

CLEVELAND  1796-1996

The DIPLOMATIC CAPITALIST

Cyrus Eaton's legacy one of building empires, bridging nations

By JAY MILLER

Cyrus S. Eaton, radical capitalist, never fit the mold of a business mogul as defined by the Western world. Perhaps that's why his legacy isn't found in the tangible measures of achievement attained by most giants of commerce.

John D. Rockefeller left a corporate and philanthropic empire that continues to this day. The Hanna name adorns buildings, hospitals and a major corporation. Even the Van Sweringen brothers, who made a fortune only to lose it, left Terminal Tower and Shaker Heights as permanent reminders of their years as businessmen.

Eaton left no similar monuments, though at one time or another during his nearly 96 years on Earth, he held large or controlling interests in Cleveland Electric Illuminating Co., Republic Steel Co., Goodyear Tire & Rubber Co., Cleveland-Cliffs Iron Mining Co., the Chesapeake & Ohio Railroad and other assorted electric utilities and banking companies.

A goodwill ambassador

But more than the power he wielded, Eaton, by the force of his intelligence, aggressiveness and money, played a significant if subtle role in thawing relations between the West and the Communist world. He did so at a time before detente when Soviet premier Nikita S. Khrushchev would threaten to "bury" the democracies of the globe.

Eaton was the first American businessman to advocate closer relations with the Soviet Union after World War II, when the Iron Curtain was drawn across Eastern Europe. He feared nuclear war and believed that tensions between the East and the West could be lessened through trade.

"You speak of trading with the Soviets and people say, 'You're strengthening them against us!'" he told an interviewer in 1963. "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."

His concern about nuclear holocaust led to the Pugwash Conference of Nuclear Scientists in 1957. The conferences took on a life of their own, though Eaton



WESTERN RESERVE HISTORICAL SOCIETY

Cyrus S. Eaton outside the train station of Pugwash, Nova Scotia, home of the Eaton-sponsored and eventual Nobel Peace Prize-winning Pugwash Conferences.

would finance them for several years. In 1994, the Pugwash Conferences shared the Nobel Peace Prize.

Eaton's interest in Russia actually dated to his first years in Cleveland. Born in Nova Scotia in 1883, Eaton began spending time in Cleveland when his uncle, the Rev. Charles Eaton, was assigned to the Euclid Avenue Baptist Church in 1901.

Rockefeller connection

The superintendent of the church's Sunday school was John D. Rockefeller. Cyrus Eaton would spend summers living with his uncle and doing odd jobs for \$2 a day at Rockefeller's Forest Hills estate in East Cleveland. Eaton would run errands, carry messages from the wire room that kept Rockefeller in touch with his empire or caddy for JDR and his uncle on the nine-hole course at Forest Hills.

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, young Cyrus and Harper's son Samuel occasionally would play a round themselves.

The elder Harper was inter-

ested in Russia, and Samuel, who became a lifelong friend to Eaton, eventually would head the Russian language department at the University of 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.

Like his uncle, Cyrus also was headed for the ministry. He graduated from McMaster University in Toronto with a degree in theology in 1905.

After graduation, he spent a few months in northern Saskatchewan as a cowboy who herded cattle. In 1906 he returned to Cleveland as lay minister for a small congregation in Lakewood.

But Rockefeller had other plans for Cyrus. He hooked him up with a group that was trying to win franchises for electric service in western Canada.

The consortium needed someone who knew the area to represent them. Eaton returned with several franchises, but by then his syndicate had crumbled in the financial panic of 1907. Canada wasn't suffering quite the economic downturn as the United States, so Eaton returned

to Canada, found financing there for the electric franchise in Brandon, Manitoba, and was in the utility business.

By 1912, Eaton strung together electric franchises in Illinois, Iowa, Kansas and Nebraska into Continental Gas & Electric Co. He was a millionaire several times over.

Back in Cleveland, he bought an interest, later a controlling interest, in Otis & Co., an investment banking company. He also became a U.S. citizen.

Start of a steel giant

Then, in 1925, he was leaving through a newspaper in the Copley Plaza Hotel in Boston while his 6-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. He picked up the phone. In a few weeks, after an \$18 million investment, he owned a steel mill.

Within a few years, Eaton owned several more mills. In 1930, despite some opposition from Bethlehem Steel Corp., he combined his holdings into Republic Steel Co. to create the third-largest steelmaker in the

country. He also held separate interests in Youngstown Sheet & Tube Co. and Inland Steel Co.

Eaton's aggressive empire-building was disconcerting to adversaries such as Cleveland lawyer Newton D. Baker. It was Mr. Baker, while representing an Eaton foe, who called the young conglomerate-maker "a ruthless industrial Napoleon."

A growing conglomerate

Eaton created his steel giant via a holding company, Continental Shares Inc. Holding companies in the early part of the century were investment companies that owned shares in manufacturers, utilities and the like. Shares of the holding company were sold to the public, and shares were created to buy other companies. They were an unregulated combination of mutual fund and conglomerate.

Through Continental Shares, Eaton became a major force in the rubber industry. In 1928 Continental Shares and others sympathetic to Eaton's ambitions in rubber began to buy stock in Goodyear Tire & Rubber Co. By 1930, Eaton could name directors of his choosing to Goodyear's board.

At about the same time, Eaton and Continental Shares quietly were buying stock in Commonwealth Edison Co., People's Gas, Light and Coke Co. and other electric utilities controlled by Chicagoan Samuel Insull. Insull was convinced that Eaton wanted to wrest control of those businesses, so he and his holding companies bought more shares in the contested utility companies.

The value of the companies' shares soared as the two bid up the prices. 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 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.

The deal overextended Insull, whose empire soon would collapse. However, Eaton would fare no better as the stock market collapse and the ensuing Great Depression would wipe out his \$100 million net worth.

Eaton's defeat was so complete that a 1934 divorce won by his first wife stipulated that should his net worth ever rise above \$105,000, he would need to buy his ex-wife a house. She eventually got the house.

Next, a railroad magnate

For the next decade, Eaton would spend his time at Otis & Co. developing a business to underwrite the sale of railroad and utility bonds. His goal was to wrest control of this lucrative business from the eastern bank-

See EATON Page B-22