

THE VITAL FEW

*The Entrepreneur and
American Economic Progress*

EXPANDED EDITION

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Kennan's exquisite destruction of the specific charges made by Prof. W. Z. Ripley that Harriman's reorganization of the Chicago & Alton Railroad was a classic example of "stock watering," "abuses" and "Frauds"—that the Harriman gang had "plundered" the road—(charges still faithfully recited as late as 1965 in history books); in spite of the blunt facts of the financial growth and stability of Harriman's empire; in spite of the Interstate Commerce Commission's admission in 1907:

It has been no part of the Harriman policy to permit the properties which were brought under Union Pacific control to decline. As railroads, they are better properties today—with lower grades, straighter tracks, and more ample equipment—than they were when they came under that control . . .

—in spite of all that, the historians, for the most part continue to treat Harriman as a near criminal and a robber baron. Leo Durocher's theorem, that "nice guys finish last," is probably not true in the long run, or so it appears in Harriman's case. He wasn't a "nice guy," and he has been finishing last in the history books for a long time now, all evidence to the contrary notwithstanding.

Perhaps it is true that Harriman was simply Adam Smith's *homo economicus*, a man of invincible self-interest who was "led by an invisible hand to promote an end which was not part of his intention." Perhaps he wanted only profits for himself and made his great contribution to America's empire beyond the Missouri by accident. That the Supreme Court finally dissolved the Harriman empire says that the court found it to be too large and a threat to competition (would it be dissolved today, in a new era of giant amalgamations?), not that its construction had been immoral. Harriman made a great contribution to America's growth, but he got a bad press and will, judging from the history books, always have it. Paraphrasing Mary McCarthy on Trotsky, one is tempted to say to Edward Harriman's memory, "Well done, little man"—even though the hall is empty.

CHAPTER 9

J. Pierpont Morgan, the Investment Banker as Statesman

I don't know what to do myself, but . . . someone will come in with a plan that I know will work; and then I will tell them what to do.

J. P. Morgan in the Panic of 1907

The point of the quotation is to give a view of a period in American industrial history. Many critical junctures in J. P. Morgan's business career must have contained moments of indecision simply because Morgan, like the new industrial America itself at the turn of the 20th century, was attempting for the first time to find some general order or logic in a bewilderingly changing environment. How many railroad companies should there be? What is competition and what is monopoly? How big is "big" when it comes to the steel industry? Does a private businessman have any public duty? At the end of the 19th century the vestiges of Jefferson's Arcadia were fast disappearing and the nation was trying to learn a most difficult new skill—how to live as an urban, industrialized society. There were no ready-made ground rules. The only precedent was England, a hair-raising example. Amid a chaos of new and old doctrinal panaceas, men and governments simply tried what "worked" in given situations and, if the longer-run consequences appeared to be undesirable, there were always the statute books and the law courts.

John Pierpont Morgan was the one American financier of really titanic stature, the Yankee peer of Cosimo de' Medici, Jakob Fugger, Nathan Rothschild and Sir Francis Baring—a real Jupiter, and that is what men called him.

"Pierpontex Maximus" Morgan ruled American finance like a Caesar. No one before him had such influence over others, and none since his death has aspired to his diadem. He died in 1913, which seems a long time ago to most Americans, but the consequences of his financial stewardship are still around us. His legacy is clouded to some extent by the re-

maining dust of the great turbulence of his times and by the memory of his seemingly enigmatic personality.

We still don't fully understand the history of the period in which Morgan's achievements were made, and this makes it very difficult to understand Morgan. Were the years from about 1870 to 1913 a period of progress toward a more efficient competitive economy or were they, as most historians seem to believe, primarily a time when trusts and monopolies threatened to kill the Golden American goose? What we think of Pierpont Morgan depends largely upon how we interpret the American economy which developed during his adult years. If we ask whether Morgan was a great force for ultimate progress or simply a greedy, but consummately skilled, money monopolist, we are in a sense asking what American industrial development in the period 1870-1913 was all about. My own view is that the questions we have asked are not correctly framed; I don't believe that the answers could be of the "either/or" variety. Consider the bare economic outlines of the period.

I

The last quarter of the 19th and the first decade of the 20th century saw tremendous industrial development in the United States. It was in this period that we decisively became an "industry state." In 1873 American steel production had risen to 200,000 tons, still less than English production; by 1913 our steel output was 31 million long tons, more than that of all the European nations combined. We had 52,000 miles of railways in 1870, and 240,000 by 1910. Our coal output of 517 million tons in 1913 was greater than that of all Europe. Whereas our population of 39.9 million in 1870 had been less than Germany's 41 million, by 1910 our 92 million had outstripped Germany's then 65 million by far and was greater than that of Britain and France combined.

Although our population had more than doubled (1910 was 130 percent of the 1870 figure), estimates of national wealth show a fourfold increase over the period. It was the age of our most rapid growth of per capita income; in 1874-83 the rate of growth of per capita income was almost 3 percent per annum, or double the rate of the "Roaring" 1920's. The ratio of net investment to national income in 1874-83 may have been as high as 18 to 20 percent. Over the period 1870-1910 as a whole this ratio was higher than in the 1920's. It was a

great time for the investor if he didn't suffer from the short-term setbacks of the business cycle.

This great economic change had a profound impact upon the way Americans lived. By 1910 nearly half of the population lived in towns and cities, and more than 20 percent lived in cities larger than 100,000 in population. Such urbanization was a measure of the rise of industry—the old 75 to 80 percent rural economy of ante-bellum America was now just a memory.

The great change brought its own problems. Of the population of 1910, 13.8 million, or more than 1 out of 7, had been born abroad. This was another story. The new industry had been fed an army of foreign-born workers. From 1885 to 1910 more than 14 million came. These increasingly came from Southern and Eastern Europe and less from North-western Europe, whose industrial growth was providing for its own growing population. As a result, the workers in the new cities and factories of America were increasingly becoming "foreign" to the native stock which still predominated in the small towns and rural areas. Wages did not increase as did wealth and income per capita; money wages rose only about one-third and "real" wages only about 20 percent from 1873 to 1910. Although labor thus shared in the new abundance to some extent, it might be argued (and it was) that the working-man was not getting his full share.

The farmer too was having his troubles. They were the familiar ones. The nation has not, except in its earliest beginnings, been able to consume its agricultural product at prices which seemed adequate to farmers. From 1873 to 1913 farm acreage more than doubled (25 million to 52 million acres), and prices had fallen throughout the period from 1865 to the 1890's, with only brief cyclical interruptions in the descent. From 1896 on, there had been some improvement, but not enough to wipe out the long slide from the Civil War heights. Long-term farm debts, moreover, year by year became more burdensome as the terms of exchange did not turn in favor of agriculture. The period was mostly one of bitter frustration for farmers, who, time and time again, became involved in politics on an occupational (one might almost say "class") basis.

For those sectors of the population which were not fully sharing the profits of the new industry, the years were made more frustrating by a series of particularly bitter experiences with the business cycle. Downturns in business activity in 1873, 1884, 1893, 1903 and 1907 were associated with finan-

cial panics of varying intensity, those of 1873, 1893 and 1907 being especially severe. Periods of mass unemployment in industry, in conjunction with chronic distress in agriculture, were bad enough, but as they were combined also with periodic chaos in the nation's banking system, there was an increasing agitation for "reform."

The net growth of the economy was staggering in spite of the cyclical setbacks and, in an age before income taxes, great fortunes were made (and lost) left and right during the surges of economic activity. Accordingly, the Drews, Fisks, Goulds, Rockefellers, Fricks, Hills, Morgans, Harrimans and Stillmans—those who knew how to turn both booms and panics into profit—became the New American Rich. Their apparent affluence in times of both dearth and plenty gave rise to a belief, still commonly held, that "they" caused the bad times. Curiously, the argument was not symmetrical, and few thought to give them credit for the good times too. In the turbulence, not only was industrial America created, but so were the myths and traditions which are still our heritage from that "gilded age."

Perhaps the most important of the new alignments were political. The Republicans, the Party of Civil War inflation and the greenbacks, came to associate themselves with the new industrial interests and wedged their traditional policies of protection for manufactures (the legacy of Hamilton, Webster and the old Whigs) to the rising sentiment to abandon the traditional American bimetallism and to put the currency on a more solid basis—gold. Our own GOP is still largely in the tradition of protection and "sound" money as a result.

The Democrats, coming back from the Civil War debacle, increasingly allied themselves with the dissident forces of the "small" businessman, farmer, worker, the men who came to cry for cheap money, greenbacks and "free silver"—for inflation. As a consequence, beginning in 1896, the fantastic and erratic William Jennings Bryan was three times the candidate of the party of the great conservative, Calhoun. The Democrats became, and remained, the party of the small man, the experimenters, the champions of low interest rates and a plentiful money supply. Paradoxically, the Republicans became the party of "business" and the rural North as the farmers became more conservative and alienated from the cities while the Democrats captured the votes of the cities and the rising industrial areas.

The great issues of the period fired the political boilers, and

the journalists and historians added their fuel. We know the period today as a Babel of events and conflicting interpretations. Is there any other period so variously and ambiguously defined in our history as 1870-1914? Think of it: the age of the robber barons, the great picnic, the Populist revolt, the age of trusts, the epoch of monopoly capitalism, the railroad era, the time of the farmer's last frontier, the age of American imperialism, the American industrial revolution. The period saw the rise of the American labor movement, the Knights of Labor, the A. F. of L., the I. W. W., the contract of the Sherman Anti-Trust Act to labor-union "monopolies." There was also the great railroad amalgamation movement, the billion-dollar Congress, the anti-trust movement, free silver, the end of traditional American bimetallism and the Gold Standard Act of 1900.

All these events were part of the total fabric of our history in those years. It is fair to say that the most widely accepted interpretation of that period is anti-capitalist and populist in flavor. Such an interpretation may easily be justified, yet it is important to recognize that "history" is what the historians say it is, and in this case, the history of 1870-1914 is very largely what the muckraker historians said it was. That the period which saw such enormous economic growth should become known mainly as one of constricting monopoly is paradoxical to say the least. To say the most, is to say that both cannot have been true. Nevertheless, the muckrakers have been victorious.

It is not my intention to "rehabilitate" anyone. Even if the effort could be justified, I doubt if any pen could undo in a century the brilliant work of the muckrakers. The muckrakers are imperishable, but vulnerable. Vulnerable because of their main source of power, moral outrage. Morals change. The muckrakers left a baffling morass of special pleading and bias which is great fun for the reader but which is largely incoherent except as entertainment.

From our point of view the moral eccentricities of a Rockefeller or a Morgan are of little or no importance, since we are interested in the economic circumstances and impact of their works. Economics will therefore give us a different view of the period than did the moralist's outrage. We don't ask whether a man's acts were "good" or "bad" in a moral sense. It is clear enough, after all, that a lot of camels passed through the eyes of needles before the great American tycoons of the

19th century ever got into Heaven. But why were they, as opposed to others, the tycoons? That is the interesting economic question.

The free market compensates its participants on the basis of a cold appraisal of their worth, given the state of tastes, incomes and technology. The civil law places bounds upon the actions of individuals *vis à vis* society. All else is a matter of individual conscience. Some consciences are more restrictive about "money getting" than are others. The interesting economic point about the "masters of capital," the "robber barons" and what have you, is that the burgeoning American economy suddenly began to pay enormous compensation for certain kinds of skills. Since this was so, we ask "which" skills and "why." This tells us a lot about how the economy grew. When Pierpont Morgan died in 1913, *The Economist* of London wrote:

Mr. Morgan made his money almost entirely in America, and he was a typical American banker—quick, resolute, highly speculative, well versed in all the arts of the stock exchange, in company promotion, in the control of banks and other corporations, and, above all, in trusts, pools, syndicates and agreements. All his competitors regarded him as their superior. He was the Napoleon of Wall Street. . . .

