

“... a dishonest man is at least prudent.”
George W. Perkins and the International Harvester Steel
Properties

Fred V. Carstensen
University of Virginia

On the afternoon of 13 February, 1902, Judge Elbert H. Gary had a "long talk" with Cyrus H. McCormick, Jr., president of the leading harvester manufacturer, the McCormick Harvesting Machine Company. Gary was worried. McCormick's principal competitor, the Deering Harvester Company, was installing a small rolling mill at their Chicago factory; the Deerings had also purchased the large Hawkins mine in the Mesabi range, and bought controlling interest in South Chicago Furnace Company, located just south of Chicago, where new steel furnaces were under construction. If completed, such vertical integration would not only deprive Judge Gary's US Steel of an important consumer of steel, but its example and competitive implications would surely impel McCormick and others in the same direction, threatening US Steel's market. Gary, speaking explicitly for the recently organized steel company, told McCormick that he wanted to see if it were "possible to prevent the further prosecution of" the Deering efforts. A solution to this "difficulty" had come to Gary "immediately" -- "the idea of a combination." Not only would combination "be a good thing" for the reaper manufacturers, he believed he "could prove...that it would be to their interests not to go into the steel business" as the Deerings were now doing [12].

This conversation initiated the chain of events which led to creation of International Harvester just six months later, in August 1902. The successful negotiations between the McCormicks, Deerings, and owners of two smaller companies, Warder, Bushnell & Glessner and the Plano Company, were completed in six weeks of intensive work in New York in late June and July, negotiations handled by George W. Perkins, junior partner of J. P. Morgan.¹ Sixteen years ago Helen Kramer tried to assess the motivations which animated this effort, an assessment which argued profit maximization in the harvester industry was the most important motive; the McCormick ambition to maintain family traditions of business leadership and conservative management played a secondary role [11]. Earlier John Garraty suggested the importance of McCormick fears of the aggressive Deering Company forcing them to put

their fate into Perkins's hands [8, pp. 126ff]. Both assessments ignore two critical aspects of the negotiations: (1) the Deerings' ambition to run a merged company and (2) Perkins's own interest in shaping the outcome to benefit an outside interest, that is, of United States Steel. The Deerings refused to concede McCormick leadership or domination. Perkins, at the time he was handling the harvester negotiations, was in the "inner circle" of the steel company's policymakers and fighting to push through a bond conversion plan to generate money needed for that company's continued development. Within months of the creation of International Harvester, Perkins and Gary persuaded the Deerings of the attractiveness of their case and pushed the Harvester board of directors to sell all ore, coal, and steel properties to US Steel in exchange for a 10-year supply contract. But the McCormicks recognized the danger to Harvester of facing a monopolistic steel supplier and resisted the proposed sale of the Deering properties, especially the ore mines. A close look at these issues and their resolution suggests both the shortcomings of earlier assessments of the motivations for the merger and some emerging realities of conducting business in a largely oligopolistic environment.

THE PRINCIPALS

McCormick was the oldest and largest of the harvester manufacturers, having begun regular production in 1842; it established its first Chicago factory in 1847. Though its origins rested on the inventive abilities of Cyrus McCormick, Sr., in combining the seven elements basic to any successful reaper, as a company it would rarely be a leader in marketing new products. With its established brand name and solid marketing organization, it had little reason to push new designs or new machines; when others made important innovations, however, McCormick was almost always well prepared with patents and expensive lawyers to help it produce a competitive product [10, passim]. After the death of Cyrus, Sr., in 1884, Cyrus, Jr., renovated the marketing organization and focused manufacturing capabilities on producing a durable machine with the least complexity, largely limiting the company to a single model of each principal machine -- reaper, self-rake, mower, binder -- to give maximum production runs. By the 1890s McCormick not only commanded a premium price -- often 10 percent or more above any rival -- but built sturdy machines at lower cost than any competitor. By 1902 it probably commanded 40 percent of the harvester trade.²

