister of the Interior. From Gomez he learned how to be a boss, and his work as Minister of the Interior gave him a grip on the valuable public utility concessions of Cuba.

In 1921, the Electric Bond & Share Company, of the United States, began to buy up Cuban public utilities, and its representative in Cuba, Henry Catlin, became a great friend and collaborator of Machado. At the time Henry Catlin was also courting the Chase National Bank, the

largest bank in the United States. Machado and Catlin were partners in the Santiago Electric Company. In 1925, Machado ran for President of Cuba, and, according to Carleton Beals's *The Crime of Cuba*, Henry Catlin put up half a million dollars for his campaign expenses and other financial interests from the United States put up another half million dollars. "Though the customary riots, official coercions, and falsifications of votes occurred," Mr. Beals wrote, "there is no doubt but that in 1925 Gerardo Machado was the honest choice of the Cuban people, and remained so until his assassination of Armando André." Machado was pledged to a program of honest public works, no increase in public debts and no re-election of himself. Between his election and his inauguration, Colonel John H. Carroll, prominent lobbyist, brought Machado to Washington "to show him around," as he testified before the Senate committee investigating lobbying and lobbyists.

On June 15, 1925, Mr. Karl A. Panthen, of the Chase Securities Corporation, the affiliate of the Chase National Bank, made a memorandum for Mr. R. A. Clarkson of a conversation he had had with Henry Catlin. Mr. Catlin told Mr. Panthen that the National City Bank, the greatest competitor for Cuban finance of the Chase National Bank, was very unpopular in Cuba:

The reason for the latter's unpopularity [Mr. Panthen's memorandum continued] is due to the fact that during the last trouble in Cuba the National City Bank took over a good many plantations of the Cubans. Mr. Catlin states that these people never forget. While Mr. Catlin is close to the National City Bank and knows Mr. Mitchell very well, he states that he prefers to play with the Chase crowd, mainly due to his very high regard for Mr. Wiggin. He informed us that recently he was instrumental in having the brother-in-law of General Machado made Notorial Attorney for the Chase Bank in Habana, just beating out the National City Bank.

Machado proceeded to entrench himself politically in Cuba by coercing his opponents and forcing the consolidation of opposing political parties. He also suppressed all independent newspapers and cultural organizations. And in Cuba at the time daily life was dominated by a corps of thugs and gangsters in addition to the Army. Under the cry of Com-

munism, Machado destroyed all labor organizations and completely controlled the courts and the police.

On January 16, 1928, President Calvin Coolidge, addressing the Pan-American Congress in Havana said:

“The very place where we are meeting is a complete demonstration of the progress we are making. Her [Cuba’s] people are independent, free, prosperous, peaceful and enjoying the advantages of self-government. . . . They have reached a position in the stability of their government, in the genuine expression of their public opinion at the ballot-box, and in the recognized soundness of their public credit that has commanded universal respect and admiration.”

Three months later President Machado had the Cuban constitution changed by his hand-picked convention. Then he held a fake election in November, 1928, at which he was the only candidate, and received a new term which was to end in 1935, although he had publicly pledged himself not to remain in office for more than one term.

Meanwhile, the battle for the privilege of selling the American public Cuban bonds to finance Machado’s dictatorship was beginning in Cuba. There were persistent rumors as early as March, 1926, that the Chase Securities Corporation was eager to float a loan of \$100,000,000 for the Machado government. The difficulty the bankers were experiencing was with the provision of the Cuban constitution and the Platt Amendment, which tried to prevent Cuba from overborrowing and thus inviting foreign intervention on the part of the United States or any other nation.

In order to appeal to that portion of his populace which he did not have room for in jail, President Machado planned a vast public works project. The main item in this program was a large Central Highway to run the length of the Island of Cuba and connect up with all towns and ports along the coast. He and his Minister of Public Works, Dr. Carlos Miguel de Cespedes, also had in mind a replica of the Capitol Building in Washington, with a gilt dome, which was to cost the Cuban people \$18,000,000 before it was finished and became an eyesore of Havana.

At first the Cuban government planned sensibly to pay for its public works projects as it went along out of a special fund set up for that purpose from the government’s revenues. But in order to make a show with the

people, the Central Highway was started in the five provinces of Cuba at the same time, with the result that it then became necessary to link up the five separate parts. On the way the officials stopped to put in ornamental parks and other establishments, which were both costly and profitable to contractors and public officials. The highway was also neglected for work on the Capitol and the sea wall. What with these delays and graft, the government began to get short of funds to link up the five separate sections of the Central Highway.