To a muckraker historian this statement might suggest a worthy target for an opprobrious pen. To an economist it describes an obvious master of free-market capitalism in the process of organization and reorganization. Both views might be interesting, but the economist's view suggests a line of thought for understanding the way the man served his times. Morgan could not create his own world—no man has ever been so fortunate—but he could exploit the advantages which came his way and perhaps influence the future course of events. But "to influence" and "to create" are not the same infinitives. Morgan's America was, as we have seen, a land of fabulous industrial growth, and he was a man who was equal to his opportunities. The great market economy might baffle and frustrate a man of the frontier like Brigham Young, but it was a friendly ocean in which the Morgan cetacean flourished.

II

American investment banking grew largely out of international merchant banking, and consisted of the purchase and sale of negotiable bills of exchange drawn against the move-

ment of commodities in international trade. Merchant banking was a highly specialized business in many respects—so highly specialized that until the 1830's there were few Americans in it. English houses handled most of the American trade, the bills drawn against American exports of cotton and grain feeding into the British financial system through the London merchant banks and discount houses. The whole apparatus of trans-Atlantic trade and payments was ultimately buttressed by the Bank of England's support in the discounting of trade bills. Access to the Bank of England's "parlour" (the equivalent of the "discount window" at a Federal Reserve District bank) moved crops from the American interior into international markets. This system was soon to move American securities from the offices of American company promoters into the mainstream of British international investment.

In the days before passports and visas, labor restrictions and the like, men moved as freely as goods throughout the Atlantic economy. As the British industrial economy came to depend increasingly upon the trans-Atlantic exchange of its manufactures for American food and raw materials, and a proliferating American financial system became increasingly involved in the movement of goods, it was natural that Americans should penetrate the trans-Atlantic financial network. It was a matter of specialization and soon enough the famous "Anglo-American" houses appeared in London: Brown-Shipley, Alexander, Dennistoun, Barings, and George Peabody & Co. Peabody, a Yankee merchant of Salem, Massachusetts, had pioneered the American entry into the North Atlantic financial hierarchy and was near the end of his long and brilliant career in 1854 when he asked Junius Spencer Morgan to come in as a partner. The new partner and his son were destined to lead the rise of international investment banking out of the nucleus already formed among the merchant bankers of England and the Continent and their far-flung networks of agents. The increasing pervasiveness of the international gold standard established long-term borrowing on a more easily convertible basis, reducing the risk accordingly, and the British appetite for foreign securities, together with the international expansion of railways and corporate industrial ventures, assured a freely flowing supply of securities. The Yankees who had joined in the business of international finance were riding the crest of a wave which was destined to reach great heights.

The Morgans were of old New England stock (the student of American colonial history would need to know little more

of J. P. Morgan's genealogical background than that his great-grandmother's maiden name was Experience Smith).

Miles Morgan, the direct American ancestor of Pierpont Morgan, came to Boston from England in 1636 and settled in Springfield, Massachusetts. Pierpont Morgan's grandfather, Joseph Morgan, a Hartford coffeehouse owner, landowner and founder in 1819 of the Aetna Fire Insurance Co., also discounted commercial paper. He thus was partly a banker. The family remembered his reading habits—he simply read the Bible from front to back, and then over again, and then again and so on through his whole life. The connection between Bible reading and business affluence in the Protestant world has been remarked by Weber, Tawney and others.

Joseph Morgan's son, Junius Spencer Morgan, was born in 1813. He was in every respect "his father's son," going into trade at 16 as a clerk in Boston. He worked in New York and, by 1836, was a partner in the general merchandising business of Howe, Mather & Co. back in Hartford. The firm added the name of Morgan in place of Howe in 1850. A year later Junius Morgan became a partner in the firm known as J. M. Beebe, Morgan & Co. of Boston, which house became heavily involved in merchant banking with George Peabody & Co. as its London correspondent.

Old Peabody liked Morgan and asked him to come over to London as a partner. Peabody had to weather the Panic of 1857 before he could get out of the turbulent world of Anglo-American finance, and he weathered that panic only with a loan of more than a million pounds from the Bank of England against his temporarily frozen assets of nearly £2.5 million sterling. Peabody and Morgan were firm Union supporters during the Civil War and aided the American minister in many ways. In 1865 the firm's name was changed to J. S. Morgan & Co. after Peabody's retirement.

Peabody's money endowed causes ranging from workers' housing in London to Harvard College, and he set up an education fund to assist the growth of learning in the Southern states (the Peabody College in Nashville, Tennessee, was established by his fund). Peabody was offered a baronetcy by Queen Victoria, and when he died in 1869 his body was brought home in a British warship. He was a great man of Anglo-American finance. As the senior partner in the firm which was to be the mainstay of the Morgan dynasty (J. S. Morgan, J. P. Morgan, J. P. Morgan, Jr., and their heirs) old George Peabody, the Yankee merchant banker, should be

counted as one of the fathers of investment banking in America.

J. S. Morgan took over a well established and thriving business when Peabody quit. Before Morgan died in 1890 his firm had become legendary; the Morgan name was co-equal with the Barings and the Rothschilds in the galaxy of international financiers. Possibly the greatest single coup organized by Junius Morgan was the syndicate that floated \$50 million in French government bonds successfully in 1870 when French fortunes in the war with the Germans were at their nadir. The profit to the syndicate was about 10 percent and the whole operation was a sensation in the financial world. Junius Morgan was a credit to Peabody's trust and built a mighty structure on the foundations of the old Peabody firm. John Pierpont Morgan used that structure to launch the greatest empire of financial power and influence the world has ever seen.

III

It is clear enough that the life of Pierpont Morgan could be no Horatio Alger story. Morgan was the scion of a brilliant, shrewd and powerful line. He was in every sense "to the manor born." It is conceivable that Morgan's aristocratic air was an important element in his power over his fellow tycoons. One thing Morgan had over them all was "style." It was a grandiloquent style, and no one else, no matter how rich, was in his league in that regard. There was also something else. Morgan was not just another shrewd Yankee, cutting a profit from sharp dealings. He had a penetrating and far-seeing mind, and his taste for affairs on the largest scale with long horizons was evidence of his sense of proportion in the roaring new American economy. To again quote *The Economist* when Morgan died, ". . . it should be added that his speculative operations were mainly, if not entirely, on the bull tack. He . . . professed the theory that a bear of American under-takings was bound to be ruined." They added that Morgan was "undoubtedly a man of genius with a strong will power and a commanding personality." He was all that and, for his time and profession, an educated man.

If indeed the child is father to the man, Morgan's personality as a child was an accurate guide to the grown man. His son-in-law, Herbert L. Satterlee, published a largely uncritical but informative biography in 1939 which contained a letter

written by the 13-year-old to his teacher at the Hartford Public High School (the punctuation is as given).

Miss Stevens

I should like to enquire of you the reasons why you as a teacher and of course over me only a scholar should treat me in such an inhumane manner as to send [me] out of the class for laughing a little too loud which I can assure you I am perfectly unable to control and which no punishment will cure me of. . . . If I wanted I could sit still (without saying a word) in a corner and suppose all the class were to do it would not you think that all the class were very stupid indeed and you would have to do all the talking the scholars saying nothing. If I cannot be treated well . . . rather than be treated as I have been I shall next term [transfer to another class]. . . . I do not say this hastily in anger but you cannot say but what I have stood it a great while and I think that upon reflection you cannot say but what I have been treated unjustly. . . .

J. Pierpont Morgan.

We do not know how Miss Stevens was affected by young Morgan's carefully measured indignation. The tone of the letter was in many ways prophetic. In later life his forceful character awed and even frightened strong men. He was a careful, confident operator, and in affairs of business was much given to a very heavy hand. He kept his own counsel, chose his subordinates by his own code. The "Morgan men" were, as Frederick Lewis Allen noted, so much like Morgan that they were in many ways virtually incarnations of himself and he could trust them implicitly. His code of business was so rigorous that it astonished those who knew him. His insistence before a Senate Committee that "character" determined credit is still received by students of finance with a smile. Yet there is no doubt that Morgan meant it, but also that by "character" he meant something more than the right actions, the right pose, the right words, the right "image."

Morgan's education was capped by a year at the Institut Sillig, a boys' school at Vevey in Switzerland, in 1854-56 (where the master liked him and noted that he smoked at the age of 17) and at the great old German university of Göttingen from April, 1856, to the summer of 1857. At Göttingen, Morgan's facility with numbers so struck his mathematics professor that he urged the young man to make a career of mathematics, promising him an instructorship after an additional year's work. It was not to be, and before 1857 was out Morgan had entered the business world back in New York.

As a student the young Morgan had gained a reputation for his fine mind and for great physical strength. He was six feet tall, powerfully built and energetic. But he was also bothered by occasional fainting spells, headaches and skin eruptions of unknown origin which later in life settled into his nose and made his face a cartoonist's delight.

Compared to that of most of his peers in late-19th-century finance, Morgan's formal education was extensive. The great breadth of his adult interests together with the record of his schoolboy career indicate that intellectually he was a powerfully gifted man. Yet, somehow Morgan's biographers have failed to re-create a convincing portrait of him. Morgan destroyed the file of the letters he wrote to his father twice every week for years, so that key to his elusive personality is lost. The letters which remain are models of organization and accurate observation. He seems to have been a fun-loving creature, but also much given to admiration of system and order. The latter quality perhaps represented the frustrated mathematician in him.

The great organizer of industry and finance, the collector and patron of the arts, the gay yachtsman and the financial statesman of 1895 and 1907 are parts of a most complex personality. They are all compatible with the conservative New Yorker who would not move his residence to the fashionable part of town, who shunned the "society" of his time, who did not move his summer home from the Hudson cliffs to Long Island as that long strip of quaintness became fashionable.

Morgan always went his own way, following his own interests and instincts. However unfathomable he seemed to become as he grew older, he was always recognizable as the grandson of Joseph Morgan of Hartford, the son and heir of Junius Morgan; the strong-minded schoolboy and the gifted but undeveloped mathematician. If Morgan had not been the equal of the Vanderbilts and Rockefellers, and better than the Goulds and Fisks, it would have been surprising. It is a great advantage to have those qualities which make a "self-made" man in business; it is a much greater advantage, after all, to have all of them together with a brilliant and subtle mind, and to be the son of a rich and powerful father. So it was with Pierpont Morgan. He began as a prince of this life, and he carried it off.

But Pierpont Morgan was also true to his Yankee origins, shrewd, bold and religious. Like his Bible-reading grandfather,

Pierpont Morgan maintained his Episcopal faith. In fact he was a prominent and devoted Episcopal layman, treating the Bishops to free transcontinental railway tours, endowing holy building projects and the like. Such activities in Morgan's life were flamboyant gestures toward respectable, middle-class America and must have made the cynics happy. Yet Morgan carried his religious interests further. He was a regular churchgoer, a church warden and long-time vestryman of St. George's Episcopal Church in New York (imagine skimping on the offering with J. P. Morgan passing the plate!). Morgan sang hymns loudly in church, liking only vigorous and well known ones. When he died, his will opened with words which must have unsettled the plungers who emulated the old millionaire.

I commit my soul into the hands of my Saviour, in full confidence that having redeemed and washed it in His most precious blood he will present it faultless before my Heavenly Father. . . .

That, as his biographer Frederick Lewis Allen comments, was the faith of Hartford, Connecticut, in the 1840's. Morgan would be an easier subject for his biographers if he had in fact been the stereotyped ogre of railroads and banks and steel that the muckrakers wrote about. The difficulty is that the 20-year-old Pierpont Morgan who started out in business in New York, just in time to witness the Panic of 1857, was flesh and blood like everyone else. It is only what he accomplished in his long life that is so difficult to comprehend. J. P. Morgan was human enough.