Deering had different origins and strategy. William Deering had been a successful dry goods merchant in Maine before moving to Chicago and becoming a partner in a small harvester manufacturer in 1874. The illness of his partner left him in charge of the busi-

ness. He soon purchased the Appleby twine-knotter patents, then induced Edwin Fidler of Philadelphia to produce a hard-twist manila twine, and made the binder an overwhelming success. Introduced in 1880, by 1885 the twine-binder made Deering probably second only to McCormick in harvester production -- and may have led him past the venerable leader, briefly, in 1887 and 1888. But Deering never developed a marketing organization comparable with McCormick's; by 1890 it had fallen back into the second position it would occupy until creation of International Harvester. Deering preferred to compete on the basis of innovation in design, integration of production, and, to a degree, on price. Thus Deering was among the leaders in developing all steel binders, in applying ball and roller bearings, and in developing light binders. Deering was the first harvester manufacturer to have its own twine mill and aggressively brought production of most components of its machines into its own factory. It anticipated McCormick in expanding into new lines, particularly corn-binders and hayrakes, acquiring a Canadian factory and buying its own steel mill. As early as 1896 the Deerings had begun considering making and rolling their own steel; by 1897 the volume they required made a mill both more attractive for cutting cost and more important to protect themselves from suppliers unwilling to handle their orders -- only four or five mills had sufficient capacity. Only William Deering's opposition delayed acquisition until 1900 when dramatic cost increases drove home the vulnerability of their position. By 1902, with this aggressive strategy, Deering stood far ahead of any competitor save McCormick itself, though it was probably no more than three-fourths the size of the leader.²

McCormick was never far behind Deering in making improvements and often profited from Deering's experiences. It was the McCormick vertical corn harvester that became the industry standard, as did the McCormick design for roller bearings. McCormick built its own twine mill in 1900, more than 15 years after Deering, but it had in fact owned a major Boston mill in the 1880s and had secretly occupied a strong position in the sisal trade for a decade; Deering had, unknowingly, bought much of its raw material for twine from McCormick.³ By this means and others the McCormicks always seemed to have had full knowledge of their competitors' activities; they never feared these competitors, but they did find Deering "troublesome." Undoubtedly the Deering move into coal, ore, and steel aggravated that feeling; such expansion demanded heavy expenditures. McCormick was investing heavily to expand its Chicago factory to make most machine components⁴ and to develop its foreign trade, where it probably had a much larger share of the trade than in America. It would have exposed the McCormicks to heavy financial pressure to follow the Deerings simultaneously into full vertical integration. However, the McCormicks were under less pressure than the Deerings; they had only just begun producing most of their own components, but had a long, stable relationship with Jones and Laughlin. Even so, the new purchasing department had in 1900 begun

dividing most steel orders between competing suppliers, a strategy which avoided the problems Deering had faced. Gary's suggestion nevertheless struck a responsive cord with the McCormicks, perhaps a responsiveness enhanced by Gary's long association with the Deerings for whom he had been principal legal counselor before leaving legal practice in 1898 to head Federal Steel [31, p. 95].

THE NEGOTIATIONS

Merger efforts in the harvester industry were not new. In 1890 an attempt was made to bring all manufacturers into the American Harvester Company, an attempt that failed for legal and financial reasons. In 1897 the Deerings offered to sell out -- William Deering was old and wanted to retire and allegedly only one son wanted to take on the business -- but their price was too high and the McCormicks were reluctant to run such an enlarged enterprise without the continued participation of the Deerings in management. Again in 1900 the parties met several times but could not agree, largely because the McCormicks insisted that they should control any resulting company and the Deerings were no longer interested in retiring from business or accepting subordinate positions. In 1901 there was yet another series of discussions. They failed, largely over the question of control. When Gary made his suggestion to Cyrus McCormick in 1902, McCormick told him that his family would insist on control [12].

By early March 1902, the McCormicks had begun earnest discussions about a combination; in the middle of the month Cyrus went to New York to talk with James Stillman of National City Bank and John D. Rockefeller, Harold McCormick's father-in-law. The McCormicks were considering first buying two smaller harvester companies to ensure their control, then "proceeding with the general question." At the same time several promoters came to Cyrus offering to handle negotiations. One had even talked with George Perkins, who declined to get involved unless the McCormicks approached him. On April 15 Cyrus reported he had looked for "some incidental opportunity of sounding" James Deering on the possibility of a purchase; he had found it in Washington DC on April 11. The Deerings soon agreed to reopen negotiations, but suggested using a mediator. Several meetings in May failed to produce any progress. In early June Cyrus and Harold McCormick went to New York to consult corporate lawyers and executives of successful combinations on plans for consolidation. On June 13 they consulted John D. Rockefeller on the qualifications of the eminent lawyer, Francis Lynde Stetson, as a mediator. Rockefeller in turn called his friend George Perkins for advice. Perkins recommended against using Stetson and offered his own services. The McCormicks were impressed with Perkins. In a conference at 135 Rush Street, Chicago, on the morning of June 23 the family unanimously agreed

to use the Morgan Company. That same afternoon Cyrus and Harold met James and Charles Deering at the Palmer House to lay the issue before them. Cyrus explained what had happened in New York, and Perkins's willingness to act, not as a partisan representative of any interest, but as an independent negotiator to bring the manufacturers together. Everyone agreed to put the matter into his hands [5, 13, 14, 19, and 26].

