XXIII

The Man in the Tower

It is a highly appropriate circumstance that the office from which Cyrus Stephen Eaton directs his vast financial empire should be high in the Terminal Tower, in a suite of oak-paneled rooms on the thirty-sixth floor which once were occupied by the Van Sweringen brothers and, later, by another business genius, Robert R. Young.

The point has been made that visiting dignitaries from the Soviet Union are unusually fond of the great tower. But a Cleveland subject commanding even more of their admiration is Mr. Eaton himself, the man in the tower.

This is, of course, a contradictory situation. Communists are not supposed to think kindly of capitalists, much less admire them. Capitalists, in turn, are supposed to abhor the followers of Lenin; they are supposed to regard all proponents of Marxist-inspired ideologies as the enemy.

These are the long-accepted ground rules, but the modern-day Reds and Capitalist Eaton simply have not been playing the game according to the rules. They have been bussing and embracing in public and smothering each other with flattering words for a number of years, much to the confusion of the onlookers.

When Anastas Mikoyan stopped off in Cleveland to visit Eaton in January 1959, he presented the best wishes of Nikita Khrushchev, and added gratuitously: "When Mr. Khrushchev talked about you, his whole face was beaming!"

Eaton has made the leaders of the Soviet Union beam more than once by his friendly overtures and his sympathetic words. On the other hand, he has also made many of his own countrymen wince with his numerous critical pronouncements on American international and domestic policy.

The frequent alignment of this capitalist, so wealthy he has been called "The Cleveland Croesus," with the governments of the Communist world has been a matter of genuine puzzlement to spectators at the international game of power politics. During the troublesome

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decade that began in 1955, America has tried to analyze and rationalize this paradoxical state of affairs without real success.

If it is any comfort to the political experts, Eaton also has made a practice of baffling those who have undertaken to decipher his words and actions throughout his business career. He is as much of a riddle to students of finance as he is to students of international affairs. He is a man whose words and actions do not yield easily to elucidative analysis. The Cleveland multimillionaire has remained what a *Fortune* magazine writer, Robert Sheehan, called him in 1961—"No less an enigma than the Soviet Union itself . . ."

Whatever Cyrus Stephen Eaton is, in the final judgment of the world, his spectacular life has been inextricably intertwined with the development of modern Cleveland, the city he has called his home since one June day in 1901 when he stepped off the train at the lakefront station. He was a seventeen-year-old boy with twenty dollars in his pockets and the ruddy glow of the windswept Nova Scotia farm country on his cheeks.

He had traveled to Cleveland to spend the summer with his uncle, a Baptist minister, Reverend Charles Aubrey Eaton, and, hopefully, to earn some money to cover expenses at McMaster University in Toronto, where he had enrolled for the fall term. The Rev. Mr. Eaton lived in the old Euclid Hotel, not far from the Euclid Avenue Baptist Church, of which he was the minister.

As young Cyrus registered at the hotel, he made known his intention to seek work in Cleveland, and asked the desk clerk to keep him in mind should he hear of any openings. The clerk said he understood the hotel management was looking about for somebody to handle desk duties at night. Cyrus applied for the job immediately and was hired, but his career in the hotel business was short-lived.

The most prominent family in the congregation of the Euclid Avenue Baptist Church was, without challenge, that of John D. Rockefeller, who served as a trustee of the church and as the Sunday School teacher. He was the principal benefactor of the church, of course, but besides contributing financial support, the world's richest man also took a direct, personal interest in every phase of the institution's well-being. John D. especially took pride in knowing the ministers of the Euclid Avenue Baptist Church perhaps better than they knew themselves. He studied them in church, on the golf course, on rides in his carriage, and in his home.

The Rev. Mr. Eaton enjoyed Rockefeller's high favor. He was a young man, more like a brother to young Cyrus than an uncle, but he had demonstrated qualities of intellect and character that had impressed the old oil king. Upon hearing that the minister's young nephew was

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visiting him, John D. insisted that Rev. Eaton bring the boy with him to Forest Hill for Sunday dinner that weekend.