IV

Although Morgan's beginnings in the banking business were entirely conventional, they have been obscured by historians and biographers who have started him all the way from cashier down to assistant bookkeeper. The facts are simply that, upon the young man's leaving Göttingen, his father (who is quoted as saying at the time, "I don't know what in the world I'm going to do with Pierpont") arranged a place for him as a "volunteer" (no pay, or nominal pay) in the well established house of Duncan, Sherman & Co. in New York. They did some business with George Peabody & Co. and also did a correspondent business with other foreign banks. The system of volunteers is still a tradition in European merchant

banking and was in this country a century ago. It kept banking confined to those with funds—young gentlemen—gave firms a chance to look over their men, and provided a little free labor. It was essentially a very high-class apprenticeship system.

Morgan took up his work late in the summer of 1857, and was on the job in time to witness most of the Panic of 1857 and to hear premature stories of the demise of George Peabody's firm in London where the panic raged more than a month after sixty-two of the sixty-three New York banks suspended gold payments in a body. As an apprentice Morgan was not privy to the important affairs of his employers. This was probably their loss. Morgan was an ambitious and brilliant student. Banking is not unlike mathematics in some respects—there are answers to most of the questions. Jim Goodwin, his cousin, described Pierpont in 1857 as "just crazy to get into business!"

Pierpont quickly learned the banking business and Duncan, Sherman & Co. quickly learned about young Morgan. In the summer or fall of 1859 the 22-year-old volunteer, in New Orleans to study the movement of cotton and its attendant financial paper, had purchased on his firm's credit a whole shipload of coffee and sold it at a handsome profit before his astonished employers had time to intercede, which they tried to do. Morgan was always proud of this, his first business coup.

Morgan followed the trade of merchant banking in a fairly conventional manner for a long time. During the Civil War he was involved in some minor affairs over which a great deal of noise was made by the muckrakers. In 1861, when he was doing some banking business of his own he lent \$20,000 to one Simon Stevens, against a note of the United States government, to buy some unfired carbines from the army ordnance, rifle them and ship them to General Frémont. Morgan also lent the money to rifle the carbines. The weapons were bought from the government for \$3.50 each and sold back for \$22.00 each. Morgan had his money back in thirty-eight days. He had lent money against a U. S. government note. A scandalous proceeding to Gustavus Myers (*History of the Great American Fortunes*), but of no consequence to two official investigations of the "Hall Carbine Affair," and a court ruling after a public trial.

A second "scandal" came in 1863 and involved gold speculation. Since the Federal government's greenbacks were fluctu-

ating in value daily against gold, and hence against foreign exchange, the gold market offered a profit for quick wits. Morgan was in the gold market, at times speculating against the Federal currency. Biographers have considered this to be at best slightly off color or in bad taste, if not downright unpatriotic. Morgan was daily in the business of buying foreign exchange—as a merchant banker that was his everyday affair. Since the prices fluctuated daily, and he was not in business for his health, he bought in the cheapest market and sold in the dearest. I suppose he might have been patriotic and always sold gold at the official greenback price (as much as 40 to 60 percent below the market price) but he wouldn't have been in business long. Biographers should read books about banking.

Morgan also paid \$300 for a "substitute" in the draft. As Matthew Josephson noted in *The Robber Barons*, very few of the business leaders of the late 19th century wore the Federal uniform (or the Confederate) in 1861-65. In the North, as in the South, the Civil War was evidently "a rich man's war and a poor man's fight." It is on record, at least, that Morgan "helped out" his substitute, whom he called "the other Pierpont Morgan," for some years after the war. It seems an odd way to raise an army, but the substitute system was general and accepted practice. There were millions of eligible, healthy and brave young American men who did not go to war in 1861-65. Morgan was among them.

Morgan's first, and tragic, marriage occurred in 1861 at about the time he lent Stevens the money for the carbines. On Oct. 7, 1861, Pierpont married his sweetheart, Amelia Sturges, although he knew that she was fatally ill. He took her to Europe, to the South of France, but she was dead within four months. He brought her body home to America. A widower at 24, he was married a second time in May, 1865, to Frances Tracy, daughter of a New York lawyer and the mother of his four children. J. P. Morgan, Jr., the second child and Morgan's heir, was born in September, 1867.

During the years after 1865, when his family was growing and Morgan was establishing himself in New York, Morgan's business interests were slowly expanding. He had taken on as a senior partner, an old acquaintance from Duncan, Sherman, Mr. Charles Dabney, and, accordingly, in 1863 J. P. Morgan & Co. became Dabney, Morgan & Co. They continued as agents for J. S. Morgan in London and followed the usual merchant banking line. Data for foreign-exchange transactions

I have seen indicate a remarkable success of Morgan's firm in international finance in these years.

Morgan had also been importing railway iron and had become sufficiently interested in the railroads to take his wife out to the West Coast and back in 1869, just as soon as the transcontinental line was finished. On this excursion they went down to Salt Lake City for an interview with the old Lion of the Lord. The transcontinental railway, a mortal threat to the old empire builder, was merely a diversion and a source of entertainment to the new empire builder. Every man in his time and element. Soon enough the rails would become a serious concern for the new empire builder. But he would not be threatened by them, he would become their master.

It was in 1869 that J. P. Morgan first showed his strength as an organizer of capital. It was a portent of things to come. When he arrived back in New York in September from his transcontinental tour, the "Susquehanna War" was on. Morgan, the merchant banker, now changed character, and in his first important financial engagement, at the age of 32, the investment banker took over and defeated none other than the Erie barons, Jay Gould and Jim Fisk.

The details of the Susquehanna War make a colorful episode in American railway history, and we will deal with the color. But the Susquehanna War is also a classic example of the process we are studying—the impact of the financial system upon economic growth. It is worth considering in a little detail. In a sense the individuals involved are perfectly irrelevant, especially from the "crude" Marxist view that only processes, and not people, count in the making of history. It is clear, however, that the techniques used in a given situation are the consequences of the choices of individuals. Consider the Susquehanna War.

First the process. As the American railway system experienced its booming expansion after the Civil War, much of the construction was done, as in the past, by relatively small companies. However, the technology of railroad operation dictated that in the majority of cases there were great "economies" available in large-scale operating units; larger companies were more efficient than small ones. This was not uniquely an American phenomenon; by the 1860's the English railways were also involved in a mammoth amalgamation process. As in the case of England and, for that matter, in this country today, amalgamation was the handmaiden of the proliferation of railway lines. The older and larger companies found it

profitable to absorb branch and connecting lines. In most cases the smaller lines found it profitable to be absorbed. But sometimes they fought back.

Dramatis Personae. Joseph Ramsey, president and director of the Albany & Susquehanna Railway Co., a small line (142 miles long) connecting several main lines including the Erie, and opening a route for the coal of South Central New York and Northern Pennsylvania possibly all the way to the New England markets. Judge Rufus W. Peckham, State Supreme Court Judge, friendly to Ramsey. Jay Gould, the diminutive Mephistopheles of Wall Street, power in the Erie management, noted company wrecker, student and protégé of Daniel Drew, the wily old cattle dorer and stock-market manipulator. Gould was one of the evil geniuses of American finance, favorite target of the muckrakers and probably for good reason. Jim Fisk, partner to Gould, big, gaudy, flamboyant and ill-fated (he was murdered). Judge George G. Barnard, Gould's judge, "owned" by Gould along with his stable of Governors, Senators and high Federal officials. Pierpont Morgan, Napoleon-to-be of Wall Street. Samuel Hand, Upstate New York lawyer and counsel to Morgan.

The Albany & Susquehanna Railway was started in 1863 and completed early in 1869. As with most railroads, "government" in one form or other (read Prof. Carter Goodrich's *Government Promotion of American Canals and Railroads 1800-1890*) was critically involved in the financing of construction. In this case, towns along the route traded their bonds to the A. & S. for stock in the road. The municipal bonds were then sold in the capital market to raise cash to finance construction, and the A. & S. stocks were held in municipal treasuries. The directors of the A. & S. represented the municipal stockholders.

Gould decided to add the A. & S. to the Erie network. This was to be done by simply buying the stocks from the municipalities until a controlling interest was acquired and Gould directors and a Gould management ruled the A. & S. There would be no great difficulty for a man with Gould's connections. It was a matter of "influencing" local politicians.

The buying began; Ramsey was alerted and issued enough new stock to keep Gould from control (Gould and Fisk had pulled the same stunt on Commodore Vanderbilt in a fight over the Erie). Accordingly, Judge Barnard issued an injunction restraining Ramsey from interfering with Gould's stock transfers, from acting as president of the A. & S. and from

issuing any more stock. The annual election of officers was to be held on Sept. 7, and the stock transfer books were to be closed Aug. 7. With Ramsey under injunction, another director locked up the books and, before the Gould forces could break down the doors (which they did), the books were removed and hidden.

An injunction was now issued restraining Gould's directors, and Judge Peckham appointed a court receiver to run the property until the election. Fisk, in Albany, brandishing Barnard's injunctions, was forcibly ejected, thrown out of the A. & S. offices. All this was done by Aug. 7. With the law thus suitably deadlocked and a receiver "operating" the road, the Susquehanna War began.

Under a further writ from Barnard, the Albany sheriff seized control of the Albany property of the A. & S., and Erie train crews ran the A. & S. trains as far as Harpursville. Gen. Jim Fisk in command. At Harpursville a tunnel was "no man's land" and the Ramsey men ran the A. & S. on the Binghamton end. Private armies of about 6,000 men each camped at both ends of the tunnel; an engine was derailed; violence followed; the tunnel changed hands several times and the Governor ordered out the state militia to impose a truce upon the belligerents. With the state militia under General McQuade involved, private warfare was at a dead end and new strategies were called for. Judge Barnard accordingly issued an order setting aside Judge Peckham's orders. Judge Peckham followed with an order setting aside Judge Barnard's orders.

The air was quickly filled with suits and countersuits. What the law might be in the end, no one knew. Gould was evidently certain that he had sufficient stock and proxies to win the election which was to follow shortly. He turned the final details over to Fisk and concentrated upon the newest operation, bribing high officials in the Grant Administration to stop United States Treasury sales of gold long enough to enable Gould to corner the gold market—the spectacular "Gold Corner" of 1869, another of "Jay's little tricks."

At this point Ramsey was directed to Pierpont Morgan. Why he turned to Morgan is not clear. So far as we know, Morgan, a comparative youngster, had not entered into the industrial battles as any kind of Napoleon; there had not yet even been a "whiff of grapeshot" from Morgan's guns, let alone any major campaigns. Morgan was then a highly successful merchant banker, buying and selling foreign exchange.

He had not been in on the beginning of the Susquehanna War; he had been out West and had only arrived back in New York on Sept. 1, a week before the election. Someone "knew his man" and so Ramsey sought out Morgan. After reading over a memorandum on the situation, Morgan, who disliked Gould intensely, agreed to take on the Erie tycoons if Dabney, Morgan & Co. were given a completely free hand to conduct the campaign (this was to become the model of the later J. P. Morgan, financial Caesar; he did things his own way, the Morgan Way). Ramsey agreed.

Morgan moved quickly: there was little time. Dabney, Morgan & Co. bought 600 shares of A. & S. for their own account (the stock books were open by Barnard's first injunction against Ramsey). Judge Barnard enjoined them. Morgan retained Samuel Hand of Albany as counsel and proceeded. There would be lots of time later for legal proceedings. The A. & S. stock lists were studied carefully and the election was "organized" by Morgan, purging in advance enough Gould votes to ensure a Ramsey victory. The night before the election, Hand discovered dramatically (from the observation platform on the rear of a moving train) that Fisk was coming back to Albany with a train full of Bowery "stockholders" to take over the meeting. On the morning of Sept. 7, Morgan and Ramsey, playing the game according to the developing rules, met Fisk at the top of an outside staircase and the obese Erie tycoon was knocked backward down the stairs (his second violent ejection from A. & S. affairs). Whether Morgan or Ramsey did the physical work is not clear and not important.