The McCormicks had recognized while still in New York that, if these new negotiations were to succeed, they could not insist on control of any new company. On June 14 the three McCormick brothers, Cyrus, Harold, and Stanley, and their uncle Eldridge Fowler had met in the Waldorf-Astoria to consider the problem. They unanimously resolved the best course was to have the "balance of control" between the Deerings and McCormicks "held by impartial capital of high standing" -- that is, held by someone where there could "be no reasonable danger" of the stock "being acquired or their vote being tampered with." The McCormicks presumed, however, that this meant that while the Deerings would never be able to secure control the McCormicks would ultimately be in a position to do so [4]. Even so, the McCormicks had made the basic concession necessary for Perkins to proceed.

Perkins quickly gathered reports and statements from all four companies. On July 11 he reported to J. P. Morgan, then in Europe, that matters were "moving along much faster" than expected. Everyone had agreed to let Morgan & Company "form the new company, ... name all the Officers and Board of Directors," determine the values of the constituent companies and appoint "friends" who would "constitute a majority of the Board of Directors" -- all this "without anybody having the right to question any of these matters." This agreement had been "a delicate thing to bring about," one of the "greatest obstacles" having been the conflicting desires of the Deerings and McCormicks "to control the new organization" [30].

The same day Perkins made this report the negotiations came to a temporary halt. Stanley McCormick asked Perkins exactly how far Morgan's powers were to extend in creating the new organization. Perkins made it clear: "no one would have anything to say" on the matter save Morgan. If his firm was "not competent to decide such questions" it ought not be involved. The McCormicks, in Perkins's view, had "reserved the veto right only as to the total capitalization, as to their share of the capital and as to Morgan's compensation." The Deerings had agreed to negotiate only on this basis. The McCormicks retired to reconsider their commitment [1].

During the next two days, July 12 and 13, the McCormicks reevaluated the whole proceeding. They were understandably reluctant to put so much power into the hands of a relative unknown. Moreover they recognized that there might be "conflict of interests" -- "all feared that M. & Co.'s interest in the Steel Trust would have a serious effect on the interests of the combination." William

Nelson Cromwell, eminent corporate attorney on whom the McCormicks were relying for advice, suggested a Morgan-dominated executive or finance committee might saddle the new company with supply contracts "perhaps running five years." Moreover Cromwell believed Morgan would not "tolerate such a thing as an independent steel plant." Despite such apprehensions, the McCormicks wanted a combination too much to break off; Stanley McCormick called Perkins on July 14 to say the McCormicks were "surrendering to M. & Co. the question of control without recourse" [2 and 24]. Negotiations resumed.

Only one serious issue remained: a device to prevent either principal family from seizing control. Perkins suggested, as had the Deerings in May, using a voting trust for five years or more. The plan called for three trustees -- one Deering, one McCormick, and, presumably, J. P. Morgan. The McCormicks brooded over the idea for three days at a series of family conferences. Perkins had first "represented" the Deerings as "favoring, if not insisting upon" the voting trust "to protect them from a possible McC. dominion." This "feeling on the part of the D's...grew until at the end it was reported to be a *sine qua non* of the deal." The McCormicks discussed "late into the night" giving such "a tremendous amount of power" to Morgan. It was one thing to accept appointments at the initiation of the enterprise, something quite different to give up control for five or more years. Still, "it was a question of accepting this point, apparently, or breaking the whole negotiation." Harold "came back from Cleveland with the report that Mr. R. felt" that they could "safely put" themselves into Morgan's hands. "This clinched the matter," the McCormicks "went forward, agreeing to the voting trust." On July 24 the McCormicks told Perkins they agreed [15 and 27]; on July 28 the first set of contracts were signed which led to the creation of International Harvester on August 12.