Mr. and Mrs. Rockefeller both were taken by the handsome young Canadian lad with the bright smile and unusually formal manners. In the course of the get-acquainted conversation, Cyrus recounted—probably with a touch of pride—how he had landed a place on the hotel staff.

Mrs. Rockefeller was disturbed, if not horrified, by the news. A hotel to this genteel, highly religious woman was a distasteful place; a breeding ground for evil, outlandish capers; the refuge of nymphs and satyrs. She obviously felt strongly about the minister's nephew being exposed to such a place, and she turned to her husband and called upon him to save the boy through a counteroffer.

"Isn't there something that Cyrus can do around here?" she asked.

Rockefeller, an amenable spouse, nodded. He indicated that he could find room for young Eaton on his Forest Hill staff.

"Thank you," said Cyrus, gravely. "I shall try to obtain a release from my agreement with the hotel manager."

That minor technicality was easily handled, although the hotel manager understandably was incredulous when the newly hired youth told him that the famous John D. Rockefeller sought his services. Once convinced, the hotel man offered to exchange jobs with Eaton.

Life on the Rockefeller range at Forest Hill was both pleasant and interesting. Eaton served in a combination of capacities. He was an office boy, the watchman over the telegraph room into which flowed messages from all the financial capitals of the world, a messenger, and a social companion. In this privileged position, he sat in the throne room of international finance, and it is not too farfetched to say that it was here that he learned the primer on making money and wielding power.

After two full summers on the Forest Hill staff, Eaton was transferred to a job with Rockefeller's new East Ohio Gas Company, which John D. had organized to bring natural gas into Cleveland and the surrounding area. The company was hard at its basic job of laying gas mains all over the city, and Cyrus, following his indoctrination in the science of ditch-digging, shortly was placed in charge of a crew of workmen. By summer's end, he was directing four hundred workmen in the laying of gas mains under Woodland Avenue and other sections of downtown. When he is in a reminiscent mood today, Eaton takes visitors to one of his thirty-sixth-floor windows and points down at the Public Square.

"I helped to lay the gas mains under the Square," he says, and the note in his voice unmistakably is that of pride.

Tearing up a town to put down the gas pipes is a messy job. The gas company's efforts, while indubitably in the best interests of the city,

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were not appreciated entirely by the people of Cleveland. Theirs was a pretty city, remember, and they were justifiably proud of its parklike appearance and the elegance of avenues like Euclid and Prospect. They were not unaware of the importance of the natural gas service to the community, but their quite human reaction to the network of ditches that suddenly scarred the lawns and boulevards was anger and outrage. Somebody in the gas company had noticed Cyrus Eaton's talent for quiet, diplomatic speech, and he was given a new responsibility—soothing the irate householders and business people whose grounds had to be torn up to receive the gas supply pipes.

The natural urbanity and sophistication of Cyrus Eaton that enabled him to step smoothly into the pace of big city life and to take his place among the people of high finance is especially surprising in light of his native environment. Eaton was born in Pugwash, Nova Scotia, on December 27, 1883, the son of Joseph Howe Eaton and Mary McPherson Eaton. His father operated the village store and did some farming. His mother was a descendant of New Englanders whose loyalty to the Crown had prompted their migration to the bleak Canadian maritime province in 1782. It was her hope that Cyrus, the fifth of nine children, would follow in the vocational footsteps of his cleric-uncle in Cleveland.

Throughout Cyrus' apprenticeship period under John D. Rockefeller, he continued to attend McMaster University and to pursue the study of philosophy, a natural approach to theology, and it appeared that his mother's wish for him would come true. But a struggle was shaping in the youth's mind. The world of finance and industry in which Rockefeller was the central figure had captured Eaton's fancy. So had the quiet preaching of the old multimillionaire, who repeatedly impressed on his young protégé that there was a spiritual value in the creation of wealth so as to provide more jobs and a better livelihood for humanity.

In a reminiscent mood, not long after his eighty-first birthday, Eaton recalled that Rockefeller—he referred to him as "Mr. Rockefeller," in the respectful voice of one speaking of his elder—wanted him to join Standard Oil headquarters staff in New York City.