Fisk and his "stockholders" had to be kept from controlling the meeting and were. Morgan locked the doors, Ramsey was re-elected president and Morgan himself was made vice president (his first trip as a railroad officer). Judge Barnard enjoined everything, but, before he could be reached, Morgan had leased the A. & S. to the Delaware & Hudson Canal Co. for 99 years. After all the suits and countersuits were duly adjudicated, Morgan won and Gould (recently enriched by successfully cornering the gold market and then breaking it by dumping at the peak just as the Federal government began to sell gold again) had lost. One railroad had passed under Morgan's thumb, going from conflict and chaos into the deep freeze of a Morgan reorganization. Many more would follow. Years later even the Erie was transmogrified by Morgan's reorganizing methods (and E. H. Harriman's ideas). Morgan

hated disorganization and corporate chaos. It was later charged that his dislike for chaos was essentially a dislike for competition. We will deal with that in due course.

Thus ended the Susquehanna War. It was a small-scale model, in many respects, of the pattern which American industry followed in the years from the end of the Civil War to the early 20th century. Except for the ordinary criminal code, there were no rules or laws to govern the amalgamation of companies as the size of individual producing units grew in accord with the scale of operations warranted by the growth of the national market. There was groping, by companies, by the courts, groping by government.

Eventually the rules of the corporate amalgamation and reorganization game were agreed upon. But only after the wisdom of experience was gained. The mixing of men and law and money, as in the Susquehanna War, was to be repeated again and again, although not usually with violence, as parts of the raw, new and dynamically growing industrial economy went from adolescence into adulthood. Experience came, industry by industry with growth and aging. We see it all clearly enough now, but because of hindsight. At the time it was a great transformation and Pierpont Morgan became a colossus in that transformation.

Oddly enough, Morgan's victory in the Susquehanna War was no clarion call to him. We like to believe that heroes hear history's beckoning voice and step boldly onto the stage at the appointed hour, just as they do in the Hollywood pictures. History is sometimes too fickle for that sort of thing. In fact, soon after the Susquehanna War, Morgan was contemplating retirement from banking. Following his father's coup with the French bond syndicate in 1870, Pierpont was bothered again with a recurrence of his old headaches and his skin troubles. He had made enough money to provide a comfortable life, and his old partnership with Dabney had run its course. His cousin, Jim Goodwin, a business associate since childhood (they played at business as children), had decided to leave New York and return to Hartford. Morgan faced the prospect of reorganizing his business altogether and, although only 34 years of age, was experiencing enough *Welschmerz* to consider giving it all up, at least for a few years.

Instead of that he was now to form a partnership with the Drexels of Philadelphia, which brought a great change in his affairs. The Philadelphia banker, Francis M. Drexel, had died in 1863 leaving his firm to his three sons, Francis, Anthony

and Joseph. In May 1871, Anthony Drexel telegraphed Morgan to come to Philadelphia for dinner. Morgan took the train down and came back to New York that night with the terms of a proposed partnership with the Drexels written on the back of an envelope. In response to Pierpont's protestations of ill health, Anthony Drexel had agreed to an immediate one-year leave of absence.

Morgan was to become a full partner in Drexel & Co. of Philadelphia and each Drexel was to be a partner in the New York firm of Drexel, Morgan & Co. By the terms of the partnership each partner shared in the profits on a *pro rata* basis of his contributions to the firm's resources (presumably including "labor"). Morgan agreed to this arrangement; the new partnership began business July 1, 1871, and Morgan sailed within a fortnight with his family for London. It was on this trip that he first visited Egypt, a momentous tour, the consequences of which we will consider in due course.

The new firm was one of great potential power, linking the Drexels of Philadelphia, Pierpont Morgan of New York, J. S. Morgan in London and a Paris affiliate, Drexel Harjes & Co. Within this framework Pierpont Morgan would become one of the most powerful international investment bankers in the history of finance. This international framework provided outlets which enabled a flood of American railway, government and industrial securities to find European buyers discreetly and efficiently. By such placements Morgan was virtually to eclipse his competitors.

The entry of Drexel, Morgan & Co. into the national focus came with the Federal debt refunding in the early 1870's, followed in a few years by the sensational sale of a large share of William Vanderbilt's New York Central stocks. After that there was an increasing number of spectacular financial operations, capped early in the 20th century by the organization of United States Steel, the Northern Securities Trust and an attempt to organize a gigantic international shipping combine. Throughout the period from 1871 to the early 20th century, Morgan's business was closely allied with structural changes in the rapidly growing national economy; the mark of the House of Morgan—tight organization, central control and "community of interest" among former competitors in output and pricing policies—was becoming ubiquitous. At the end of this period street vendors in London were hawking licenses to remain on earth signed by Pierpont Morgan, and Morgan, lavishly courted by king and kaiser, had become the symbol

of international financial power. The notoriety both fascinated and repelled him. In his biography of the banker, Frederick Lewis Allen quoted the choicest comments from Finley Peter Dunne's "Mr. Dooley":

Pierpont Morgan calls in wan iv his office boys, th' prisdint iv a national bank, an' says he, 'James', he says, 'take some change out iv th' damper an' run out an' buy Europe fr me,' he says. 'I intind to reorganize it an' put it on a paying basis,' Improv. Willum, an' tell them we won't need their savices after nex' week,' he says. 'Give them a year's salary in advance. An' James,' he says, 'ye better put that r-ed headed bookkeeper near th' chure in charge iv th' continent. He doesn't seem to be doin' much,' he says.

By this time the "rules of the game" of the growing American economy were hardening and a complacent nation had awakened to the realization that "ruinous" and "cutthroat" competition were words which described a world most Americans might prefer to Mr. J. P. Morgan's community of interest when the "community" was limited strictly to management and stockholder. Morgan, the Caesar of Wall Street, organizer of finance, transportation and industry, came to be viewed as "the enemy" by those who fancied that their own views were the views of "the people." A nation which wanted more, not less, competition in industry had a right to change the rules of the game of American capitalism. But it is only justice to observe that, in the process, Morgan became the victim of *ex post facto* proceedings. But so did many others.

An examination of Morgan's main financial operations up to the Northern Securities organization shows a skillful and moralistic player of a part of the game of American economic development. What was involved was the stabilization and reorganization of institutions in certain industries which had to be realistically fitted into an economy which could not, or would not, support their existing structures.

The government refunding operation is illustrative of how economic change produced "technological unemployment" in even so sophisticated a sphere as investment banking, and none other than the fabulous Jay Cooke was to be the victim.

The Federal government's Civil War expenditures had been partly financed by the flotation of bonds at 6 percent. Congress authorized a refunding of 500 million of these bonds at 5 percent to take advantage of lower interest rates and cut

the cost of servicing the debt. In 1871, Jay Cooke, the Civil War financier, had formed a syndicate to sell the refunding issue, and the sales, not adequately organized, had not been satisfactory. Cooke needed an international market, but, even with powerful allies, seemed unable to put together a syndicate with sufficient resources.

In 1873 more of the new bonds were to be offered. This time Drexel, Morgan & Co. cut themselves in, allied with J. S. Morgan and Baring Brothers in London, Levi Morton (a partner and business associate with J. S. Morgan years ago in the Boston drygoods trade) and the Rothschilds in New York, London and Paris. For such an operation 1873 was a bad year, but the Morgan syndicate managed to place privately, partly in Europe and partly in the U. S., some 200 million of the refunding issue. Cooke had now been eclipsed and was, in fact, wiped out altogether in the Panic of 1873, leaving Drexel, Morgan & Co. as the leader among the major American financial houses with powerful international connections. The guard had been changed in Wall Street, and Jay Cooke followed Fisk and Drew into the dustbin of history.

Pierpont's international connections paid off again in the spectacular New York Central deal a few years later. The old Commodore, Cornelius Vanderbilt, had gone into railroads in the late 1850's and by the 1870's had put together the enormous New York Central System. When he died in 1877 his great fortune, including some 87 percent of the stock of the New York Central, went to his son William (considered until middle age by the Commodore to be simple-minded and kept on a farm on Staten Island).

William Vanderbilt was distressed at being the target of public abuse as the "owner" of the New York Central. Moreover, the New York Legislature could tax the road with impunity, knowing that the incidence was falling mainly upon a single unhappy, unpopular millionaire. Vanderbilt was advised by his associates to cut the extent of his ownership of the New York Central. The problem was how to market an enormous block of N. Y. C. stock without depressing the prices. Vanderbilt, impressed by Morgan's discreet placement of the government bonds, sought an interview with him. Morgan agreed to form a syndicate to take a total of 250,000 shares, valued at some \$25,000,000, and place them quietly abroad. The placement was done successfully and, when news of the deal came out in New York, Morgan's reputation soared even higher. Moreover, his firm held the proxies of the English

investors and Morgan, their representative on the Central directorship, was now a power in American railroading.

A year later Drexel, Morgan successfully placed a large issue of Northern Pacific stock. Morgan's firm continued its merchant banking business, and discreetly placed American securities with its European customers too. But Morgan was now a major force in the troubled world of American railroads and in the next two decades his hand was felt with increasing force as the new arteries of commerce were amalgamated and reorganized to move them from a land and construction speculation basis to a Morgan basis—profit making. The railroad economy was settling down to the task of making profits out of day-to-day operations, and Morgan, like Harriman, could see the role that the financier had to play.

Not only were the main trunk lines completed, but branch and connecting lines had been built into every area where a profit might conceivably develop from the rapid growth of towns and cities, the opening of mineral deposits and farmlands. The system had to be reorganized, and efficiency introduced into the ruins of the railway empires. Increasingly, Drexel, Morgan & Co. (J. P. Morgan & Co. after 1895) did the job. But there were others: E. H. Harriman, for example, was playing the same game as Morgan. Railroad reorganization offered a great field for the men of finance.

The first of Morgan's more spectacular settlements came in 1885. William Vanderbilt was in trouble again. In 1883 he had gone in with Carnegie and others to build a line through from Philadelphia to Pittsburgh to drain off traffic from the Pennsylvania Railroad. On the west shore of the Hudson a speculative line had been laid down in earlier years as far as Buffalo by Gould and others, roughly paralleling the Central tracks across the Hudson. This line, the West Shore Railroad, had been built to siphon off enough N. Y. C. traffic to force the Vanderbilt interests to buy it. This did not happen and in June, 1884, the line had slipped into receivership.

It was rumored that George Roberts, hard-bitten head of the Pennsy, would buy control of the West Shore and a rate war would commence between the nation's two largest roads. Morgan had watched this development carefully, and early in 1885 had gone to London to discuss N. Y. C. affairs with his father. Pierpont came back on the same steamer with William Vanderbilt (who had been vacationing) and began developing a plan to bail everyone out. By July, direct negotiations had taken place between Roberts and Chauncey Depew, president

of the Central; but Roberts had proved to be "exceedingly obstinate." It was an extraordinarily hot summer and Morgan, who was now living on the princely scale the world remembers, invited the principal figures in the dispute for a cool cruise aboard *Corsair* (the first of three yachts with the same name owned by Morgan). Roberts showed up with his lieutenant, Frank Thompson. The party—Roberts, Thompson, Morgan, Depew and the crew—went aboard at 10 A.M. on the Jersey shore, and Roberts was not on the gangway again until 7 that evening. He had said very little as Depew talked on and on, but, mounting the gangway, he turned to Morgan, shook his hand and said: "I will agree to your plan and do my part."