The Deering steel properties, which were included in the new company, got scant attention during the negotiations. If the negotiations failed, the Deerings probably would not part with them; only a successful merger would open the way to achieve Gary's -- and presumably Perkins's -- objective of acquiring them. Moreover the properties had a special importance to the Deerings for the negotiations -- they enhanced the total value of their contribution to the new company and thus to their proportion of ownership. Without those steel properties, the Deerings could not hope to secure control. On July 16 the Deerings came to Perkins "to impress him with the idea of a great advance in the value of their ore lands." Two days later Perkins told the McCormicks that the ore lands "should naturally be sold presently by the new corporation to the Steel Company." He asked whether "it was fair to give stock for property which was taken into the corporation only to be sold again." But the McCormicks were unpersuaded; so long as the

Deerings had not bought property with the purpose of turning it into the combination to increase their valuation, everything should come in [3].⁵ There the matter rested.

INTERNATIONAL HARVESTER

At first blush, in August 1902, Cyrus believed that McCormick interests had not "lost any points" in the appointment of the board of directors, and that the board would, in any event, be passive, acting only on recommendation of the executive committee. But within a week "incidents" occurred. Charles Deering, chairman of the executive committee, ordered new stationery that gave the Deering name prominence. Perkins, who had become the third, pivotal trustee, refused any action. At the first meeting of the board of directors, Judge Gary, one of the "Morgan" directors, proposed giving the chairman of the executive committee, between meetings of the committee, "all the powers of the Committee." This elevated Charles Deering, who chaired that committee, to a position arguably above that of Cyrus McCormick, president of Harvester. It looked not unlike Gary's own system at US Steel where company officers were effectively confined to operating control; Gary, as chairman of the executive committee, made policy. Perkins then allocated more major company offices to the Deerings than to the McCormicks, gave Charles Deering the same salary as Cyrus McCormick, delayed appointments of officers which appeared due the McCormicks, began promoting acquisitions of other companies, delayed the appraisals which would determine the relative shares of ownership, encouraged reversal of a McCormick-supported policy against relying on long-term debt, and refused J. D. Rockefeller a representative on the board of directors. Besides suggesting that the McCormicks would not play the role in company management that they had expected and believed Perkins had promised them, Perkins's acquisition plans would, if paid for with cash or bonds, deprive the company of the capital necessary to develop its steel properties or, if paid for with additional share issues, reduce the McCormick share of ownership. At the same time Perkins induced the board to loan Harvester's excess cash to Morgan at interest rates below those available elsewhere, simultaneously reducing Harvester's interest income and preventing it from maintaining or developing links with other financial institutions. By October the McCormicks believed that Morgan was using Harvester "for the benefit of the US Steel Company," and were themselves considering, among several alternatives, resigning from Harvester [16, 17, 28 and 29].

The Deerings were, as the McCormicks noted, pliant. They increasingly supported Perkins's policies, including acquisitions, acquisitions that would presumably reduce the McCormicks' relative

share of ownership and give the Deerings more room to operate. At the end of October Gary and Perkins called the Deerings to New York to discuss one issue -- disposal of the steel properties. The Deerings agreed that the properties should now be sold to US Steel. The McCormicks, by November, appeared to be losing ground on every front and to be virtually isolated. In November or early December Perkins wrote Cyrus McCormick suggesting that US Steel buy the steel properties directly from the Deerings, "and thus relieve the International from anything to do with the transaction." US Steel would give Harvester a supply contract, but no equity payment for the properties; "the Deerings would not get stock for steel and ore property, but would get other considerations." The McCormicks, in alliance with Rockefeller, were within a whisper of having 50 percent of Harvester stock -- assuming the as yet unfinished appraisals came in with the values that the McCormicks anticipated [20]. Perkins's suggestion, by excluding the Deerings steel properties, now promised them absolute control -- at the end of the voting trust.

The issue came to a head in the middle of December. George Perkins arrived at Harvester's Chicago offices on Monday, December 15, at 10:30, "and began with a series of personal conferences." He asked what items should be on the agenda. Cyrus McCormick listed 12 -- "steel and ore matters" were 11th. Perkins responded that "the first matter" he wanted discussed was "the steel question." Gayley and Buffington, officers of US Steel, were in town, ready to settle; Perkins hoped the whole matter could be disposed of by the following day. The McCormicks resisted: other things were more important and there was no specific information available on the steel question. Perkins suggested all principals meet at the Chicago Club for lunch to consider the matter [18 and 20].

Eleven top Harvester officers and a majority of the board of directors spent that afternoon "discussing the question proposed by Judge Gary:

Shall the I. H. Co. sell its ore properties, blast furnace, and steel mill at appraised value; the properties being disposed of direct from the Deering people to the US Steel Corporation; and shall I. H. Co. make a long term contract for its supply of steel on terms which shall be satisfactory?