In order to finance the public works program the Cuban government issued public works certificates to the contractors, who in turn discounted these at the Chase National Bank. At first only \$10,000,000 in these certificates were issued, but the highway and other projects became more and more expensive, and the Cuban government needed another \$50,000,000. This was rather large even for the Chase National Bank and its associates in the United States, so it was arranged that some of the public works certificates, which the bankers held, should be sold to the American public, thus avoiding a bond issue and getting around the Platt Amendment. Twenty millions in public works certificates were sold to the American public, and the bankers held an additional thirty millions themselves. But the Cuban government needed still more money for its public works program, and it agreed with the Chase National Bank that the only way out was for the government to float a regular loan to pay off its works certificates. Therefore, in February, 1930, the Chase Securities Corporation and its associates sold to the American public \$40,000,000 worth of Cuban bonds. The proceeds of this sale were used to pay off to the bankers the \$30,000,000 worth of public works certificates which they held, although these certificates were supposed to mature later than those in the hands of the American public. In other words, the Chase Bank and its associates sold the American public Cuban bonds and paid themselves with the proceeds in part and gave the rest of the money to Cuba, thus paying off Cuba's obligations to the bankers with the American people's money. In the sale of the Cuban issue of \$40,000,000 the bankers made a profit of \$1,404,867.35. Although the technique was different, the process resembled the National City Bank's transfer of its sugar loans from the bank to the public.

In August, 1930, the Cuban bonds had dropped in value, and the

bankers held another \$20,000,000 worth of public works certificates. They could not sell these to the American public, because it was obviously impossible to sell new bonds at \$98 when those they had previously sold at that figure had fallen in value. In the prospectus issued for the sale of the \$40,000,000 bond issue no mention was made of the fact that during the previous fiscal year, 1929, the expenditures of the Cuban government had exceeded its revenues by \$7,440,000, or almost 10 per cent. The prospectus also failed to give an accurate account of Cuba's indebtedness, omitting from the total \$20,000,000 worth of public works certificates which the bankers held. In all the Chase National Bank and its associates had lent the Cuban government \$80,000,000.

In order to get the finance business of Cuba, the Chase National Bank found it advisable to take care of President Machado's son-in-law, José Emilio Obregon y Blanco. On April 1, 1927, he was made "new-business man" of the Havana branch of the Chase Bank at a salary of \$12,000 a year, and later he became joint manager of the branch at a salary of \$19,000 a year. It was published in the *Official Gazette* of Cuba on Friday, July 6, 1928, that Machado's son-in-law had received a commission of \$500,000 on the \$40,000,000 loan deal. On February 23, 1931, James Bruce, of the Chase Bank, wrote to Joseph Rovensky, of the Chase Bank:

To touch for a moment on Obregon. As we know, from any business standpoint he is perfectly useless. He has neither any ability for banking, nor has he the slightest ability in negotiating, which was something which we thought it might be possible to build him up to do. The only use that Joe has would be to do a certain amount of entertaining of our more important customers when they come to Habana in the winter, and also to do a certain amount of contact with regard to new business, etc. . . . From what I could gather in listening to some of the Cubans' talk is that Joe has very little standing with the President, and I think this is probably true. On the other hand, where the rub comes in is that if we did not pay him his salary the President would have to give him an allowance, and in times as hard as these this might be fairly difficult to do, so it would seem to me that the best thing to do at the moment would be to let things go on as they are.

Rosenthal is very much concerned because he says that when he goes off on his vacation in the summer that if Obregon is next in charge he

will make all the bad loans all over again. . . . Obregon spoke to me about his position and he is evidently quite worried. Conditions have entirely changed with him in one respect, and that is that he is not threatening to resign but is very scared that he is going to get fired. This is naturally of course the best way to have him, as he can do the least harm.

The change in "Joe's" attitude towards his job was a reflection of the change in Cuban financial conditions. They had begun to get very bad as early as May, 1929, and grew steadily worse thereafter. Exiles from Machado's terrorism and certain Americans began to criticize the dictatorship, but the natives were beaten into submission. Americans with large financial interests in Cuba did not like the growing criticism of Machado. Herbert C. Lakin, for example, head of the Cuba Company, which had \$170,000,000 in investments in Cuba, hired Colonel John H. Carroll to help fight the growing opposition to Machado's government, and particularly the claims of Joseph E. Barlow, an American citizen, that his property had been confiscated illegally and turned over to Machado's other son-in-law, Rafael Jorge Sanchez. Carroll was paid a retainer of \$10,000 and \$4,500 a month to fight the Barlow claims for \$9,000,000 damages.

"Just why should Mr. Lakin be employing counsel to help sustain the Government of Cuba?" Senator Borah asked Colonel Carroll at the investigation into Lobbying and Lobbyists in 1929.

"Well," said Colonel Carroll, "all I know is he says they have \$170,000,000 down there, and they like the administration of Machado. Think it the best they have ever had down there, and they want to sustain it, and they think this Barlow business is an assault on the integrity of the Machado administration."

What the financial interests feared most was American intervention against Machado, and Colonel Carroll's services may have been useful in talking to the right people. Carleton Beals wrote in *The Crime of Cuba*: "The last time Barlow went to Cuba, he was thrown into prison, put into a convict's uniform; and because he refused to perform hard labor, was housed with maniacs. He literally died of starvation."

