

Cyrus Eaton - Khrushchev's Favorite Capitalist by Jay Miller

For the quiet 1950s, before anti-Vietnam War marches became a staple of local and national television news, the crowd gathered on Public Square on January 7, 1959, was a rare sight. Police struggled to maintain order as several hundred protestors milled around in the cold waiting for Anastas Mikoyan, First Deputy Premier of the Soviet Union, to come out of Terminal Tower. Shortly before noon he emerged with his host, industrialist Cyrus Eaton, and was greeted with boos, snowballs and even a rock whizzing past him.

It was the height of the Cold War and the people of the United States and the Soviet Union each believed the other was building up its military might for a next war that would decide whether the world would be run by democratic governments powered by free enterprise or by a dictatorship built on state socialism.

As Mikoyan and Eaton entered their limousine some of the protestors got in their cars and followed the pair up Euclid Avenue to the Union Club at East 12th Street. The Union Club, whose membership roster had in the past included presidents Ulysses S. Grant, Rutherford B. Hayes, James Garfield, William McKinley and William Howard Taft, was going to host a leader of what at the time was the very un-American Communist world.

Several of the cars bore signs that said, "Mikoyan go home and take Eaton with you."

The protestors later identified themselves to reporters as members of the United Hungarian Society of Cleveland, the Hungarian Liberation Committee and a variety of other groups of people from places like Estonia, Latvia and the Ukraine, countries under the dominance of the Soviet Union.

Once at the Union Club, the lunchtime favorite of Cleveland's corporate elite, Mikoyan dined with a group of business leaders invited by Eaton. After the meal he would appeal for help persuading the federal government to approve a large Soviet purchase, one of the largest purchases ever, of American steel for natural gas and oil pipelines.

Then, he also took a moment to praise his host. Eaton, Mikoyan told the lunchers, "has become more popular in our country than any capitalist has ever been before ... This is not an ordinary capitalist."

No, Cyrus Eaton was not an ordinary capitalist. In his customary double-breasted dark blue serge suit, crisp white shirt, gray silk tie and shiny black

shoes, the tall, silver-haired Eaton, then 75, looked no different than any of other men – it would be years before women could enter – having lunch that day at the Union Club. But his unpopular views on how the United States should build economic ties with its arch rival at the height of the Cold War were unusual, especially in an era when businessmen tended to their companies and didn't take strong stands on international affairs.

So while the left-wing *Nation* called Eaton a “merchant of peace” and an enlightened capitalist, the right-wing *National Review* wondered how this “towering figure in American industrial history” could have been transformed into “America’s Number One Fellow Traveler,” using a term that had come to mean a Communist sympathizer.

With his intelligence, aggressiveness and money Eaton had found for himself a role in thawing relations between the Western world and the Communist bloc in the 1950s and early 1960s. At a time when Soviet premier Nikita S. Khrushchev was threatening to “bury” the democratic world, Eaton was the first American businessman to advocate closer relations with the Soviet Union. He feared nuclear war and believed that tensions between the East and the West could be lessened through trade.

To Eaton, spending on nuclear missiles that could destroy the world was bad for business and not the best way to ease tensions.

“You speak of trading with the Soviets and people say, ‘You're strengthening them against us!’” he told an interviewer in 1963 when he was 80 years old. “I feel that most people are less likely to engage in fighting if they have the comforts and the needs they wish. I'm not worried to see the 700 million people of China prosper.

“The sooner we get to trading with them, the Soviets and the Chinese, the better.”

Over the next 20 years Eaton would maintained contacts in the Communist world, making and made trips to Eastern Europe, Cuba and even North Vietnam. Until the later years, when the Soviet Union decided it would not publicize its relationships with westerners like Eaton to avoid antagonizing China, Eaton's picture would appear on the front page of the Soviet newspaper Pravda once during every trip.