Gary argued the transaction ought not be viewed "in a narrow light alone," as "a deal between two companies," but "in the broad and patriotic view that the Steel Corporation had been a balance wheel to hold prices of steel and consequently the general trend of business steady." Indeed, he contended "its work was of general benefit to the whole country and, consequently the I. H. Co. shared in the prosperity...and should contribute to continue" it. Perkins expanded on Gary's statement, arguing that there was a "community

of interests" among large corporations that required "harmony of action;" it was "an obligation to the country and to the business situation." Moreover, Perkins noted, if Harvester did make its own steel, it would be "directly in competition" with US Steel; that company would then "have to consider the question seriously of going into the reaper business" in order to use its product [18 and 20].

Perkins and Gary not only asked Harvester to make the transaction on such patriotic grounds, but offered a "noncompetitive" contract "based on the market price." This was too much for many directors. There was general agreement "any contract should be based more largely on the question of cost than on the question of market price." After all, Harvester would be giving up making its own steel, and it had to view a contract on the basis of the difference between the price from US Steel and its own cost. Gary responded that US Steel was in a better position to make steel and keep abreast of changing technology; Harvester could not make steel so cheaply. But Gary did not suggest, the McCormicks noted, offering Harvester "the benefit of" its lowered costs. Moreover, so far as the contract price would be above cost, Harvester "stockholders would have to lose that much in earnings," or the company "would have to add the price" to company products, contravening current policy of maintaining prices. Perkins "became quite emphatic," arguing "that was no consideration." The combination would generate such benefits "it would make it worthwhile...to add \$5.00 to each machine." But Gary and Perkins could get no more than agreement to listen to a more formal proposition from US Steel, a "disappointment" [18, 20, and 25]. The meeting then recessed.

The discussion resumed the following morning, again at the Chicago Club. "Many private conferences were held in undertones;" Stanley McCormick had "a particularly pointed talk with Judge Gary on the merits of the steel proposition." Specifically, Stanley argued that Harvester had an equity interest in the properties beyond their value to the Deerings, who could neither develop them nor use their output. Both Gary and Perkins finally conceded the point. Gary then tried to get the directors to let a committee of Ream and Perkins "settle all the questions" -- appraisal and sale of the properties and a supply contract with US Steel. Both men were directors of both companies; Gary argued "their interest was quite equal," both were "absolutely fair and impartial." But Gary's proposal was quickly rejected by the McCormicks and J. J. Glessner. The meeting ended with Glessner, Cyrus McCormick, and Richard Howe appointed to investigate the steel question and to report to the board [18, 20, and 25].

The following day, despite creation of the committee, Gary and Perkins made a final effort to force a quick sale. Gayley and Buffington showed up at the Chicago Club, ready to discuss details of a contract with the entire board. Negotiations broke down in

a matter of minutes. Gyrus McCormick told Perkins there was no need for such haste. Instead, he suggested Perkins should take one question at a time -- and the first question to settle was the appraisals required by the contracts of July 28 and August 12. Once the appraisals were completed, everyone would know where he stood and the company would know what it owned. Then the company could consider selling some property. "This rather nettled G. W. P." He answered "rather testily" that "the time to deal with the ore and steel question is now." He "felt so strongly" about this that he felt he could not complete the appraisals of those properties until the issue of sale was "disposed of" [18]. Such threats had no effect; Gary left that afternoon for California with no commitment from Harvester to sell its steel properties.

That evening the McCormicks developed a full strategy. The Deerings should get "summer value;" the steel company should pay "winter value," Harvester keeping the difference.⁶ "All the benefits" to the Deerings should be spelled out specifically before any contract was signed. The McCormicks were to "defer" to the Deerings, letting them take the lead -- after all, it had been their policy to integrate vertically. At the same time, the McCormicks would "concede nothing, but get the best terms possible" -- and promise to "consider them." After a final proposition was "in hand," they would respond by suggesting "competitive bids should be obtained." Then they would write Perkins to ask him "if he is opposed to competitive bids" and "is willing to recommend" the supply contract even though it would cost substantially more than Harvester's estimated cost for producing its own steel. Thus the strategy was to delay the question, forcing each interest into the open, then confront Perkins with a question that could be answered in the affirmative only if Perkins was willing to admit openly that Harvester interests would be subordinated to US Steel interests [21].