In February, 1931, President Machado had to have a renewal of the \$20,000,000 loan via public works certificates which the bankers had granted him. This offered an opportunity for the Chase Bank officials to talk with Machado about reducing expenditures and re-establishing Cuba's credit. Mr. James Bruce, of the Chase Bank, who talked with Machado, wrote in a letter to Mr. Joseph Rovensky, of the Chase Bank:

This of course could only be done by making a compromise with his political enemies, and naturally the only way he could do this was to make some concessions, but the result of which would be that Cuba would present a uniform front rather than have the tourist trade disrupted and the security holders made nervous by not knowing when, if at all, the Government would be thrown out of power. The President admitted all this, and in fact went on to elongate on the same, stating what he was doing to bring it all about. He mentioned that in this last Congress there were one or two dissenting voices, but he said that in the Congress which would convene on April 1 there would not be one dissenting voice (I suppose the two dissenting voices are already in jail).

Mr. Bruce also learned from President Machado that he had taken most of the money out of the government trust fund for pensions and had used it for other governmental purposes, "which of course he had no business in using," Mr. Bruce wrote. "Naturally, the public do not know about this," Mr. Bruce went on, "although why they should not get on to it I do not know, but it is worrying both the President and our own State Department very much." Mr. Bruce added that the government of Cuba had not more than a few hundred thousand dollars on hand at any time in February, 1931, and that it hid its ridiculously short cash position from the Cuban people by holding up checks and payments until after making public its financial statements.

In August, 1931, there was a revolt in Cuba against Machado, which was suppressed ruthlessly. According to Carleton Beals, the United States Department of State and War Department were preparing at that time to intervene in favor of Machado if it became necessary. In December, 1931, when the Machado government had to pay off some more of its debts to American bankers, Machado managed to do so by not paying his own government employees their salaries. A shipment of gold coins

to the Chase Bank was guarded carefully by armed men at the Cuban customs house and sent off to New York secretly. Machado requested the Chase Bank officials in New York to keep these payments secret.

During 1932 the American bankers had to advance Machado money in order to meet the payments due on their loans, which they did, and then made public the fact that he had met his obligations, as an indication of the good credit position of his government. But between December, 1932, and June 30, 1933, when the next payments were due on Cuban bonds, conditions in Cuba grew worse and worse. The bankers were making great efforts to prevent Machado from declaring a debt moratorium, pointing out the disastrous effect on his credit. But in reply they received a letter from Mr. T. M. Findlay, assistant manager of the Chase Bank in Havana, informing them that the public employees were starving and were eleven months behind in their salaries; the high officials of the Cuban Army were two to three months in arrears in their pay, and could get no more credit for food or fodder for their animals, "but were required practically to take same by force."

Upon his retirement after the inauguration of President Franklin D. Roosevelt, Hoover's ambassador to Cuba, Guggenheim, stated to Mr. Findlay, of the Chase Bank, that in his opinion a Cuban debt moratorium would be disastrous, and "it was a direct result of and a natural sequence to the banking holiday, which had sadly shaken that intangible feeling of respect for the United States and American institutions which has never been questioned before." With the new administration of President Roosevelt in power, the bankers gave up all hope that the American Army would be used to collect their debts in Cuba. Machado could now no longer pay his gangsters and his army. The payments due the American bankers on June 30, 1933, were extended, but still Machado could not keep down the rising discontent. In July the Cuban revolt broke out with terrific force; Machado fled by airplane to the island of Nassau, with some of his most intimate political henchmen. His son-in-law, José Obregon, the Chase Bank's former "new-business man," who had lost his job in 1931, brought the rest of the Machado family to the United States on a Cuban gunboat, where they were later joined for a time by the ex-President and his entourage, the island of Nassau proving too dangerously near to Cuba. In their rage the Cuban populace tore the strings out of the piano

in the presidential palace after dumping the instrument into the street, and then carried upright through the streets of Havana the dead bodies of some of President Machado's hired gunmen.

The Cuban bonds which the Chase Bank and its associates had sold to the American public for \$98 were selling for less than \$30 in 1933, at the time of the Senate investigation into the Chase National Bank's activities. On June 19, 1934, the Cuban commission investigating the legality of \$60,000,000 of the American loans declared them to be illegal, but the Chase Bank insisted in a public statement that there were no grounds for repudiation.

5

THE ACTIVITIES of the two largest banks in the United States, the National City Bank and the Chase National Bank, through their stock-selling affiliates, were the subject of exhaustive investigation by the Senate Committee on Banking and Currency. By the time the investigation conducted by Ferdinand Pecora was completed, the reputations of two of the demigods of the boom, Charles E. Mitchell and Albert H. Wiggin, were such that it was found to be to the advantage of their institutions to have them resign from all connection with them.

Mr. Mitchell and Mr. Wiggin were supersalesmen of securities, and it was during their ascendancy that the technique of selling people repositories for their life savings and the dream of getting wealthy beyond reason became highly developed in a manner which had previously been confined to the sale of vacuum cleaners, sets of encyclopedias, and subscriptions to magazines.

In 1911 the National City Company was organized as an affiliate of the National City Bank, but until 1927 it confined itself to selling to the public only bonds, notes and debentures. Thereafter it also dealt in common and preferred stocks of a risky nature. By 1929 the National City Company had a private wire system which extended 11,386 miles and covered all

parts of the United States. It had 69 district and representative offices throughout the country, served directly or indirectly by private wires, and it had in addition large numbers of correspondents in the country districts. Three hundred and fifty high-powered salesmen were in its employ.