"I'm sure," Eaton said, "that if I had gone, I eventually would have become president of Standard Oil. But I didn't want to go to New York City. I wanted to stay in Cleveland, and I did."

Probably the only time of indecision in Cyrus Eaton's life came at the time he graduated from McMaster University with an A.B. degree in June 1905. Theology and big business both beckoned to him. He took a job as a cowboy on a ranch in Saskatchewan to give himself time to make a decision. Late in the autumn, he returned to Cleveland to visit Uncle Charles, intending to spend the Christmas holidays with him. But his uncle told him of a church post that was available—a

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position as lay minister of the newly organized Lakewood Baptist Church—and Cyrus accepted the job.

Eaton's career in the suburban Cleveland church was brief, and if it was marked by any flashes of ecclesiastical enthusiasm, they went unrecorded. Not long after he had cast his lot with the church, he was approached by some Rockefeller associates who wanted him to undertake a special business mission in their behalf.

The small syndicate wanted him to go to Canada and there, acting as their agent, obtain gas and electrical utility franchises in the young, growing cities of the northern nation. Eaton accepted the assignment and returned to his native land. Within a short time, he won the right to build an electrical power plant which would serve the city of Brandon, Manitoba. When he returned to Cleveland with the good news, he found the syndicate had grown wary of further speculation and had withdrawn from the Canadian investment because of the financial panic which had taken hold of the nation in that year, 1907.

His own enthusiasm for the project undiminished, Eaton managed to borrow enough money in Canada to finance the construction of an electrical power plant in Brandon. Once the plant was in operation, in 1909, he sold it for a significant profit. With this as his stake, he turned his efforts toward the acquisition of utility franchises elsewhere in Canada and the cities of the Middle West of the United States. One franchise led to another, and in a surprisingly short time Eaton's Continental Gas & Electric Company, a Kansas corporation, was a significant factor in the utilities field.

Success came to Cyrus Eaton with such a rush and flurry that he didn't have time to sit down and assess his real wealth. He says it came as something of a surprise to him when, in 1914, he learned he was a millionaire. The realization burst upon him one day when he was offered two million dollars for his utility properties—an offer he refused, incidentally, in favor of a further expansion of his holdings.

Eaton likes to recall that his father journeyed to Cleveland from the old family home in Pugwash about this time. Cyrus met him at the station and as the two rode along toward home, the son posed a question.

"Father," asked Cyrus, "what would you do if you had a million dollars?"

"I'd satisfy all my worldly wants, I think," said the elder Eaton. "Why do you ask?"

"Because I have between two and four million dollars and I don't know what to do with them," said Cyrus.

Eaton's solution to his dilemma was to plow his money back into the utility business, reinvesting and expanding his corporate empire until eventually the companies he controlled were the suppliers of gas and

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electrical power to some eight hundred communities in the United States and Canada. The holding company he formed, United Power & Light Company, became one of three giants in the national field, a competitor with the combine headed by Samuel Insull of Chicago and Sidney Mitchell's Electric Bond & Share.

The battle for supremacy between Eaton and Insull reached the decisive stage between 1926 and 1930. The victory apparently went to Insull in January 1930, when Eaton sold him his stock interest in Chicago's Commonwealth Edison Company and the People's Light and Coke Company for an estimated fifty-six million dollars.

Some financiers later were sharply critical of Eaton for making this particular deal, alleging that he knew it would prove to be too much of a burden on Insull's strained finances. Eaton, who professed a friendly feeling toward Insull, argued that he had supposed his rival knew what he was doing at the time. At any rate, Insull's financial base was so weakened by his expensive purchase of Eaton holdings that he was unable to meet the demands and crises of the Depression. His utilities empire collapsed and Insull, a broken man, fled to Greece to avoid prosecution.

The complicated financial life of Cyrus Eaton was only partly taken up with the problem of utilities during the 1920s. He had begun to make his influence felt in the steel industry, starting in 1924. The following year he walked into the executive offices of the Trumbull Steel Company in Warren, Ohio, and stated that he was interested in purchasing control of the floundering corporation.

When the Trumbull executives allowed skepticism to creep into their voices over Eaton's ability to swing such a large investment, the Clevelander made a very gaudy suggestion.