In January 1903, Cyrus Bentley, McCormick family lawyer and intimate, wrote a 40-page memorandum covering the McCormick view of the negotiations and their attitude toward Perkins. This "synopsis" recapitulated the history of merger negotiations, then the steel negotiations, and Perkins's obvious tilt in favor of the Deerings, including a detailed list of his continuing slights, even insults, to the McCormicks. At the same time the McCormicks were unwilling to accuse Perkins of conscious dishonesty. They preferred to see his actions in terms of his subconscious identification with the interests of the steel company, of the subtle result of the enormous power he held in making appraisals and settling the final distribution of ownership and control of the Harvester company -- as conflicts of interest to which he was insensitive.⁷ They also believed he was influenced by Judge Gary, who probably "honestly" believed the Deerings "abler business men."

The "synopsis" also concedes that the McCormick policy had "been uniformly to do nothing and to agree to nothing without the unanimous approval of the three brothers," a policy which created "an appearance...of vacillation and weakness," "an impression" that they were "less positive and more easily moved than the Deerings." Even so, from the start of the company's operations, Perkins had conducted himself in a way that increased "friction" and "distrust" between the McCormicks and Deerings, both in his general policies and because of his "certain lack of patience," his "unwillingness to study" situations, and "to deal temperately with views and policies"⁸ [5].

But "whether Mr. Perkins" was "acting fairly by the McCormicks" was "a matter of less importance than the question whether he" was "acting fairly by the Harvester Company." The McCormicks concluded he was not, as evidenced by his using Harvester monies to benefit Morgan and Company and his special favors to the Plano Company, a company close to Judge Gary and through which Gary had purchased several million in Harvester stock. Perkins's conduct of the steel negotiations, the McCormicks also believed, clearly was not in the best interest of Harvester. Indeed, "if Morgan & Co.'s railroads affiliations require, the railroad shipments of the Harvester Company will be distributed hereafter not on the basis of economy in freights but on the basis which has been suggested" by the steel negotiations; the "same thing" would be done with overseas freight, and "the earnings of the Harvester Company's surplus funds will be regulated not by the market for money but by the needs or plans of Mr. Perkins's firm or even of their affiliated interests." Did not "the mere entertaining" of the views Perkins had announced "disqualify him for the trust position" he had accepted? That Perkins's "prejudice" was "unconscious," that "his intentions...honest, only" made "the situation one degree more impossible, for a dishonest man is at least prudent."

The McCormicks would never have to test their increasingly firm resolve to fight Perkins. During January and early February Gary and Perkins made no move to initiate contract negotiations. By mid-February the McCormicks had had time to devise a fuller plan to force Perkins's hand. Bentley laid it out. The first step was "to hasten the appraisals." They were already overdue, and "proper organization of business" required comparison which could only be made on the basis of the "actual results" achieved by the different companies. The McCormicks would "not willingly acquiesce in any further departures from the methods which had been approved by the experience of the McCormick company" until the appraisals showed "rival methods" superior. Second, although negotiation for a steel contract could be opened, the McCormicks would "not vote in favor of any contract which may be negotiated" until the appraisals showed whether such sale was necessary to

keep the appraisal values within the \$120 million capital stock authorized for Harvester, unless the contracts were overwhelmingly favorable to Harvester. The McCormicks thus ended a policy of drift which permitted Perkins to set the agenda; they now preempted the agenda. At the same time they held open the door to an eventual steel contract while making it less likely that Perkins would suppress the valuation of their properties for fear of bringing the appraisals under the \$120 million. Either Perkins would have to accept the McCormicks' approach or fight them. But Bentley believed Perkins was not "bad enough" to seek "a corrupt and fraudulent bargain" with the Deerings; even if he were "sufficiently unprincipled" to do so, he was "not sufficiently courageous" to carry it through. Perkins, in Bentley's opinion, did "not like war" [6].