In order to keep its salesmen active, the National City Company conducted sales contests in which districts competed with one another for cash prizes to the men who could sell the American public the most stocks and bonds. One large sales contest was for salesmen who could sell the most stock of Cannon Mills, Oliver Farm Equipment Company, Wesson Oil, Lautaro Nitrate Company, and the bonds of the State of Minas Geraes in Brazil, all pet promotions of the officers at the home office.

The "New Business Department" of the National City Company compiled lists of prospective customers for stocks and bonds, which lists it obtained from automobile registration lists, tax lists and others. During 1927 the main office sent its salesmen 47,447 new names of possible prospects and during 1928 it sent out 122,000 new names. The salesmen called personally on these people and tried hard to induce them to trust their savings to the National City Company, if they were not already investors, and if they were to change their securities into those which the National City Company was so recklessly sponsoring. The greatest effort, however, was made to get the salesmen to persuade the American people to buy National City Bank stock, for the National City Company's main office rightly felt that a new investor in National City Bank stock was a new potential customer for the stocks and bonds which the company was issuing in rapid succession, without proper investigation into their quality.

It was the habit of the National City Company to send over its private wires telegraphic flashes signed "General Sales." On February 6, 1929, "General Sales" sent its agents in the field a telegraphic dispatch from the general headquarters entitled, "Loaves from Crumbs." This essay pointed out that when clients sold securities and bought others, there was frequently a cash balance to the credit of the clients. The salesmen were instructed to do everything they could to induce the clients to buy one, two or more shares of National City Bank stock with these small cash balances. "If the amount is insufficient to buy one share you can have the customer put up the remaining cash," the letter advised. "If you

will continue this practice it will not be long before each client and you will be agreeably surprised by the shares of the National City Bank stock that he will have accumulated. By using the crumbs of cash resulting from exchanges to buy the new stock of the National City Bank and continuing that practice as opportunity arises you will work these crumbs into a loaf of substantial size with consequent advantages to the client, the National City Co., and yourself."

Although the law did not allow a bank to trade in its own stock, this was circumvented by the bank's use of its *alter ego*, the National City Company, which was the largest single trader in National City Bank stock. The National City Company sold the public 1,950,000 shares of the National City Bank stock at an approximate cost to the public of \$650,000,000. In September, 1929, the book value of the National City Bank stock was \$70 a share, or a total for the capital stock of \$385,000,000. At that time its market value was \$3,200,000,000, for the stock was selling as high as \$579 a share.

After Mr. Charles E. Mitchell's testimony before the Senate committee on the morning of February 21, 1933, Senator Brookhart told the committee when it had reconvened after the luncheon recess:

"As this committee adjourned at 12 o'clock today I was surrounded by a dozen people in this room who said they had lost all their life's savings by buying securities in the National City Co. or the National City Bank, and they are complaining about this situation. They are right here in this room."

Almost every investigation has its human interest witness, and the human interest witness of the banking investigation was Mr. Edgar D. Brown, of Pottsville, Pennsylvania. Mr. Brown had been a theatrical manager and producer. He had sold his theaters and had about \$100,000. His health was bad, and he was contemplating a trip to California. In December, 1927, he happened to see an advertisement in one of our national magazines, which read:

Are you thinking of a lengthy trip? If you are, it will pay you to get in touch with our institution, because you will be leaving the advice of

your local banker, and we will be able to keep you closely guided as regards your investments.

The advertisement was signed, "National City Company." Mr. Brown answered the advertisement, and Fred Rummel, representative of the National City Company in his district, called to see him. Some of Mr. Brown's money was already invested in valuable United States government bonds and valuable bonds of the Italian government. Mr. Rummel took a list of Mr. Brown's securities and returned again after advising with the home office about Mr. Brown's case. He advised Mr. Brown to sell all his bonds, which he assured him were all wrong for him. In order to facilitate the transfer of Mr. Brown's holdings to new securities which the National City Company would sell him from its store, the National City Bank loaned Mr. Brown \$75,000. Then Mr. Rummel showed Mr. Brown how to get rich. He pointed out that if he borrowed money at 5 and 5½ per cent from the National City Bank and bought with it bonds which the National City Company was selling that yielded 7½ per cent, he could make the difference in his interest and pay off his loans with his profits. The bonds, Mr. Rummel assured Mr. Brown, were sure to go to par very soon.

Mr. Brown wished to be conservative. He insisted that the National City Company buy only fixed-income securities for his account and no common stocks. Then the National City Company began to trade for Mr. Brown, and the trading went on so fast and furiously from one security to another that Mr. Brown testified he was utterly unable to keep track of his own holdings. By means of loans from banks in his state, arranged for him by the representative of the National City Company, Mr. Brown found himself the possessor of between \$200,000 and \$250,000 worth of investments on his original capital of \$100,000. But instead of going up towards par, the bonds purchased for him by the National City Company declined in value, and Mr. Brown, worried, complained to Mr. Rummel.

"And he said," Mr. Brown testified, "'Well, that is your fault for insisting upon bonds. Why don't you let me sell you some stock?' Well, the stock market had been continually moving up. So then I took hook, line and sinker and said, 'Very well. Buy stock.'"