"Why don't you call the Cleveland Trust Company and ask if Cyrus Eaton's personal check for twenty million dollars will be honored at that bank?"

One of the startled steel officials took him up on the challenge and called the Cleveland bank to pose the question. There was no hesitation at the other end of the line. The president of Cleveland Trust quickly replied that it would be a pleasure and a privilege to cash one of Cyrus Eaton's checks for that amount.

As it turned out, only eighteen million dollars was needed to purchase control of Trumbull Steel, and Eaton gladly paid the price. It gave him his keystone piece for a design which, if successfully completed, would give him a steel combine to rival or surpass the largest existing corporation in the nation, namely, United States Steel.

Eaton now was operating along the classic lines laid down by his mentor, John D. Rockefeller, some sixty years earlier. The oil tycoon successfully and systematically had gone about the job of eliminating

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competition in the refining business through merger and purchase, swallowing one rival after another until Standard Oil had reached gargantuan size and dominated the oil industry. Now the pupil was challenging steel. In a determined series of transactions, he bought control of United Alloy Steel Company, Central Steel, and Republic Iron & Steel, and merged them into a new production unit called Republic Steel Corporation. It represented, finally, an amalgam of eight different steel companies. This creation of Cyrus Eaton suddenly stood forth as the third-largest producer in the steel industry—a tremendous achievement, but still short of the Cleveland financier's goal. He wanted Republic to become the giant of the industry.

The simplest and most direct route toward that treasured end was the merger avenue, and now Eaton aimed his sights at the plumpest prize of all, Youngstown Sheet & Tube, a company in which he was a stockholder of importance. It was believed that his strategy would be to merge Sheet & Tube with Inland Steel of Chicago, followed by a quick marriage with Republic.

Whatever his plan, it was jarred by the dramatic entry on the scene of another suitor interested in wooing and winning Youngstown Sheet & Tube—Bethlehem Steel Corporation. The bidding for control immediately became spirited, and it was obvious that money was a secondary factor. Eugene Grace, president of Bethlehem, underlined this point when, in raising the financial ante, he said:

"What are a few million dollars more or less in a deal of this magnitude?"

It appeared at last that Bethlehem had won the prize. Stockholders of Youngstown Sheet & Tube were called to a meeting to vote their approval of the merger. At this critical moment, Cyrus Eaton appeared on the scene holding 35 per cent of the Youngstown company's stock—enough to block the merger. He had purchased some fifty-one thousand shares of the stock, about 4 per cent of the total, on March 22, the closing date for transfer of ownership on the company's books.

The question of Eaton's right to vote the stock immediately became a legal issue, and the struggle for control of Youngstown found its way into the courts where, after a series of bitterly fought battles, Bethlehem finally called off the proposed merger. Of this classic clash and the Eaton strategy, one Cleveland financier was quoted as saying:

"For boldness, for careful calculation of mathematics and the law of the problem, put it down as one of the unforgettable incidents of American finance."

It was, however, a costly victory for Eaton. The acrimony of the legal give-and-take had lost him some old friends and supporters high in the aristocracy of Cleveland finance. The battle also had been a distracting influence at a time when the worst economic storm in

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American history was developing. Had Eaton been free to prepare for the Depression, it is possible he might have battened down the hatches, pulled in his sails and, perhaps, ridden out the storm with a minimum of damage and loss.

In the process of putting together Republic Steel, Eaton had used a most effective welding instrument called Continental Shares, an investment trust which he organized in 1926. Riding high on the crest of one achievement after another, Continental stock soared to three hundred dollars a share by 1929, and the predictors of its future were unconfined in their optimism. A year later, at the time of the court's decision in the Bethlehem fight, Continental Shares was quoted at eight dollars a share, and in 1932, when a stockholder, half in jest, offered a hundred shares of Continental for a pack of cigarettes, he found no takers. This investment trust, which owned at its peak, capital and surplus of 150 million dollars in 1929, was able to distribute only sixteen million dollars among its eighteen thousand shareholders when it was liquidated in 1933. Many thousands of those unfortunate investors were Clevelanders, and it goes without saying that Eaton's stature in his home city was diminished considerably by the financial fiasco brought about by the Depression or, as Eaton himself described it, "the economic tornado of the 1930s."