He made Pageant magazine's list of the 10 most controversial Americans in 1962. In 1971, Parade magazine headline over story about Eaton read, “The Communists Best Capitalist Friend.”

While he became a player on the world stage relatively late in life, Eaton's

interest in Russia actually dated to his first years in Cleveland.

Eaton was the fifth of nine children born in 1883 to a farmer and general store owner in Pugwash, Nova Scotia. He first came to Cleveland when his uncle, the Rev. Charles Eaton, was assigned to the Euclid Avenue Baptist Church in 1901. A pillar of that church was John D. Rockefeller. Rockefeller had created Standard Oil Co. in Cleveland in 1870 and formally retired from the oil giant in 1897 at the age of 58. At the turn of the 20th Century he was spending much of his time on his philanthropies, but he was still an active and engaged investor.

Rockefeller had grown up and created his oil empire in Cleveland when he was a younger man. He had moved his business to New York City in 1884 to be closer to the worldwide trading in oil. But in these early years of his retirement – he would live until 1937, dying six weeks before 98th birthday – he was splitting his time between New York City and Forest Hills, his summer home in East Cleveland.

Cyrus Eaton would spend summers living with his uncle and doing odd jobs at Forest Hills for \$2 a day at the recommendation of Mrs. Rockefeller, who thought it a better job than the hotel clerk's job Eaton had lined up. Eaton would run errands, carry messages from the wire room which kept Rockefeller in touch with his empire or caddy for Rockefeller and his uncle on the nine-hole golf course at Forest Hills.

Eventually, Uncle Charles would leave Cleveland, moving on to the Madison Avenue Baptist Church in New York City. He left the ministry to work in industrial relations for the General Electric Co. and then ran for Congress from New Jersey in 1924. He served for 28 years and, as chairman of the House Foreign Affairs Committee was one of eight American signers of the United Nations Charter. His nephew would develop similar interests.

Another of Rockefeller's golfing partners was William Rainey Harper, president of the Rockefeller-endowed University of Chicago. After the older men played the Forest Hills golf course, Eaton and Harper's son Samuel would occasionally play a round themselves. The elder Harper was interested in Russia and Samuel, who became a lifelong friend to Eaton, would eventually head the Russian language department at Chicago. Samuel Harper would spend six months a year in Russia until his death in 1941. "Sam's enthusiasm for Russian culture and Russian children had a great impact on my life," Eaton once said.

At the time, Eaton had his sights set on following his uncle into the Baptist Church. He studied to be a minister at McMaster University, then a Baptist school located in Toronto. He graduated with a degree in philosophy in 1905 and spent a summer as a ranch hand in western Canada before returning to

Cleveland. He served as a lay Baptist minister for a time, but he never really answered the call to the ministry.

Earlier, Rockefeller had offered Eaton a job with Standard Oil in New York City, which he declined. But now, Rockefeller put him to work at East Ohio Gas Corp., a Rockefeller interest.

In 1907, Rockefeller sent him back to western Canada to negotiate for utility franchises in Manitoba. He'd secured a handful of franchise agreements but found on his return to Cleveland that the Panic of 1907, which sent many banks and businesses into bankruptcy, he found his employers weren't able to secure the financing needed to build the power plant needed to operate the franchises. So Eaton went back to Canada, where he convinced a solvent bank that the franchises he held would enable him to repay a loan for an electric plant.

Soon he had a business, Consolidated Gas and Electric Co., one of the first utility holding companies, with franchises in Illinois, Iowa, Kansas and Nebraska. By the time of the Great Depression, he was a major force in the utilities industry.

By that time he was a millionaire several times over and had a home on Euclid Avenue, one of the country's most prestigious addresses. There he began to raise a family with his wife, the former Margaret House, daughter of a Cleveland physician. They had married in 1909 and would eventually have seven children before divorcing in 1934.