"Did you tell him what stocks to buy?" Mr. Pecora asked.

"Never," said Mr. Brown.

"Did he buy stocks then for your account?"

"Might I answer that facetiously—*Did he buy stocks?* (Great and prolonged laughter.)"

The witness then produced a mass of confirmations of purchases of various stocks, too numerous to read into the record.

In August, 1929, Mr. Brown went to Los Angeles for his health. Meanwhile, the National City Company had purchased for him some of its pet stock issues, in some of which pools and syndicates were operating to keep the market prices high and reap profits at the expense of the stock-buying public. In September, 1929, Mr. Brown realized that the prices of his stocks were declining, and he decided that he would like to sell them at once. He went to the Los Angeles office of the National City Company, determined to do so. "I was placed in the category of the man who seeks to put his own mother out of his house," Mr. Brown testified. "I was surrounded at once by all of the salesmen in the place, and made to know that was a very, very foolish thing to do." He was told, he said, that it was especially foolish to sell the National City Bank stock which he owned. He also received an unsolicited telegram from his Pennsylvania National City acquaintance, Mr. Rummel, reading: "National City Bank now 525. Sit tight." Mr. Brown said he wondered how Mr. Rummel knew his address. He still tried to sell his stocks, but each time he was told by the National City salesmen that the market was going up, and that he was very foolish.

Then on October 29, 1929, after the stock market crash had developed into a stampede, the National City Company sold out Mr. Brown's holdings of National City Bank stock at \$320 a share without consulting him. Watching the stock quotations in the office of the National City Company in Los Angeles at seven o'clock in the morning with his wife, Marie, Mr. Brown said: "I was about as blue as a poker chip." Later Mr. Brown wrote Mr. Beebe, of the New York office of the National City Company, a letter of protest, in the course of which he said concerning this early morning scene in Los Angeles: "Everybody was groaning and my godding until I said, 'Come on, let's get out into the air. This stuff will be all right.

These folks are just getting panicky.'” Meanwhile the National City Company was selling Mr. Brown’s stock. The result was that Mr. Brown became literally penniless. In the course of the long letter of protest which he wrote to Mr. Beebe, he pointed out:

Now get this picture.

I am now 40 years of age—tubercular—almost totally deaf—my wife and family are depending on me solely and alone and because of my abiding faith in the advice of your company I am today a pauper.

Mr. Brown wanted Mr. Beebe to arrange to lend him some more money to buy more stock, but by this time even the National City Company had had enough of lending people money to buy stock on its own advice with the stock as collateral. At the time Mr. Edgar Brown testified before the Senate committee, February 28, 1933, he gave his occupation as “clerking for the poor board” back in Pottsville, Pennsylvania.

On the profits of selling billions of dollars’ worth of securities to millions of people throughout the world, the officers of the National City Bank and the National City Company were good to themselves. They had for many years what was known as the “Management Fund,” out of which they paid themselves large sums each year for their salesmanship. Mr. Charles E. Mitchell testified that the Management Fund was necessary in order to keep the executives satisfied and to prevent them from accepting lucrative partnerships in private banking houses. Most of the executives, he said, received salaries of only \$25,000 a year, except himself; his salary was \$100,000 a year and was increased to \$200,000 a year during the depression year of 1931. A few of the other executives received more than \$25,000, but the bonuses made up for the comparatively small salaries, Mr. Mitchell maintained.

The Management Fund of the National City Company, Mr. Mitchell testified, consisted of half of 20 per cent of the earnings of the company after deduction of 8 per cent “for the tools.” The officers met in January and July of each year and voted by secret ballot how much of this half of the 20 per cent should go to each one of them, each voter omitting his own share. Mr. Mitchell admitted that his share was usually one-third of the fund. There was also a Management Fund for the officers of the

National City Bank as well as for those of the company, and Mr. Mitchell, being chairman of the board of directors of both institutions, shared heavily in this fund also. Between 1921 and 1929 inclusive, the Management Fund of the National City Company totaled \$10,511,670.95 and that of the Bank, between 1923 and 1930 inclusive totaled \$8,490,634.22, or a total of more than \$19,000,000 for both institutions. During these years Mr. Mitchell's share of the Management Fund of the National City Company amounted to \$3,757,877.82 and for the bank to \$3,192,662.01, or a total of \$6,950,539.83.

When Senator Couzens asked Mr. Mitchell whether he thought the Management Fund system a good one, looking at it in retrospect, Mr. Mitchell answered:

"Yes; I think so, and I would really feel quite strongly about that. I have seen it apply in the bank where it was established after I became president of the bank, and it establishes an *esprit de corps* and an interest in one officer in another officer's work that is to me most noticeable."

It was brought out at the banking investigation that the system of bonuses for high-powered salesmanship also established an *élan vital* in the effort to sell the public any and all kinds of securities, without proper investigation of their safety, with a view to increasing the profits of the individual executives whose duty it was to pass upon and to investigate issues of securities to the public.

"Does it not also inspire a lack of care in the handling and sale of securities to the public, because each individual officer has a split?" Senator Couzens asked.

"I can readily see," Mr. Mitchell answered, "from your point of view, that that would seem so, and I must grant that it must have some influence, Senator Couzens. At the same time, I do not recall seeing it operate in that way."