The steel question thereafter quickly faded. The McCormick determination to preserve Harvester's position unless US Steel made an extraordinarily favorable offer was clear to everyone. Perhaps Perkins realized that the McCormicks, even if they agreed to sell the steel mill, would insist on keeping the ore mines. Gary had declared that the steel company "desired a monopoly of ore lands;" selling Harvester's ore, the McCormicks knew, should "be hastening the time when the Steel Company" would "be able to identify the maximum price" to Harvester "and the market price" [5]. Moreover the first quarter of 1903 was for US Steel embarrassing: its profits dropped dramatically, probably making either purchase of Harvester's steel properties or a favorable supply contract unattractive [8, p. 105; and 9, p. 497]. Harvester itself was now producing steel, and thus had better knowledge of how much less it cost to make than to buy. And Harvester's general management was clearly not working well. It must have been increasingly clear to Perkins and Gary that Harvester could not be managed well without the McCormicks, both the brothers and their cadre of men from the old company. By early 1904 Gary himself was prepared to force the Deerings from management [22]. In addition, Perkins may have learned that as early as January 1903, John D. Rockefeller, Sr., was advising the McCormicks to fight Perkins on the steel contract [23]. Whatever the reason, there was no serious effort to open negotiations with US Steel; the McCormicks slowly asserted a stronger position in management; in August 1903, when the appraisals were announced, the McCormick-Rockefeller alliance was within \$28,000 of owning a majority of the stock, a shortfall rectified within hours.

CONCLUSIONS

This abbreviated narrative of the negotiations leading to the merger and then those subsequent discussions on the disposal

of the steel properties suggest two sets of observations. First, neither the desire for profit maximization nor a McCormick fear of the Deerings are adequate to explain the merger. Profit maximization is an unattractive specific explanation because any voluntary transaction must leave no party worse off and presumptively leaves all parties better off. The McCormicks and the Deerings both presumed a merger would enhance their wealth, but estimation of the increment to their wealth was never attempted nor considered. Both families opposed any attempt to water stock and clearly looked for no short-term financial windfalls. Perhaps more important, the merger would remove the implicit threat to their wealth that continued strong competition implied; consolidation was therefore in part a risk-averting strategy.⁹ Recognition of that fact does not, however, make a case for the McCormicks fearing the Deerings. Between 1898 and 1902 the McCormicks had done well and were quite aware of their widened lead over the Deerings. Obviously the central question in the negotiations, the question whose resolution determined the success of the negotiations, was that of family control. Ironically, the solution was to hold the question of control in abeyance until after the merger was completed.

Second, the narrative makes clear that the acquisition of the steel properties and vertical integration had an important influence both on the pattern of the negotiations and the management of Harvester. It was to Perkins's particular interest to leave as much power in his hands as possible; such a route was in all probability the only solution to the issue of control. Then, in his position as the pivotal third trustee, Perkins, perhaps intentionally, exacerbated the conflict between the McCormicks and the Deerings in his effort to secure the steel properties for US Steel. It could be argued that his conduct damaged Harvester not only in its first year of operation, when it returned less than one percent on investors' equity, but left wounds that would not be healed even by 1912 when the voting trust ended and the McCormicks finally took full control of the company. By that time the pending antitrust suit prevented the McCormicks from moving decisively to rid management of its deadwood, people who might never have reached or retained their positions of power and responsibility if Perkins had been principally concerned with the quality of company management. Indeed, years later Harold McCormick characterized Perkins's attitude throughout the early years as one intended "to disintegrate" the McCormick interests and have them "retire from the business" [23]. Perkins's attitude more generally reveals his view of management primarily as a political balancing act in which actual performance played a secondary role and his deep bias against competition.

The issue of the steel properties reveals another problem which all large enterprise must face, that of operating in a largely oligopolistic environment. The McCormicks recognized that selling the ore lands would have made Harvester captive to US Steel if that company succeeded in its monopolistic ambitions. No form of contracting would provide protection from such a development; thus vertical integration which began as a creative response by the Deerings to competition became for the McCormicks a defensive strategy to maintain Harvester's autonomy [32]. In this instance, it is clear that the controlling consideration was profit maximization -- Harvester would not sacrifice its potential profits for the benefit of US Steel and its stockholders.

NOTES

1. Morgan bought the Milwaukee Harvester Company outright at the beginning of the negotiations and then put it into Harvester.

2. Based on my own estimates using accounting records retained in the McCormick Collection, State Historical Society of Wisconsin, the International Harvester Company Archives, and the Deering family papers, privately held.

3. McCormick had a secret partnership with Peabody and Company of Boston, perhaps the leading sisal broker.

4. McCormick added 12 new buildings to his Chicago factory in 1899-1900; they provided almost one million square feet of additional floor space.

5. There is considerable evidence that at least some of the coal and lumber lands were acquired during the merger negotiations or even after the formal contracts were signed explicitly to enhance the Deerings' position in the appraisals.