In 1913 Eaton became a U.S. citizen and in 1916 bought an interest, later a controlling interest, in Otis & Co., a stock brokerage and investment banking company. For the next decade he would use Otis and another creation, a holding company called Continental Shares, Inc. Holding companies in the early part of the century were investment companies which owned shares in manufacturers, utilities and the like, and sold shares of the holding company to the public. They also created shares to buy other companies. They were an unregulated blend of mutual funds and conglomerates.

Eaton would use Continental Shares to buy large, often controlling interests in companies into several major industries, often, fighting publicly and in court to overturn existing management and boards of directors.

One adversary, Cleveland lawyer Newton D. Baker, while fending off a Continental Shares offer for a client, called the acquisitive Eaton, "a ruthless industrial Napoleon."

In 1925, he was leafing through a newspaper in the Copley Plaza Hotel in Boston while his six-year-old son, Cyrus Jr., napped. The pair was returning from a canoe trip in Canada. In one of the papers, he spied an item that a New York bank had backed out of a deal to refinance Trumbull Steel Co. of Warren, Ohio. He picked up the phone. In a few weeks, after an \$18 million investment, he owned a steel mill. Within a few years, he owned several more, the largest of which was Cleveland-based Republic Steel Co., the third-largest steelmaker in the country.

Eaton then became a major force in the rubber industry, as he and others sympathetic to his ambitions began buying stock in Goodyear Tire & Rubber Co., Firestone Tire & Rubber Co., and U.S. Rubber Co. By 1930, Eaton could name directors of his choosing to Goodyear's board of directors.

Eaton and Continental Shares were also quietly buying stock in Commonwealth Edison Co., People's Gas, Light and Coke Co. and other electric utilities controlled by Chicagoan Samuel Insull. Insull wanted Eaton out and he eventually paid \$56 million -- \$48 million in cash, the rest in securities -- to the "financial buccaneer" as Eaton was being called, for stock that was selling at the time for no more than \$50 million. Today it would be called greenmail. Eaton was reported at the time to have made \$19 million for his efforts.

But by this time the stock market was crashing. By 1933, this \$100 million net worth evaporated. Eaton's defeat was so complete that a 1934 divorce won by his first wife stipulated that should Eaton's net worth ever rise above \$105,000, he would have to buy his ex-wife a house. She eventually got the house.

Eaton dug his way out of his financial hole at Otis & Co. developing the business of underwriting the sale of railroad and utility bonds. His goal was to wrest control of this lucrative business from the eastern banking houses. The railroads and utilities had long given New York investment bankers the business without competitive bidding. Eaton thought he could get the railroads, which he saw himself one day owning, lower interest rates that the New York bankers weren't offering.

In 1938, Eaton and Harry Stuart of Halsey, Stuart & Co., a Chicago investment banker, proposed to Robert Young, a C&O director and ally, that they would make a bid for a \$30 million C&O bond issue. When, at a board meeting that fall in Cleveland, the agenda reached the bond issue, Young proffered the offer from Eaton and Stuart. The board at first indicated it would prefer to do business with longtime bankers Morgan Stanley & Co., and Kuhn, Loeb & Co., despite a higher underwriting cost. Young suggested that board members consult with their lawyers before risking a stockholders' lawsuit from

Young. The board the next day accepted the Eaton-Stuart bid.

Young in 1943 asked Eaton to join the Chessie board of directors and in 1954 sold Eaton his stock in the C&O so he could pursue the New York Central Railroad. Eaton became chairman and moved into the office on the 36th floor of the Terminal Tower. He held that position until 1973.

In the early 1940s Eaton became interested in an iron ore deposit in northwestern Ontario beneath Steep Rock Lake. Eaton convinced both the War Production Board and the Reconstruction Finance Corp. that it would be feasible to pump the water out of the lake to mine the ore. The RFC lent him \$5 million and the Canadian government helped build power lines, a rail spur, docks and loading equipment at Steep Rock. By 1947 the Eaton mining company was taking one million tons of ore out of Steep Rock.