"You would not see it," remarked Senator Couzens. "Only the customers would see it after they had gotten their securities."

After the stock market crash in October, 1929, a resolution was passed at a meeting of the board of directors of the National City Bank setting

aside a fund of \$2,400,000 of the bank's money to be used by Eric P. Swenson and James H. Perkins as trustees, to make loans "either with or without security as in their complete discretion they may deem proper, to such officers of the bank and its affiliate corporations as they may deem proper, for the purpose of making loans to such officers in the present emergency, and thereby sustaining the morale of the organization." Mr. Rentschler testified that these loans to officers were absolutely essential to maintain the morale of the personnel for the good of the bank. One vice-president received \$296,000 from this fund and eventually he was able to pay back only \$11,000; the balance of \$285,000 was taken over in December, 1930, from an obligation of the bank and made an obligation of the National City Company; at that time it was written down to \$65,000. No deductions were made from the officer's salary to meet this payment. There were other similar cases, and Mr. Mitchell himself owed the National City Company \$666,666.67, which was written down to \$1 on its books.

This convenience for helping them out of their stock market losses was limited, however, to the officers of the bank and its affiliates. The employees of the National City Bank and the National City Company, whose morale was also important to the institutions, were accorded different and drastic treatment. On that important February 15, 1927, when the stockholders of the National City Bank were manipulated into holding the bag for the bank's sugar loans in Cuba, the directors had time for another enterprise. They inaugurated that day a stock-purchase plan for the employees of the bank. In December, 1929, after the crash in the stock market had occurred, this stock-purchase plan was further elaborated. At that time the employees of the bank were "permitted" to buy stock of the National City Bank and pay for it over a period of four years with interest to the bank for unpaid balances. Under this plan 60,000 shares of the bank's stock were sold to employees, some of whom may have feared for their jobs if they refused to buy, at between \$200 a share and \$220 a share. In this way the bank received an investment from its own employees of more than \$12,000,000. The payments for the stock were deducted each month from the employees' pay checks. In 1933 when Mr. Gordon S. Rentschler, the president, testified, the stock of the bank was selling at \$40 a share. But the employees were

still paying for their stock at the rate of \$200 to \$220 a share, and these payments were still being taken from their pay checks. Mr. Pecora wanted to know whether this was good for their morale. Mr. Rentschler replied that in his opinion the morale of his employees was as "strong and fine" as that of any organization in the country.

At the Senate investigation, Mr. Charles E. Mitchell admitted that in 1929, when his income was more than \$4,000,000, he had sold stock to his wife, with the purpose of avoiding income taxes, and thus had not paid any income tax in 1929. In February, 1933, Mr. Mitchell and Mr. Hugh B. Baker resigned as heads of the National City Bank and National City Company respectively, as a result of the criticism leveled at them after the revelations brought out by the Senate committee. In June, 1933, Mr. Mitchell was tried for income tax evasion, and after a long trial before a jury, with Mr. Max D. Steuer as his attorney, Mr. Mitchell was acquitted.

Most sound banks resemble each other, but most reckless banks are reckless in different ways. The activities of Albert H. Wiggin and the Chase National Bank showed distinctive characteristics as revealed in the testimony of Mr. Wiggin and his associates before the Senate committee.

Mr. Wiggin formed three family corporations, similar to Harry Sinclair's Hyva Corporation. These were called the Shermar Corporation, the Murlyn Corporation and Clingston Company Inc. Mr. Wiggin testified that Shermar and Murlyn were named after parts of the names of his two daughters, and that, "There was a little sentiment about it." The purpose of these corporations, however, and their activities were not sentimental. By means of them Mr. Wiggin was enabled to trade actively in stocks of his own bank and other institutions and also to avoid high income taxes and inheritance taxes. The only stockholders of the corporations were the immediate members of Mr. Wiggin's family, but their officers and directors included officers and directors of the Chase National Bank and the Chase Securities Corporation, which Mr. Wiggin dominated, as Mr. Mitchell dominated the National City Bank and the National City Company.

In the five-year period between 1928 and 1932 the three family corporations of Mr. Wiggin made total profits of \$10,425,657.02 on transac-

tions in the stock of Chase National Bank; these were actual cash profits and not paper profits. Meanwhile, the stock-trading corporation operated by the Chase National Bank for its stockholders, Metpotan Securities Corporation, made a profit during the same period of only \$159,573.84 on the stock of the Chase National Bank. Mr. Wiggin's family corporations sold the stock of Mr. Wiggin's bank short as well as bought it long. Mr. Wiggin admitted in his testimony that it would have been improper for him to sell the stock of his own bank short himself, but he saw no impropriety in doing so via his family corporations. Besides his family corporations, Mr. Wiggin had a group of Canadian corporations, which were used to save income taxes on his speculations.

Officers of the Chase National Bank borrowed money from Mr. Wiggin's family corporations to indulge in stock market operations, and they also borrowed money from the bank itself. Thus men who were under obligation to Mr. Wiggin personally for loans from his family corporations were the same men who approved Mr. Wiggin's transactions in the bank and the transactions between the bank and Mr. Wiggin's family corporations.