A short time before the crash, Eaton dropped in on Charles A. Otis, a founding partner in the Eaton-controlled investment banking firm, Otis & Company. According to Otis, their conversation ran as follows:

EATON: "Do you know how much we are worth today?"

OTIS: "No."

EATON: "Two hundred and seven million dollars."

OTIS: "Don't you think we ought to sell some of that?"

EATON: "No. We will hold on, and some day it will be four hundred and fourteen million dollars!"

It didn't happen that way. Eaton, ever the gambler, went for double or nothing and ended with nothing; at the very best, he was left with only a trifle more than nothing as his fantastic finances were figured.

It was said that Eaton personally was worth one hundred million dollars in 1929. When the dust had settled after the 1930 debacle, the accepted estimate was that the Cleveland financier was left with a mere one hundred thousand dollars—a nice, impressive figure in many respects, but hardly comparable in majesty, might, or purchasing power with one hundred million dollars.

The full extent of Eaton's setback in that year of depression is not known, but among his losses were control of Republic Steel, heavy investments in utilities, working control of the Goodyear Tire & Rubber

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Company of Akron, largest rubber company in the world, and sizable stock holdings in two competitor companies, Firestone and Goodrich. At the time the Depression struck, Eaton was well on his way toward a merger of those three companies, a move which would have created a colossal organization able to dominate the rubber industry just as, through merger, he had planned to make Republic Steel dominant in the steel industry.

Complicating Eaton's financial situation at the time was the quick and forceful way in which eastern bankers called his loans, forcing him to liquidate many of his investments at the sacrifice level to meet his cash obligations. He never forgot. It was apparent in his bitter resentment of the New York banking houses in the years that followed. *Newsweek* magazine, in a biographical study of the Clevelander in October 1945, mused: "Historians may well find that the depression would have ruined Eaton anyway. . . . There was a suspicion, however, that the [New York] bankers were harsher to him than they might have been out of dislike for his trouncing of Eugene Grace and Charles M. Schwab in their efforts to merge Youngstown Sheet & Tube with Bethlehem Steel. Eaton has always maintained that his attempts to build a Midwest industrial empire were based on the idealistic desire to make that region independent of New York financial control. He says he resented the way 'New York' squeezed the Seiberlings out of Goodyear Rubber and tried to take over Henry Ford."

Recalling this low point in the career of the Cleveland financier, *Business Week* magazine (March 12, 1955) made the following observation that is so often overlooked, but which is vitally important in separating Eaton from run-of-the-mine millionaires: "The loss of his fortune did not bother him nearly so much as the loss of personal prestige. Before the 1930s he had been in constant demand by railroads and industrial companies in need of directors and advisers. Now he found himself being ousted even from companies he had helped create."

If the Depression spoiled Eaton's carefully constructed grand design for success, it did not break him. He still controlled Otis & Company, and the investment banking house became his comeback vehicle. By 1942, approximately ten years after the collapse of his financial empire, Eaton was back in the front ranks of successful international investment speculators. His plunge that year on a remote piece of Canadian real estate in western Ontario may have been the most important risk of a career studded with gambles.

World War II was making an extreme demand on the dwindling high-grade iron ore reserve of the fabulous Mesabi Range in Minnesota in 1942, and the United States and its allies understandably were concerned by the signs indicating that a rich new source would be needed to sustain the steel industry of North America in the foreseeable future.

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Tests of iron ore known to exist in abundance in the area of Steep Rock Lake in Ontario had proven the deposit to be of a very high grade, but there was pessimism over the ore's accessibility. Steep Rock Lake was in an unspoiled wilderness. It was a shimmering blue centerpiece in a hunter's paradise, far from civilization and without easy access, except by the planes of the bush pilots. Survival there was a touch-and-go matter in wintertime when the temperature had been known to drop to fifty degrees below zero. The most serious problem, however, was that the main deposit of iron ore was underneath the lake itself.