6. "Summer value" refers to the value of the properties to Harvester at the time of the merger, presumably little different from what the Deerings had paid; "winter value" refers to the value of the properties to US Steel, presumably including some of the monopoly rents which US Steel would earn through its resulting monopolistic position in iron ore markets.

7. John A. Garraty discusses Perkins's frequent insensitivity to potential conflicts of interest; perhaps the most obvious was that developed during the Armstrong Committee investigations. See [8].

8. Garraty also notes that Perkins's father has complained of George's impatience with detail, a quality which often surfaced during his life.

9. Calculation of risk is, of course, part of the larger calculation of profit maximization. The point here is simply to segment it out from the presumed but unestimated pecuniary gains the families might have anticipated would flow from the merger.

REFERENCES

(IHA: International Harvester Company Archives, Chicago, Illinois. Items shown by file number; SHSW:MCC: State Historical Society of Wisconsin: McCormick Collection, Madison, Wisconsin. Items shown by series, box and file.)

1. Cyrus Bentley, Memorandum, Perkins interview, 11 July 1902. IHA 13861.
2. _____, Notes, conference, 13 July 1902. SHSW:MCC:M/I: Bx 7:f 5.
3. _____, Perkins interview, 17 July 1902. IHA 13861.
4. _____, Memorandum: status of negotiations, 20 July 1902. IHA 13861.
5. _____, Synopsis, ca. January 1903. IHA 13705.
6. _____, to H. F. McCormick, 12 February 1903. SHSW: MCC:1E:Bx 53:F C. Bentley: 1902-1903.
7. Bureau of Corporations, *The International Harvester Company* (Washington: US Government Printing Office, 1913).
8. John A. Garraty, *Right-Hand Man* (New York: Harper, 1957).
9. William T. Hogan, *Economic History of the Iron and Steel Industry in the United States*, Vol. 2, Part III (Lexington: Heath, 1971).
10. William T. Hutchinson, *Cyrus Hall McCormick*, 2 vols. (New York: Century, 1930, 1935).
11. Helen M. Kramer, "Harvesters and High Finance: Formation of the International Harvester Company," M.A. thesis, University of Wisconsin, 1963. (Published under same title, *Business History Review*, Vol. 38, No. 3, pp. 283-301.
12. C. H. McCormick to S. R. McCormick, 14 February 1902. IHA:M:Bx 4:F 4.
13. _____ to H. F. McCormick, 18 March 1902. SHSW:MCC:M/I: Bx 4:F 4.
14. _____, Conference, Palmer House, 23 June 1902. IHA 13861.
15. _____, Telephone call to G. W. Perkins, 24 July 1902. IHA 13861.
16. _____ to S. R. McCormick, 15 August 1902. IHA 13861.
17. _____ to S. R. McCormick, 25 August 1902. IHA 13861.
18. _____, Notes, 15-19 December 1902. IHA:M:Bx 4:F 4.
19. H. F. McCormick to C. H. McCormick, 4 March 1902. SHSW:MCC:M/I:Bx 7:F 5.
20. _____, Ore and Steel Properties, 17 December 1902. SHSW:MCC:M/F:Bx 7:F 5.

21. _____, Memorandum, ca. 17 December 1902. SHS:MCC: M/I:Bx 7:F 5.
22. _____, Notes: Rockefeller Conversation, 16 January 1902. IHA:M:Bx 4:F 5.
23. _____ to C. H. McCormick, 31 December 1931. SHSW: MCC:5E:Bx 17:F H. F. McCormick: 1932.
24. _____, Memorandum: phone call to G. W. Perkins, 14 July 1902. IHA 13861.
25. S. R. McCormick, Memorandum on Steel Negotiations, 30 December 1902. IHA:M:Bx 4:f 9.
26. N.a., Conference at 135 Rush Street, 23 June 1902. IHA 13861.
27. _____, Analysis of the general situation, 6 January 1903. IHA:M:Bx 4:F 9.
28. _____, Memorandum: McCormick viewpoint, ca. January 1903. IHA:M:Bx 4:F 11.
29. _____, Formation and Operation of the International Harvester Company, ca. January 1903. SHSW:MCC:1E:Bx 323:F IHC: July-December 1901.
30. G. W. Perkins to J. P. Morgan, 11 July 1902. Columbia University: Perkins Papers.
31. Ida M. Tarbell, *The Life of Elbert H. Gary; the Story of Steel* (New York: Appleton, 1933).
32. Oliver E. Williamson, *Markets and Hierarchies* (New York: Free Press, 1975).