The Chase National Bank under Mr. Wiggin made large loans to syndicates and trading accounts for stock market speculations. Mr. Wiggin finally admitted after cross-examination: "I certainly agree that we should not have made those loans." Through his family corporations Mr. Wiggin participated in pools and syndicates to his profit. A pool in Sinclair Consolidated Oil Corporation stock organized by Harry F. Sinclair, Blair & Company, Chase Securities Corporation, and Mr. Wiggin's Shermar Corporation, made a profit of \$12,200,109.41 by trading in Sinclair stock and influencing its price. Mr. Wiggin's corporation received a profit of \$877,654.25 on this deal. Mr. Sinclair and some of the directors of his company, who participated in some cases in the profit of the pool, approved the sale by the Sinclair company to the pool of 1,130,000 shares of stock to be used by the pool for trading.

When he appeared in the public eye again at the banking investigation to testify to the details of this pool operation, Mr. Sinclair was far from chastened by his jail sentences and his experience before the Senate committee in connection with Teapot Dome. He gave it as his opinion that

the banking investigation "was a joke," and when this made the Senators and Mr. Pecora indignant, Mr. Sinclair tried to amend it by saying that he had been referring only to particular testimony concerning the pool transaction. Senator Couzens remarked: "A good many people thought Teapot Dome was a joke at one time. I hope that they do not go through the same sentiments during this investigation."

Mr. Albert H. Wiggin resigned as chairman of the board of the Chase National Bank on January 1, 1933, and was replaced by Mr. Winthrop W. Aldrich, brother-in-law of John D. Rockefeller, Jr., the Rockefeller interests being the dominant forces in the Chase National Bank. On December 21, 1932, the executive committee of the Chase National Bank, consisting of a small number of the officers, met and voted Mr. Wiggin a salary of \$100,000 for life upon his impending retirement. The purpose of this gift was said to be in order to discharge the obligations of the bank to Mr. Wiggin in some measure and in order to keep him prepared to continue to serve the bank. But when questioned by Mr. Pecora, Mr. Wiggin could point out no particular services which he had performed for his life pension to date, except that the fact of the pension made him feel himself "at the beck and call of the bank." Mr. Wiggin also admitted that it was he himself who had taken up with Mr. Aldrich and the directors the matter of a pension for life, and that he had even mentioned the sum of \$100,000 himself.

"Did you find any dissension in the views of the gentlemen with whom you discussed it?" Mr. Pecora asked.

"On the contrary, I found enthusiasm for it," Mr. Wiggin replied.

As they were giving away their stockholders' money, the gentlemen, who were also stockholders, could afford to be both generous and enthusiastic. Perhaps they all expected to retire some day themselves and felt that the pension to Mr. Wiggin was an encouragement to the young to give their best to their institutions.

During Mr. Wiggin's administration the Chase National Bank had engaged in reckless foreign financial adventures, of which the Cuban finance, which we have already discussed, was outstanding, and in equally

adventurous domestic adventures among the motion picture companies and other unstable financial elements in American life. In the course of those activities the Chase Bank had lost great sums of money.

Previous to his retirement Mr. Wiggin had drawn an annual salary of \$202,000 and had received in addition a bonus of \$100,000 in 1929 and a bonus of \$100,000 in 1930.

"They credited you with being responsible for some of their added profits in the good years?" asked Senator Adams.

"I think so, sir," said Mr. Wiggin.

"In the bad years did they charge you in any way with responsibility for losses?"

"No, sir."

"It has only worked one way?"

"Only one way."

In addition to these salaries and bonuses, Mr. Wiggin had received \$40,000 a year from Armour & Company, \$20,000 a year from the Brooklyn-Manhattan-Transit Corporation, \$5,000 a year from the Finance Company of Great Britain and America, \$3,000 a year from the American Express Company, \$3,000 a year from the Western Union Telegraph Company, \$2,000 a year from Underwood-Elliott Fisher Company, \$2,000 a year from International Paper Company, \$1,500 a year from Stone & Webster, \$300 a month from the American Locomotive Company and \$300 a month from the American Sugar Refinery. Of some of these companies Mr. Wiggin was a member of the board of directors, and to others he acted as adviser. In several important instances the companies or their executives were indebted to the Chase National Bank for large loans. This was particularly true of Gerhard M. Dahl and the Brooklyn-Manhattan-Transit Company, of which he was the head, and of Mr. Graustein, of the International Power & Paper Company, of which he was the head. The Chase Bank lost much money on loans to both of these companies and their officers. Mr. Dahl's loans at the Chase National Bank reached as high as \$4,758,000 at one time, and on June 15, 1932, he owed the Chase National Bank \$3,183,358.19, which had been written down to \$615,000.

"What was Mr. Dahl borrowing this money for?" Senator Couzens asked. "To buy B. M. T. stock?"

"I think so," Mr. Wiggin replied. "Speculation. Investments that turn out wrong are speculations."