Morgan now asked Vanderbilt for a Central lawyer and Vanderbilt sent him Judge Ashbel Green. Morgan laid out his plans and asked Green how to do it legally. When Judge Green gave his opinion that it could not be done legally, Morgan's characteristic comment followed: "That is not what I asked you . . . I asked you to tell me how it could be done legally. Come back tomorrow or the next day and tell me how it can be done." In the end it was done, and Morgan took the judge back over the scheme step by step and made him admit that it was legal. Morgan always savored his triumphs. It had been legal all right, but only after a great deal of fast court action which, at one point, saw Pierpont Morgan, Chauncey Depew and Judge Green as sole owners of the West Shore Road before they could transfer their newly acquired property to the New York Central. The N. Y. C. ended up with the West Shore Road, and Vanderbilt agreed to abandon the South Pennsylvania Road (Allen points out that part of the Pennsylvania Turnpike today runs over the roadbed of the old South Pennsylvania). Vanderbilt "dropped dead" three days after the West Shore settlement was completed, and the third generation controlled the old Commodore's fortune a scant eight years after he had gone to his reward. The South Shore settlement was especially sweet to Morgan because his Yankee father, upon hearing the details, had finally admitted that the boy (now 48 years old and without a peer in American finance) had talent. Satterlee, Morgan's son-in-law, is worth quoting on this final point.

Pierpont's father had never complimented him on anything that he had done but he said to . . . [Pierpont's wife] . . . the next time he saw her, 'Pierpont handled the West Shore affair better than I could have done it myself, and this pleased Pierpont very much.'

Presumably Junius could stop worrying about what in the world he would ever do with Pierpont.

After the South Shore settlement, the railroad reorganizations came thick and fast. By then the world of finance had come to recognize and fear Morgan's tremendous influence. The big laconic man with the blazing eyes and the long cigar not only had earned his father's praise, but Wall Street's deepest felicitations.

In 1886 Morgan decided to end the railroad confusion once and for all. He couldn't buy everyone out. Morgan was, in John D. Rockefeller's immortal words, "not even a wealthy man" (who was by Rockefeller's standards?) and, of course, Morgan had no client with sufficient resources to buy all the railroads in the country. But Morgan could, by the force of his personality and logic, together with the awe in which he generally was held, simply bully the railway tycoons, as he later could bully the bankers. Morgan called a meeting at his home, 219 Madison Avenue, of the heads of the Eastern railways and the relevant bankers. It was a stormy session but the tycoons filed out having, by "gentlemen's agreements," committed themselves to regional associations to regulate their business in an orderly way.

There was as yet no Interstate Commerce Commission to regulate railroad rates. In the absence of government power, Morgan himself filled the vacuum (the Supreme Court later frowned upon these agreements as violations of the Sherman Act). When the Midwestern and Southern railways failed to behave satisfactorily, Morgan rapped their knuckles too. In late 1888 and early 1889, the leaders of most of the Midwestern and Southern roads were summoned to 219 Madison Avenue and treated to Jupiter's views on the railway trade. Drexel, Morgan & Co., Brown Brothers & Co., and Kidder, Peabody & Co. were the relevant bankers represented.

As in the case of the Eastern tycoons, the provincial tycoons became gentlemen by agreement, a temporary one which was renewed periodically until December, 1890, when Morgan summoned them back once more to his parlor for two more days "under his personal guidance." The gentlemen worked out a system, the Railway Advisory Board, to handle their rates in accord with the new Interstate Commerce Act. The newly constituted Interstate Commerce Commission was glad to see such public spirit among the railroad officers, and Morgan viewed his handiwork with pride: "I am thoroughly satisfied with the results accomplished," he said.

In 1886 Drexel, Morgan had reorganized the Philadelphia & Reading; in 1888, the Chesapeake & Ohio. Morgan had been defeated in 1887 in an attempt to reorganize the Baltimore & Ohio, and devised the voting trust (the trust owned the voting stocks and Morgan appointed the trustees) to enable him to control the affairs of the reorganized roads relatively indirectly.

Morgan tried to control his reorganized companies because, he felt, he owed their competent management to the stockholders who had become his clients. Morgan was increasingly placed on the boards of railways just for the prestige of his name, but more often to get his services in financial matters. Morgan always wanted his own way. He would take complete responsibility, but he wanted the power to do the job as he thought it should be done, and he knew what he wanted. Depew said of Morgan some years after his death: "He differed from all other bankers whom I met in my efforts to raise money by his intuitive grasp of the situation and quick decision." Morgan knew his business so well partly because he had built a brilliant organization; his partners, especially Charles Coster, the railway specialist, had become minor gods in Wall Street. No one man could have handled the immense business that Morgan managed. His organizing genius was used on his own affairs as well as upon those of the railroads.

In 1893-94 when Drexel, Morgan reorganized the Richmond Terminal, no fewer than thirty railway companies in the Southern railway system were placed under a single management—Morgan management. In 1895 it was the Erie's turn. Plundered and plundered again by one of the wildest railway managements in American history—Drew, Gould and Fisk, the Erie had never recovered. Its finances were now Morganized and Morgan's voting trust took over the management for an initial five-year period. The number of Morgan's railway reorganizations is too great to treat them all individually here. Essentially, the reorganizations had a common pattern: simplification of the corporate structure, reduction of the "water" in the capital structure, linking of small lines into systems wherever possible and control by a Morgan management.

Morgan was slowly bringing order out of chaos all right, but competition is sometimes chaotic indeed, and, as noted earlier, the nation had come to appreciate some of the major benefits of that chaos. Accordingly, with the Northern Securities Trust, a great Morgan railway reorganization became a landmark in Federal government anti-trust policy and a stag-

gering and bitter defeat for Jupiter. The rules had changed and Morgan's methods were outdated, quite suddenly it seemed.

As we noted earlier, E. H. Harriman, financier and reorganizer of the Union Pacific, had attempted to buy control of the Northern Pacific Railway in his struggle with James J. Hill. Morgan was Hill's ally and had engaged in the Northern Pacific battle against Harriman, "that little fellow," and between Hill and Morgan, Northern Pacific stock rose from 112 to over 1,000 in three days—the Northern Pacific Panic—May 6-9, 1901. Morgan and Harriman, the great railway financiers, now had to settle with each other and, as a result, the Northern Securities Co. was formed, uniting the Harriman and Hill forces to be a community of interest among three of the trans-continental roads and all their connections. This had been another spectacular Morgan organization, and there were clearly more to come. But now the tide had begun to run out against Morgan's conception of orderly, organized, cartelized growth. The long-changing political consensus had been given a sudden, sharp focus.

In September, 1901, President McKinley was assassinated and Theodore Roosevelt, "that damned cowboy," as Mark Hanna called him, was in the White House. Both McKinley and Hanna were men of the kind Morgan understood and respected. Roosevelt, although of vintage New York genealogy, had a wild air about him. He railed against the trusts. (A trust was Morgan's notion of the ideal way to organize industries, to spread order and responsibility, but to the courts device "in restraint of trade.") Roosevelt pilloried the old tycoons, the "malefactors of great wealth" as he put it at the Gridiron Club—some of Morgan's best friends were included. The long Victorian boom was ending, and as a counterpart to organization designed to protect the interests of the investors—the Morgan specialty—the pendulum swung back from the business oligarchy and the "Billion-Dollar Congress" era toward political democracy. The "little man," the farmer, the small-town businessman and the worker began once again to be courted by politicians. When McKinley was killed, the nation was, after all, little more than a decade away from the election of Woodrow Wilson. The tide had turned. In fact, the days of Morganized consolidation in corporate growth were already over when the greatest of Morgan's organizational

triumphs, the Northern Securities Co., United States Steel and the International Mercantile Marine, were achieved.

In 1902 Morgan was informed that the Attorney General was out to break up the Northern Securities Trust. The banker is reported to have been perfectly outraged at this, mainly because of the implication that something organized by Pierpont Morgan could be deemed either illegal or immoral. He argued plaintively, in an interview with Roosevelt, that it was unfair for the government to attack his creation without prior consultation. Allen quotes Morgan as saying to Roosevelt: "If we have done something wrong, send your man to my man and they can fix it up." The Attorney General's reply told the story of economic and political change: "We don't want to fix it up, we want to stop it."

Morgan had played a vital role in bringing order out of chaos in the national transportation system. But the nation wanted a difficult compromise instead; it wanted both order and competition. Morgan and many like him had gone too far on the road to order, and would continue to do so, thus providing work for the Anti-Trust Division of the Justice Department. The new rules said: order but not collusion; competition but not chaos. The nation is still trying to find out how to play those rules (as the electrical company executives recently discovered during their tenures at the Federal prison in Norristown). In 1902 J. Pierpont Morgan was hopelessly out of the new game and he knew it. After the Circuit Court decision went against the Northern Securities Trust, in April, 1903, Morgan said to one of his counsel, Francis Stetson, "You will have a pretty job, unscrambling the eggs and putting them into their shells and getting them back to the original hens." In 1904, the Supreme Court killed the Northern Securities Co., and the hens and the lawyers had to sort it all out. As we saw in the previous chapter, to students of American industrial history the Northern Securities case marks the end of "merger for monopoly" in this country. Monopoly is a bad word. Morgan was not explicitly trying to organize monopolies, he was just trying to limit competition. To him there was a difference. To modern economists the difference is largely imaginary.

In 1902, Morgan attempted to organize another branch of competitive chaos, the ocean traffic, and put together a proposed International Mercantile Marine: 120 ships, owned by many of the larger lines including White Star. The securities didn't sell and by 1906 the scheme had to be abandoned. The

oceans remained un-Morganized. An attempt to organize a New England railway network based upon the New Haven also failed, but only after Morgan's death.

Perhaps the failures he was experiencing by the early 1900's were offset in his own mind by the organization of the United States Steel Corp., the greatest merger the world had ever seen, and one which was considered by friend and foe alike to be a portent of the future. Morgan was operating in basic industries; the railroads had brought him into the coal industry, and when in 1901 he combined the greatest financial interests (including Rockefeller money) with the booming steel industry, the Morgan system seemed a blueprint of the future of American heavy industry. Historians have considered U. S. Steel as Morgan's greatest triumph. Possibly Morgan did too; Carl Hovey, who wrote an obsequious "court biography" (Morgan didn't like it) in 1912 "with Mr. Morgan's cognizance," as it says in the publisher's preface, considered U. S. Steel to be simply "his masterpiece." It was indeed a masterpiece of Morgan's organizational genius, and is worth studying from that point of view.

But Morgan's masterpiece was, in fact, the wave of the past. United States Steel did not grow with the industry; its share of output in 1901 was 60 to 70 percent but it could not hold such a share, and it was soon reduced by new growth in the industry (U. S. Steel's share is about 25 percent now). No more steel combines of such (proportional) magnitude were attempted, perhaps because of the law and the changing political climate, perhaps because of economics. More than once the great steel Leviathan's managers have protested that U. S. Steel is too big and unwieldy to be efficient, that it has run into managerial diseconomies because of its great size. It remains the largest single steel company, but in nearly two-thirds of a century no one else has thought that combining two-thirds of the industry's output under a single management would be the road to efficiency—a company which controls two-thirds of steel output could be organized without including U. S. Steel.

The great uproar over the steel corporation was a wasted effort. U. S. Steel was not the future of American industry. Some industries faced markets and technology which made the dominance of a few large firms logical, but other industries had different markets and technology. The subject of "concentration of economic power" is a complex one, but it has been, and is still being, closely studied, and the best students agree

that, since 1910, there has probably been an actual decline in industrial concentration in manufacturing output in this country. Nor have the courts been prone to equate bigness with monopoly. The competitive economy was a vital force, and chaotic and wasteful or not, it was retained. Morgan's trusts and cartels, efficient or not, did not receive the public's support.