In 1948 Eaton began a collaboration with California shipbuilder Henry J. Kaiser to break into the auto business, which was booming after the end of World War II. The partnership collapsed, however, and investigations and sanctions by the Securities and Exchange Commission and the National Association of Securities Dealers pushed Otis & Co. into bankruptcy.

Eaton lost his investment banking business but he managed to keep busy during the postwar years. In 1961 Fortune magazine reported that he had a personal fortune of \$100 million. Among his major investments were stakes in Cleveland Electric Illuminating Co., Kansas City Power & Light Co., the C&O, Steep Rock, Detroit Steel Co. and Sherwin-Williams Co.

By the mid-1950s Eaton's focus had shifted from the financial world to the political one. The nuclear escalation in the world concerned Eaton.

In 1955 he offered to host a meeting at of a group of scientists and philosophers from both the western world and the Soviet Union at his ancestral home in Canada. The scientists, many of whom had worked to create the United States first atomic bomb, were concerned about the danger of nuclear weapons.

"What got me started was the atomic bomb and the realization that our civilization and theirs could be wiped out overnight," Eaton recalled on his 90th birthday in 1973. "I thought I ought to do something to prevent this, and I helped put together and financed a meeting of American and Soviet scientists at my boyhood home in Pugwash, Nova Scotia."

Soon, Eaton was writing and speaking out for closer relations with Communist Russia. "I think the more contact we have between people of the two nations the quicker we'll realize that we are all human, with weaknesses, with limitations, and that for better or for worse we had better agree not to

annihilated each other,” he wrote in the New York Herald Tribune on Nov. 8, 1957. “Either we'll live together or we'll perish together.”

The following May, he was interviewed on television by Mike Wallace (click below):

http://www.hrc.utexas.edu/multimedia/video/2008/wallace/eaton_cyrus.html

“We can't destroy Communism. It's here to stay,” he said. “And to imagine that they could convert us to Communism is just silly ... No one in the world would be more unhappy under Communism than I, because I am dedicated to the other principle.”

In August 1958 Eaton went to Moscow with his second wife, Anne Kinder Jones, who he had married in 1937. They met with Soviet premier Khrushchev and visited farms and steel mills. On his return he gave a series of speeches at the National Press Club, the Cleveland City Club and elsewhere arguing for a closer relationship with the Russians.

In 1959, Soviet Prime Minister Nikita Khrushchev presented Cyrus Eaton with a gift of a Russian sled pulled by three matched gray stallions. The rig was called a troika and Eaton and his would ride the troika in the winter at his Acadia Farms, his 900-acre home and farm in Northfield, now a housing development called Eaton Estates.

After his luncheon at the Union Club, the Plain Dealer called Eaton the “Apostle of Appeasement.” Elsewhere he was called other things, such as “the Kremlin's favorite capitalist.”

In 1960 the Soviets awarded him the Lenin Peace Prize. He hoped for the rest of this life to pair it with the Nobel Peace Prize.

He also interjected himself into local politics. In 1967, he took up the cause of Carl Stokes, who was running for mayor of Cleveland. His wife Anne, was a Stokes volunteer. Eaton had hired Stokes to pursue a lawsuit against the Cleveland Trust Co. Eaton was a stockholder in what was then the city's most powerful bank (it became Ameritrust Corp. before it was merged into what is now KeyCorp.), but he believed its managers violated Ohio banking law in the way they perpetuated their power on the bank's board of directors.

Stokes credits Eaton with providing him with insight into the thinking of the upper echelons of Cleveland's business community. Eaton may also have played a role in bringing an experienced campaign public relations expert, Al Ostrow, onto the Stokes campaign team.

Age and changing times eventually diminished Eaton's ability to move in international political circles. As a New Deal Democrat and a Khrushchev ally, changes in government in both countries moved Eaton further and further from the center of the action.

So he retired to Acadia Farms where for many years he raised international grand champion shorthorn and polled shorthorn cattle.