Mr. Wiggin's Shermar Corporation and the Chase National Bank sold stock in the B. M. T. during the early days of June, 1932, at \$24 a share and by their sales depressed the market for the public to \$11 $\frac{1}{8}$. Then on June 20, 1932, the board of directors of the B. M. T. met. Mr. Dahl was chairman of the board; Mr. Wiggin was chairman of the finance committee of the B. M. T. At that meeting the company decided to pass its regular dividend. Mr. Wiggin insisted in his testimony that he did not know when he sold his stock and when the Chase National Bank sold its B. M. T. stock held on Mr. Dahl's loan, that the B. M. T. was going to pass its dividend. "I thought they ought to," he added, "but I was only one."

On the same day on which the Chase National Bank directors voted Mr. Wiggin a salary of \$100,000 a year for life, the Chase Securities Corporation made an agreement with Mr. Wiggin concerning certain transactions it had had with his Shermar Corporation. In conjunction with Pynchon & Company, West & Company and W. S. Hammons & Company, stock brokerage houses which were all in bankruptcy, the Chase Securities Corporation and the Shermar Corporation had participated in various trading syndicates and accounts dealing in speculation in the stocks of General Theatres Equipment Inc. There was some question as to whether Mr. Wiggin's Shermar Corporation might not be liable for all the moneys still owed the syndicate by the three bankrupt corporations. Mr. Wiggin testified that there was no doubt in his mind or that of his lawyers that he was not liable for these debts, but in order to make doubly sure, he agreed that the Shermar Corporation would turn over to the Chase Securities Corporation 25,000 shares of Chase National Bank stock, then worth \$1,000,000, and thereby the Shermar Corporation was to be absolved of all liability to the Chase Securities Corporation in this transaction. Mr. Wiggin said that he did this "to avoid any possible criticism," although he was sure that he did not have to do it legally.

After his testimony before the Senate committee, Mr. Wiggin sent the board of directors of the Chase National Bank the following statement:

New York City, October 24, 1933.

To the Board of Directors of the Chase National Bank of the City of New York, N. Y.

Gentlemen: At the time of the agreement to pay me annual compensation of \$100,000 it was believed to be in the best interests of the bank. As that agreement has been criticized, I beg to request that it be terminated.

Yours sincerely,

ALBERT H. WIGGIN.

6

SENATOR Robert M. La Follette, Jr. called the leading bankers, industrialists and economists to Washington between October and December, 1931, two years before the Senate's banking investigation, to get their ideas on the advantages and disadvantages of forming a National Economic Council to plan the economy of the United States thoughtfully. The detailed opinions of the witnesses make interesting reading. Some of them were helpful and some of them were hopeless. Mr. Daniel Willard, of the Baltimore & Ohio Railroad, was conscious "in the last 10 or 12 years that something has changed. Men get out of a job and they continue out and it is not because they do not want to work." And he added: "The fact is most of the trouble we have today arises from the fact that we are not dividing things just right somehow. Our scheme of dividing up is not working. . . . Certainly it would be much more difficult if we did not have enough to go around. That would be a real problem, but fortunately we have no such problem as that."

Mr. Albert H. Wiggin sang a song which might have been called the Ecclesiastes of Rugged Individualism:

"A man only lives so many years and his experience only lasts with him so many years," said Mr. Wiggin. "New generations succeed and they will make the same blunders in the next generation and succeeding generations as were made in the first. . . ."

"Your counsel is one really of despair, then," said Senator La Follette. "We are going to suffer these terrific dislocations and the suffering that goes with them on the part of the people generally?"

"I think you are looking for a superman," said Mr. Wiggin, "and there is no such thing. Human nature is human nature. Lives go on. So long as business activity goes on we are bound to have conditions of crisis once in so often. We may learn from each one how to avoid that particular difficulty the next time, but you are always going to have, once in so many years, difficulties in business, times that are prosperous and times that are not prosperous. There is no commission or any brain in the world that can prevent it."

"You think, then, that the capacity for human suffering is unlimited?"

"I think so."

Mr. Charles E. Mitchell testified in a similar strain. He found that "mistakes are among the penalties that have to be paid for freedom." "Freedom for the individual to engage in whatever business he chooses, and to develop that business in accordance with his talent and judgment, is a privilege which all Americans cherish," said Mr. Mitchell. He thought that an economic council might be useful in gathering statistics, and he added: "I can not help feeling, however, that business will be governed best by the natural laws of supply and demand, which will control the situation more effectively than the best-intentioned regulatory or advisory body imposed from above could possibly do. This is not a counsel of despair, as I have heard it termed before this committee, but a counsel of common sense."

As we have seen from the record since the end of the war, business has run to every department of the government for aid whenever it could get such aid by subsidy or by corruption. The laws of supply and demand have been violated constantly for many years, and the rugged individualists seem to be the first to attempt to turn the centralized forces of the community to their own uses whenever and wherever possible. It is

obvious from the actions of the privileged characters of the past that many of them have had neither integrity nor ability. In order to insure that even the predatory individuals may survive, it seems necessary to take financial and political control out of the hands of men whose impotence is more dangerous even than their selfishness. Unless they become willing cheerfully to reconcile their personal desires for power and wealth to the needs of the community, they have staring them in the face that system which has been so drastically successful in Russia, the complete control of their lives, thoughts, opinions and wants, or at least the attempt at that control.

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