Doubtless his vast reorganizations were needed where they were successful at the time, and, in those vast reaches of American industrial development, Morgan played a vital role and is deserving of praise rather than censure. After all, half a century later, under partly different and partly similar pressures, the banks and railroads have taken the amalgamation route again. Morgan was neither the first nor the last financier to recognize that mergers are sometimes profitable. Morgan played the organizational game in his time until the limit was reached. The great new industrial economy of 1870-1910 encompassed such growth that many of its basic units had to be reorganized to face an enormous internal market.

The U. S. Steel merger is so well known that we need only trace its basic outlines here to illustrate Morgan's abilities at the peak of his powers. He was in his sixty-fourth year in 1901. For some time he had taken an interest in the possibility of bringing "order" to the steel mills. Morgan was present at a dinner in 1900 when Charles Schwab, of Carnegie Steel, painted a roseate picture of the economies of vertical integration, and Morgan was deeply impressed. He had assisted Judge Elbert Gary in the organization of the Federal Steel Co. in 1898. This company was an amalgamation of several minor companies and their connecting railroads; but if Morganization was to continue further, the most important steel interests must be brought together, and, most difficult, the "old man of steel" himself, Andrew Carnegie, must be bought out. Rockefeller interests controlled the Lake Superior soft-ore mines, most of which Carnegie leased, and the remaining major ore deposits were controlled by Morgan's old ally, James J. Hill, the Great Northern magnate.

Carnegie was a ruthless competitor, the most efficient producer of steel ingots, and had recently started a foray into steel fabrication, and was, at the same time, proceeding with plans to build his own railway from Pittsburgh to the coast to eliminate once and for all his dependence upon the Pennsylvania Railroad. Carnegie threatened the existing industrial and transportation balance in every direction. No one doubted

that he could do whatever he pleased if he put his hard-grained mind to it. But it was also known that Carnegie was getting restive about remaining in the steel business at the expense of his plans for universal education and "the world at peace."

In fact, he had given Henry Frick, his long-time friend, antagonist, partner, competitor (Frick knew Carnegie well), a \$2 million option to buy him out, which Frick had lost. So Morgan faced his most enormous financing task. Would Carnegie sell?

After some conferences with Morgan, Charles Schwab, Carnegie's trusted lieutenant, went up to the St. Andrews Golf Club, played a round with the old man in the dead of winter and then asked him what his price would be. As we know, Carnegie wasn't modest; he wrote down a total in excess of \$400 million. Schwab took the figure to Morgan, who accepted it out of hand (and later told Carnegie he would have given him \$100 million more if necessary). Arrangements were now made with Rockefeller for the ores, with the companies which had been chosen for amalgamation: Federal Steel, American Bridge, American Tin Plate, National Steel, American Steel Hoop, American Sheet Steel, National Tube, American Steel and Wire. Thus commenced the great steel company, the largest ever created, with facilities for complete fabrication from raw ore to finished product. In March 1901 the world was astonished to find that United States Steel had a capitalization of nearly a billion and a half dollars.

The management was strictly blue-ribbon. Morgan had cut out the more objectionable principals (e.g., John W. "Bet-a-Million" Gates) from the management. Charles Schwab was to be president; Judge Gary, chairman of the executive committee, with Charles Steele as "Morgan's man" on the committee. It was an altogether breathtaking affair, \$550 million of preferred stock, \$550 million of common and \$304 million of bonds.

Initial reaction to the new organization ran to two extremes; naturally enough, after three decades of trusts, mergers, amalgamations, cartels, pools, monopolies and threats of more, followed by rising public sentiment against such arrangements, there was high complaint that the free market was in danger, that the nation's industry was on the road to monopoly, that there would soon be an emperor in the White House and so forth.

On the other side were the men of banking and industry who knew that perhaps half of the Steel Corp.'s capitalization

represented nothing more than "blue sky and water," and that the job of placing the securities would be a fantastic task, probably too big even for Morgan. There were also those, evidently including Carnegie, who believed that the steel corporation would fail as a business venture. The wily old Scot knew that more than one previous amalgamation had failed and that the properties had reverted to the bondholders at enormous profits. Carnegie had taken all his personal payment in bonds of the new corporation (\$225.6 million), for which Morgan had personally congratulated him on being "the richest man in the world." Carnegie, perhaps in the spirit of sour grapes, had his own characteristic comment, quoted by Satterlee.

Pierpont is not an ironmaster, he knows nothing about the business of making and selling steel. I managed my trade with him so that I was paid for my properties in bonds, not stocks! He will make a fizzle of the business and default in payment of the interest. I will then foreclose and get my properties back, and Pierpont and his friends will lose all their paper profits. Pierpont feels that he can do anything because he has always got the best of the Jews in Wall Street. It takes a Yankee to beat a Jew, and it takes a Scot to beat a Yankee.

Morgan fooled them all. U. S. Steel was not the road to monopoly control of the American economy; the securities were placed with ease, and Carnegie did not get to foreclose. Schwab did his job, as he had always done under Carnegie, and the corporation's growing assets soon absorbed the water. U. S. Steel was not, in my judgment, Morgan's greatest triumph at all. That was to come in 1907 when Morgan was an old man. United States Steel might have been organized by others. It was, in any case, the capstone of a long development of American industrial growth and was nothing more than a very large company in America's future. Other, less well publicized achievements of Morgan's had, I believe, more of an impact on the future of the country. But in the railway and industrial amalgamation movement, Morgan had been *the* man of his times, and no one can gainsay him that.

By the early 20th century, with the dissolution of Northern Securities by the courts, the failure of the International Mercantile Marine, and the public's option to encourage competitive, rather than Morganized, growth in industry, it was clear enough that Morgan's great organizing ventures, the sensations of the day, would be enveloped by the expanding national

economy. The railroad organizations scarcely can be considered the salvation of American railroading (at the time of this writing it is not entirely clear what the future and salvation of the nation's railroads might be), and the great steel company would become simply another giant firm (there is "price leadership" in more industries than steel), and by no means the largest in the country.

V

In his later life Morgan became an art collector on a colossal (such a superlative is justified) scale and it is not conceivable that he achieved his greatest personal influence in America's destiny by his love of beauty and hence by his patronage of the Metropolitan Museum of Art. There is nothing really paradoxical in this assertion. The overall productive ability of a people (the illusive word "productivity," output per man hour, is used by economists as a pretense toward quantitative knowledge of the phenomenon) is a mysterious and obviously complex combination of traits, not really well understood, but certainly very highly correlated with the general extent of education among all strata of the population. By "education" we include the presence of all those aspirations for the achievement of both material and esthetic objectives which motivate populations and governments toward long-range habits of industry and intelligent organization of resources, habits which make economic and cultural progress possible.

There must be the urge to save and improve. Without such an urge, output is devoted mainly to consumption, and investment with technological change is not possible. The implantation of such aspirations in underdeveloped countries since 1942, the "demonstration effect" (phraseology from the lexicon of recent economics jargon), is judged by many to have been one of the chief revolutionary forces at work in the "new nationalism" which has overthrown the empires of the pre-1914 "new imperialism." In the underdeveloped countries, some of them rich in artistic tradition of their own, the introduction of modern consumer goods produced the desire for economic advance.

In the United States, rich in the gimmickry of modern consumer technology, the introduction of fine art of the highest quality has wrought a desire for quality in the lives of Americans. Without such desires we doubtless would have

drowned by now in a sea of household appliances and hillbilly recordings. Morgan's paintings, porcelains, tapestries, sculptures, miniatures and so forth, which he brought to America, have vastly enriched the country; they have provided several generations of students with a free education. Not only must one take into account the more or less direct impact of the Morgan collections upon designers, students, architects and artists, but, perhaps more important, the esthetic impact and the indirect consequences in terms of general "enrichment" of the culture which have been carried away from the Metropolitan by the millions who have filed through the galleries of Morgan's collections for half a century.

Morgan himself seemed to view his great gift to the people in a Victorian way, an attempt to uplift and civilize the savages. Morgan, after all, was no "man of the people"; he was a patrician. But he was perfectly aware that his collections would change the country's life and, for that reason, toward the end of his life he became obsessed with the task of finishing off his collections and making provision for their public use. His collections were nominally valued at \$60 million when he died. Morgan wanted the bulk of it to go directly to the Metropolitan Museum, but like many a humbler "do-gooder," Morgan discovered to his dismay that "the people," as represented by their elected officials, were not pressing to be uplifted; the city of New York balked at putting up funds for a museum extension to house the great collection. It was therefore left to his son to dispose of the collections, to "render them permanently available for the instruction and pleasure of the American people," as it was put in Morgan's will. In the event, about 40 percent of Morgan's collections ended up in the Metropolitan Museum, and the rest was scattered. As Aline Saarinen put it in her recent book, *The Proud Possessors*: "The Morgan collections represent the most grandiose gesture of *noblesse oblige* the world has ever known."

Probably a professional analyst could convince himself that he understood Morgan's motives completely. The mere historian will have to settle for less; Morgan was a terribly complex man. Of course it is tempting to just lump Morgan, Carnegie, Rockefeller, Frick, Huntington, Stanford and all the rest together and argue that they somehow had bad consciences about their wealth. While this might seem to make some sense on a priori grounds—they were men of religious belief and knew about their Savior's attitudes regarding idle wealth—it is also clear that this procedure is too simple. It

deprives each man of his individuality, and anyhow, where is the *direct* evidence to support such a view? Like the others, Morgan, considering his business career, makes a curious and slightly unbelievable picture of Christian humility. Was it simply a matter of generosity run riot? Certainly Morgan had always been a generous man, but he had other traits.

The objects in the Morgan collections, especially the paintings, represented the streak of New England conservatism in their owner. At the time he seemed to many to be a reckless collector who was buying out the down-at-the-heels European aristocracy at exorbitant prices. Yet it is clear now that he was a shrewd buyer who mainly got what he wanted, proven masterpieces. He had no taste for "modern" work in art or in music. His conservatism was symmetrical. He was a strong supporter of McKinley and practiced his old-fashioned New England Episcopal faith, believing in the efficacy of "good works," of individual Christian charity as the main palliative for the social evils which were so evident in the New York of his time. He supported innumerable personal and public charities, educational institutions (including the Harvard medical school), hospitals, camps for boys and so forth. On these enterprises he lavished several fortunes. But there is no evidence that he recognized any areas in social reform which called for government action.

Morgan was also a strictly old-fashioned family man. So long as Junius Morgan lived (he died in 1890, thrown from a carriage in France at age 77), Pierpont dutifully wrote him his long weekly reports, and every year journeyed to London to visit the old merchant banker. The main holidays were occasions for family reunions and feasts at home. He was senior warden of his church (St. George's) and had the rector regularly for breakfast on Monday morning—a ritual. In 1871 Morgan bought Cragston, near Highland Falls on the Hudson. That remained his summer home till his death. In the fall of 1882 the family moved into their home at 219 Madison Avenue, and that remained Morgan's New York home. Some biographers have wondered why Morgan never moved his summer residence out to Long Island when the Hudson Valley lost its appeal as a summer retreat, or why he never moved "uptown" with the rest of New York's wealthy families. It would have been strange if he had done so. Morgan was strictly indifferent to changes in styles, tastes and opinions. He was one for family, old friends, established customs, the Episcopal Church and a protected private life.

Even his clothes, frock coat, silk hat, wing collars, were worn without noticeable change in fashion—except for the fancy waistcoats he favored when he was on the yacht.