This was the challenge and the opportunity that caught the imagination and enthusiasm of Cyrus Eaton. The reward awaiting the person or syndicate that could devise a practicable, economical method for extracting this ore was so great as to be almost beyond estimation; precisely the kind of superstake that would find a bidder in the Cleveland financier.

Eaton supported a plan which called for Steep Rock Lake to be drained. The boldness of the concept staggered the engineers. Most of them said it couldn't be done. Eaton insisted it was the *only* feasible method to get at the ore. It required the boring of a three-thousand-foot tunnel under the lake to its very center point, curving upward there to the lakebed. At this point, a final blast of dynamite would create a hole into which the waters would descend, to be drained away as a bathtub is emptied.

But Steep Rock Lake was no bathtub. It was a large body of water, fifteen miles long and four miles wide. The engineers said the rocks and boulders on the bed of the lake would quickly plug any hole created by a man-made blast. Eaton took the position contrary to that held by the technical experts. The hole would remain open, he predicted, and the water would flow out the underground tunnel. He proceeded to sell the theory to the United States Government, and the government of the Dominion of Canada. The United States extended him a five-million-dollar loan. Canada allocated twenty million dollars for the project, and Otis & Company chipped in $2,250,000 realized from the sale of debentures. The gamble was on.

When the boring crew had completed the three-thousand-foot tunnel under the lake and had approached within twenty feet of the lakebed, dynamite fuses were planted and the workers hurried back to safety on shore. At the given signal, the plunger was pushed and the dynamite was exploded.

It was one of the most dramatic moments in industrial history, and it certainly was one of the most critically important moments in the life of Cyrus Eaton. The water in the middle of the lake suddenly rose in a great bubble, there was a roaring sound, and rocks and

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boulders shot high into the air. All at once the onlookers knew that the plan had succeeded. There was a quickening whirlpool in the center of the lake, and it was obvious that the water from the lake was rushing downward through the underground tunnel. The gamble was won and the riches of Steep Rock basin were ready to be exploited by man. It stands out now as one of the principal sources of high-grade iron ore for North America—a treasury containing an estimated two billion tons of ore.

Further extending his holdings in this basic field, Eaton went on to gain control of iron ore deposits in the Ungava Peninsula of northern Quebec Province, regarded as the future supply source of Europe's iron and steel industry. There, in the subarctic tundras, Eaton's Ungava Iron Ores Company, formed in 1958 in association with Alfred Krupp and four other West German steel tycoons, holds title to reserves estimated at ten billion tons.

"Undoubtedly," said *Fortune* magazine in 1961, "Cyrus Eaton controls more iron ore than any other man in the world."

The London *Daily Mail*, in tacit recognition of this distinction, referred to him dramatically as "The iron master of North America."

The Clevelander's pace seemed to step up after World War II contrary to the expectations of his foes, most of whom entertained the logical supposition that advancing age would slow the Eaton gait. He organized the Portsmouth Steel Corporation in 1946 and made it a successful operation. He bought the floundering National Refining Company for ten million dollars and reportedly peddled its component parts for twenty-five million dollars. He borrowed twenty-six million dollars from the United Mine Workers of America and used the money to buy control of the West Kentucky Coal Company and the Nashville Coal Company. In 1954, he paid $3,630,569.75 for 108,854 shares of C. & O. stock and succeeded Robert R. Young, one of the successors to the fabulous Van Sweringen brothers, as chairman of the board of the highly profitable coal-carrying C. & O. In the 1960s, Eaton was able to merge the C. & O. with the Baltimore & Ohio Railroad.

It wasn't any real surprise that the United Mine Workers union should have been willing to lend capitalist Cyrus Eaton millions of dollars from its treasury. He long enjoyed a rare distinction among men of finance and industry—the reputation of being a friend of organized labor. Among his close friends for many years had been John L. Lewis, the shaggy-browed leader of the miners, one of the few men in Eaton's circle of acquaintances who could hold his own with the erudite Clevelander in arguments over classical literature. In his moments of philosophical relaxation, Eaton likes to quote Spinoza's line: "No regrets, no fears!"

Eaton also persuaded the United Mine Workers to invest money in

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