I don't mean to imply that Morgan was in any sense a "stuffed shirt"; he wasn't. He was just an old-fashioned Victorian gentleman of means with the conservative habits and tastes of a family of Yankee bankers. But there was also something of the prince in Morgan. He enjoyed entertaining, either in his home or wherever he happened to be, on his yachts or, when abroad, in the hotels and on the vessels he favored at sea. He liked good food and good talk, but limited his circle of dinner companions to those he would care to invite into his home. On such occasions, whether they were dinners given in his private capacity, for example, as a prominent Episcopal layman, or in his many official capacities, commodore of the New York Yacht Club, president of the Metropolitan Museum, he entertained lavishly. A fireworks barge drawn up Long Island Sound to amuse the Yacht Club, Louis Sherry and his staff taken to San Francisco to cater for the Episcopal Bishops (on that excursion a lady reported seeing Morgan tip an astonished railway porter with a \$100 bill), a selection of solid-gold Egyptian trinkets given to the ladies after dinner as favors, these were domestic gestures typically in the Morgan manner.

He seems to have been interested in sports, but not excessively so. His son-in-law said that Morgan took no exercise of any consequence and ignored most of the "rules" of good health. He did some fishing. He smoked one cigar after another and played endless games of solitaire, the latter doubtless representing more of the mathematician than the sportsman. He raised prize colts at Cragston and sponsored racing yachts. His own yachts were used almost as floating homes when he was in the city during the summers and the family was at Cragston.

Morgan continued to be abrupt with people throughout his life. In many ways this represented the simplicity he preferred in all personal dealings. At his office he usually worked in full view of his staff, and he looked after his business affairs meticulously, even to the extent of auditing the accounts (at the New Year in 1913 when he was in his last year and in poor health, the figures from the firm's operations for 1912 were brought to him at his library for his audit). Morgan never "retired" from business. When he was questioned in 1912 by the Pujo committee, his answers were simple and direct and showed

that, even in his seventy-fifth year, he was still master of his house. It was on that occasion that he nonplussed his inquisitors (and the public and generations of historians) by bluntly asserting that, so far as he was concerned "character" and "not collateral was the primary basis of credit: ". . . a man I do not trust could not get money from me on all the bonds in Christendom."

With all the air of mystery around him, Morgan actually was no man of mystery at all—although a complex one—except possibly by way of contrast with the "400" of his day. His habits were perfectly regular, almost like clockwork, including each year a few months abroad, visits to his father in London, regular attendance for the "cure" at Aix-les-Bains, a favorite watering place; visits to galleries and art dealers. In his old age the bulbous nose made him terribly shy and he tried to avoid the inquisitive gaze of the public. He had little use for the popular press anyhow, and the possibilities of photography made him go to some lengths to avoid reporters. This perhaps contributed to the "enigma"; he tried to avoid extensive or close observation by the public. On the other hand, he seemed to enjoy having his presence noted wherever he was. On his return from Europe each year the *Corsair* would meet him at Quarantine, streamers and flags aflutter, his handkerchief slowly back and forth along the rail to return the salute (the *Corsair* also had a brass cannon which was sometimes fired to salute him).

Morgan had become a fabulous "figure"; he knew it, but did not relish all that went with being a celebrity. It was gratifying to be entertained by the President, the Kaiser and the Prince of Wales, to have Lord Kitchener to dinner, to advise the King of the Belgians on his investments, to have tea with the Archbishop of Canterbury, to be received by the Pope and by the Sultan. It was a pleasure to have one's own yacht come out in the channel to meet the ocean steamer and pilot one safely and directly to one's own mansion overlooking the Hudson. But it was no pleasure to be stared at, to have one's private affairs the subject of speculation in the press. Morgan relished his stature but hated the price he paid for it. "Perpont the Magnificent" claimed the perquisites of his position, but J. P. Morgan, son of Junius Morgan, scion of old Yankee Bible-reading stock, sometimes could not bear the burdens of his own magnificence. He was plagued, actually to his dying day, by his fame.

It was as an art collector that "Pierpont the Magnificent" seemed farthest in character from J. P. Morgan the investment banker. Morgan went after his collections with gusto. He had been associated with the Metropolitan Museum since its founding in 1870 and was among its first backers. By 1904 he was its president. Morgan wanted to make the Metropolitan the greatest art museum in the world. But he wanted more than that; he wanted it to be an educational institution covering the widest range of fine arts. To achieve these ends it was inevitable that there should be Morganization.

In 1906 he successfully prevailed upon Sir Purdon Clarke, director of London's Kensington Museum, to direct the Metropolitan—Coster in railways, Judge Gary and Schwab at U. S. Steel—Morgan knew the value of intelligent and trustworthy management. The Morgan control, as in industry and finance, was maintained. During Morgan's tenure as president the trustees met at his house—again reminiscent of his business affairs. Moreover, he soon added a glittering bevy of fellow tycoons to the board to assure a solid base.

Morganization was of course extended into the process of acquisition since he was acquiring the majority of the objects initially for his own private collection. He employed agents, placed his confidence in selected dealers and utilized system; wherever possible he relied upon confidential expert valuation of objects in which he had an interest. He built his collection quickly, most of it after the mid-1890's. He bought on an enormous scale and was accused by his detractors of buying in ignorance. As Aline Saarinen pointed out, time has shown that he was shrewd indeed in his purchases; only a small percentage were of questionable value, and an even smaller proportion were fakes. His methods were resented by many and constituted a revolution in the art market. Yet the student of his business career sees nothing really novel in his collecting methods. The typical Morgan patterns are all there. All that is novel is that, after decades of making his fortune, he was now investing it in assets which he proposed to give away.

Since Morgan had always loved quality and cultivated a deep understanding of his own affairs, it is not surprising that, once he turned to collecting, he became a close student of the market in which he was operating. He became especially attached to figurines, miniatures, illuminated manuscripts, early bindings, and manuscripts of noted works. It was not just paintings and statues with Morgan. He was an educated man

with sophisticated tastes. After the lovely Morgan Library was completed in 1906, he brought part of his collections together there and spent silent hours with his treasures. As a student at Vevey and Göttingen, Morgan had learned to sift and rake the dirt beneath the stained-glass cathedral windows, finding bits and pieces dropped there centuries earlier by the practitioners of the great medieval art. In the library the glass was fitted into the windows of the West Wing. The old man spent his declining years basking literally in the light of the ages as the sunshine filtered through his youthful collections.

Those who have written that Morgan was merely a rich American mindlessly piling up the treasures of the Old World are lost in ignorance of the man. He was passionately addicted to beauty and symmetry all his life. The touch of the mathematician never left him. Satterlee tells of a basketful of recently unearthed Egyptian baubles brought to Morgan during one of his excursions in Egypt, and Morgan afterward relating that he could feel the beads of nervous sweat running down his back as he watched the small objects being uncovered for his inspection.

Egypt became a special passion. He had first gone there to see the treasures of antiquity in 1871. On later trips he chartered river steamers to carry him up and down the Nile, and finally had a special all-steel steamer built for the same purpose. It was named *Khargeh*, after one of the primary archeological sites of the Metropolitan's expeditions and a favorite spot of Morgan's. In 1909 Morgan had personally inspected the diggings and had all the processes explained to him. After that the Egyptian Department at the Metropolitan was especially generously treated by Morgan in his official capacity, and he financed some excavations himself. In 1911 Morgan personally opened the Metropolitan's magnificent Egyptian exhibition. By that time he was nearly at the end of his tenure as president of the museum and was beginning to gather his vast acquisitions to present them to the Metropolitan, and to the City of New York. He arranged to have customs inspectors go to Europe to examine his collections before shipment so they would need to be crated and uncrated only once.

At this point Morgan tasted the cup of bitterness. In Europe there was public agitation to prevent the movement of his treasures. In New York, the Board of Estimate and Apportionment, under pressure from the Hearst newspapers (strange as that seems considering San Simeon) not to assist the old

millionaire, balked at appropriating money to build a new wing to house the collections. Morgan, benefactor of the Museum of Natural History, the Metropolitan Opera, Madison Square Garden, the New Theatre, the Cathedral of St. John the Divine, the Lying-In Hospital, a trade school, the Y. M. C. A., and a dozen other of New York City's social investments, and having helped to buy and preserve the New Jersey Palisades from being "developed" as a rock quarry, and who in 1907 had taken over the city's finances as we shall see, was now refused any municipal contribution whatever to house the greatest artistic benefaction in history. The story has been told many times, and need not be told again here.

Morgan's fifteen-year assault on the world's art was, even viewed simply as a way to spend 60-odd million dollars, a fantastic accomplishment. He brought his collection all home anyhow and did not deviate from his scheme to give it all to the City of New York in spite of the willful ingratitude of that city's elected officials. He could have given it to other friendly cities, Boston, London, Hartford, but he stuck with Gotham. Morgan's death in 1913 intervened and, as noted earlier, the City of New York received only about 40 percent of the total. Even so, Morgan had made the Metropolitan Museum indisputably a peer (or better) of the Louvre and the British Museum. For that, if for no other reason, New York, as well as the nation at large, has reason to cherish the old banker's memory.

Why did he face resistance on his scheme for the Metropolitan? This had, after all, developed into his primary interest—the object of his long career. Possibly Morgan the patrician had no idea how the ordinary New York political leader might view a Rembrandt self-portrait. This is not difficult to comprehend—consider the sniggering reception the Kennedy Administration's bill in 1961 to assist the arts was given in the United States Congress. It was Morgan's dream to make the world's great art freely available to the ordinary U. S. citizen—but the ordinary citizen hadn't asked to be thus enlightened. Certainly the political leaders in New York hadn't requested esthetic improvement. If it was not absolute folly in the early 1900's to expect the people's gratitude for such a gesture as Morgan made, it was certainly premature in terms of the nation's cultural advancement, vastly premature. Nevertheless, the nation has used the great collection in due time and has received the benefits of Morgan's largesse, if not in precisely the manner and sequence he might have wanted.

Possibly Morgan's rejection by "the people" in the matter of the museum wing was due to the Panic of 1907 and its aftermath. Morgan, who had played his role in financial reorganization for nearly four decades, had not been allowed to retire quietly to his art collections. In 1907 "history" called him back again to the center of the dynamic and unstable economy, and his actions in stemming the tide of financial panic brought charges that he and a "money trust" controlled the nation. He was investigated in 1912 by the Pujo committee, and his troubles with the officials of New York City may simply have been political; he was too controversial. However, if the events of 1907 contributed later to his temporary undoing at the Metropolitan, Morgan's actions at that time were his greatest personal triumph and, being so singular in our history, will be remembered so long as financial history is written.

VI

Imagine a situation arising in which the presidents of the major financial institutions of New York City would file into the private quarters of a 70-year-old man and agree to use their combined resources in any fashion that the old gentleman might suggest. It sounds like a science-fiction plot. Who could imagine such a thing? Yet that is what happened in 1907. Morgan was the old gentleman, and no other single event in his life so sharply illustrates the personal prestige he had acquired in his lifetime. Morgan's role in the Panic of 1907 also serves to illustrate another aspect of the nation's economic development, the maturing of the commercial banking system which had grown up during the 19th century.

To comprehend Morgan's actions in 1907 one needs to understand three factors: (1) the absence of a central bank, (2) the growth of the commercial banking system and (3) the problems produced by the first two factors during the "business cycle."

There was no central bank in the United States from 1836 to 1914. We had had two institutions which performed essential central-banking functions (mainly government finance and credit control). The First Bank of the United States was chartered by Congress in 1791 for twenty years. In performing its central-banking functions it generated sufficient opposition so that the charter failed to be renewed (by an incredibly close margin: one vote in the House and a Vice Presidential tie-breaking vote in the Senate). After the Federal govern-

ment's financial disasters in the War of 1812, the virtues of a central bank were appreciated enough so that a new one, the Second Bank of the United States, was chartered for twenty years in 1816. Its charter ran out in 1836, and Andrew Jackson vetoed the recharter bill. He charged that the bank, by constraining the note issues of the commercial banks, was becoming a giant money monopoly (which any self-respecting central bank ought to be, but which the Second Bank of the United States emphatically was not). The charge created a romping ground for historians out of which two Pulitzer prizes have been garnered, for largely opposing viewpoints.

From 1836 to the establishment of the Federal Reserve System in 1914, the United States had no central bank; the Treasury filled in some central banking functions in times of crisis, but when the Treasury needed a central bank, there was no recourse save private initiative (Morgan's in 1877, 1895, 1903 and 1907) or varying shades of disaster.

During the 19th century the American commercial banking system developed into its present unique form of thousands of banks, mainly without branches across state or even county lines. The system had grown up on the basis of state charters until the National Banking Act of 1863. In that year there were (not including unincorporated commercial or savings banks) more than 1,408 state banks and the 66 national banks. Because the notes of the state banks were taxed and the new national-bank currency was not, the number of state banks had declined to only 277 by 1873 while the number of national banks grew to 1,908, making a total of 2,245 banks in that year.

The number of national banks rose to 6,422 by 1907, but, as the system of demand deposits and checks came into general use, the tax on state banknotes was no longer a hindrance (notes were no longer issued by state banks). The advantages of state charters, which included generally lower reserve requirements and relatively lax auditing methods, brought the state-chartered bank back to popularity with bankers. By 1907 there were 11,469 state banks, making a total of 17,891 commercial banks (compared to 13,462 today and a central banking system) with their correspondent connections, all operating on a fractional-reserve basis, all promising to pay out legal tender and gold coin for deposits.

In addition there had grown up a system of nonbank intermediaries—life insurance companies, savings and loan associations and so forth, which kept deposits with the commercial

banks. Finally, the trust business, management of investment portfolios, estates and the like had been wedded to the commercial banking business. In the thousands of small units lay considerable danger.

In a financial system based upon fractional-reserve commercial banking, the system as a whole is illiquid by definition. It cannot pay off all of its deposits at once, or even a very large (larger than its cash reserves) proportion of them. A single bank might borrow from another, and banks in one city might borrow from banks in another city or from abroad; but, unless there exists a central bank empowered to *create money* on its own credit, the financial system must close its doors if the depositors "run" on their deposits. This simple fact is as true today as it was in 1933, 1929, 1907, 1895, 1884, 1873, 1857, 1839, 1837, 1834 or 1819, except that during the crises of those years there was no Federal Deposit Insurance Corporation and before 1914 there was no Federal Reserve System; there were just the "gold standard" (bimetallism before 1900) and fractional-reserve banking—incompatible if there were deposit runs. And there often were.

During downswings in business activity or in periods of deficits in the balance of international payments, the reserves of the banking system tended to be reduced and credit extinguished. With no immediate legal sources for monetary expansion, interest rates rose quickly to high levels. Capital values were reduced and there was credit stringency and, if apprehension mounted sufficiently among depositors in the thousands of tiny independent banking units, wild, blind unreasoning panic broke out like the plague. Runs commenced, sweeping away banks by the score and any temporary economic setback could become a rout, following by deep depression and mass unemployment. The ultimate defense was for the banks to close their doors. There were temporary devices to buoy up "confidence": e.g., the bankers' clearing houses could issue their own "money," scrip used in clearings. The Treasury, if it had the necessary bullion reserves, might make flamboyant gestures, like moving gold into a city in plain sight of the public as it attempted to do in the Panic of 1857 in New York. But time after time the banks were forced to close, dealing a body blow to credit, ruining thousands, and spreading chaos and disorganization in a business community that was already in distress.

Even if there were no central bank, reserves might be pooled to aid individual banks to keep panic from becoming

general and inexorably fatal. But strong leadership of extraordinary quality was needed to organize the terrified bankers to use their reserves to help each other when their own banks might be assaulted at any moment by depositors. Such leadership among private bankers in this country did not exist until Pierpont Morgan came along. He taught the bankers of Christendom a vital lesson in 1907 and kept an economic downswing from being intensified by a general banking collapse.

Morgan had had considerable experience in mobilizing bank resources on a general scale in the national interest before 1907. In 1877 when Congress adjourned without appropriating money for the army's payroll, Morgan had arranged for army vouchers to be discounted at cost by commercial banks to pay the soldiers. Until the Gold Standard Act of 1900, the country had a bimetallic currency which worked very badly at times.

In 1893-95, under balance-of-payments pressures plus continuous exchanging of Treasury notes which had been paid out for newly mined silver by the Treasury (a consequence of the madcap legislation of the silver interests in Congress) for gold coin to export, the Treasury's gold reserve was dangerously low. Morgan, in consultation with President Cleveland, formed a syndicate to market United States government securities in Europe in payment for gold which he guaranteed the President would come into the Treasury, and it did.

The silver interests and professional enemies of Wall Street were outraged that the American government should be forced to turn to a private banker. The absence of a central bank to engage in market operations which would attract gold actually gave the government little choice beyond refusing to sell gold — a violation of the currency laws. That the effects of the transaction wore off and that after six months gold began to flow out again, further enraged the enemies of Wall Street. Morgan offered to repeat the transaction but Cleveland decided to try a direct Treasury sale instead.

Morgan, incidentally, was evidently more efficient than a central bank might have been. If the exchange rates were at the ordinary gold export points, as they clearly were, the astonishing aspect of the transaction is that Morgan was able to assure Cleveland, and come through on his promise, that the gold would come to this country. Precisely how he managed this is not known. Even though lasting only six

months, for a private banker to stem the gold outflow of the United States was a breathtaking feat.

What Morgan did in 1907 was in many ways more impressive than his gold operations were in 1895, because in 1907 he was battling the public itself. He played the central banker's role in suppressing the panic, against the clear wishes of the depositing public to run on the banks and get out their money. Although a central-banking tradition had been developed in England, it was by no means so generally accepted as central banking is today. Indeed, as late as 1878 Walter Bagehot, in *Lombard Street*, was still against the tide of opinion when he argued that the Bank of England (which was then privately owned) had public obligations which were stronger than its private interests.

But Morgan's memory was long; in 1907 it was half a century long. He knew from experience that a central bank, even with such limited resources as the Bank of England had, could have powerful effects at the margin during crises if its credit were given liberally at crucial junctures, even if at high rates of interest. In the Panic of 1857, for example, the Bank of England had conducted an inordinately conservative campaign but that campaign had saved the center of the money market, prevented a general bank run and had in the process saved Junius S. Morgan and George Peabody.

Could a similarly conducted campaign at the center of the New York money market suppress the general spread of panic? Morgan had, after all, a business in London and watched from a vantage point the Bank of England's actions during crises in 1857, 1866, 1873, 1884 and 1890 when the tradition of central banking at the Bank of England was maturing. It is conceivable that, on the basis of his own experience alone, by 1900 Pierpont Morgan knew as much about central-bank operations during financial panics as did anyone outside the Bank of England.

During the brief financial upheaval in 1903 Morgan had begun plans for establishing a pool of banking reserves similar to the London pool of 1890 organized by the Bank of England's Governor Liddell-Dale to save the firm of Baring. The pool was not needed then, but in 1907 the need for centralized reserves was immense, and it took all of Morgan's powers to galvanize the banking fraternity into collective action.

The reasons for the 1907 panic are not clear to this day. Like the other "business cycles" we know about from extensive economic analysis, the 1907 crash was probably highly

individualistic and no one but a fool or a charlatan would attribute the crisis to a single cause, like the journalistic "overspeculation." That the 1907 crisis was a financial contraction which followed a "real" downturn in economic activity is clear enough; the few available indicators illustrate that. There were signs of a slackening in the pace of business activity; bank clearings in New York reached a peak in 1906 and declined slowly throughout 1907; building activity throughout 1907 was well below 1906 and even 1905. Interest rates (commercial paper rates) for short-term money had gone up already in 1906 and remained high and went higher in 1907 before the crisis, indicating the "tightness" of money as free bank reserves were reduced to the limit. Business failures had been rising in 1906 and by mid-1907 were up sharply. Finally, stock-market prices had started falling late in 1906 and, by early 1907, the alarm was already out that the market was jittery, dangerously so. Morgan was told that before he left the country on March 13, 1907, for his annual European cruise. Soon afterward, a Morgan syndicate selling railway debentures folded and the securities were absorbed by the syndicate members, because the public had bought only 1 percent of them. Conditions were bad.

The year 1907 was Morgan's seventieth and was begun by his moving into the new library and completing plans for the Wadsworth Atheneum in Hartford as a memorial to J. S. Morgan. Pierpont also went to Washington and met with President Roosevelt about impending railway legislation and spent some days consulting with Senator Aldrich on proposed banking reforms. The European tour, beginning in March, was of the type which had now become the familiar Morgan summer in Europe—a triumphal tour by the old millionaire and his numerous entourage to the galleries, tourist sights, watering places, official entertainments, all in the glare of an inquiring but largely unwelcome publicity.

In 1907 there was no Egyptian excursion, but the European tour was fairly glorious anyhow—London, Paris, Rome. The *Corsair* had been ordered to meet Morgan on the Adriatic and anchor off Venice. Morgan was back in London on June 22, picked up his wife, who had just come over, off to Paris and back in England on board the *Corsair* by Aug. 1 for the regatta of the Royal Yacht Squadron at Cowes. It was observed that Morgan's yacht was only less impressive than the one belonging to the King of England. By Aug. 21, the banker was back in New York for a while to appraise the

business situation and then, as a lay delegate to the Episcopal convention at Richmond, Virginia, rented an appropriate mansion, engaged Louis Sherry to cater for his guests and was off to attend to affairs of the spirit. The ecclesiastical idyll ended abruptly Oct. 19; Morgan's partners wanted him back in New York, and fast.

On Saturday, Oct. 19, Morgan's private railway cars started rolling back to New York and to his most trying and greatest personal triumph. Jersey City Terminal was reached early Sunday morning; Morgan and his party crossed the Hudson and broke up. As Morgan put his daughter Louisa on the train to Highland Falls, he told her that he viewed Monday morning at the Stock Exchange with apprehension. He went directly to his library where a group of his partners and colleagues awaited him. By lunchtime Morgan was hard at his solitaire (he played it intensively in times of crisis). Now the news had spread that he was back. The press was refused admittance to the library and set up a "picket line" (which remained for nearly two weeks) across the street and watched the ashen-faced financiers file in one-by-one to talk to Jupiter. It was time to hang together.

Harriman came, "bold, aggressive, ambitious and over-worked"; the Little Giant of Railroads instinctively came to the one man who could unite the financial world. James Stillman, sardonic and cold, head of the National City Bank and banker to Mr. John D. Rockefeller, came. Stillman knew what Morgan was worth and didn't like to admit it. The great ones filed in and the meetings with the old man lasted until after midnight. There he sat, an enormous old man of few words, implacable, with the bulbous nose and blazing eyes, the wing collar and huge cigar, the steady gaze; each man must make some kind of peace with Morgan. For some it must have been sheer hell. But it was Morgan or isolation. It was late Sunday, Oct. 20, 1907; the Panic of 1907 would begin next day and the "terror-stricken bankers" (the *London Economist's* words) knew it. Morgan was Wall Street's "greatest practitioner" and no one doubted it. At 70 years of age there was still no one else; his will and presence remained supreme. It was an altogether remarkable thing.

As always, Morgan put together an organization to direct his campaign. His partners, especially George Perkins, were of course privy to the operations—it was their money as well as Morgan's that would be used for grapeshot. In past financial crises the effectiveness of the Bank of England "at the margin"

came largely from the bank's command of information regarding the affairs of the main financial firms at the center; no funds must be wasted salvaging firms which could not be saved. The weak must die.

To gain intimate business knowledge quickly, and incredible amounts of knowledge at that, Morgan wanted a staff of bright young men from the main financial houses to do leg work and all-night auditing. He and Perkins chose such a staff at breakfast Monday morning, the 21st. Among the elect was Benjamin Strong, then a young vice president of Bankers Trust and destined, with the blessings of the House of Morgan, to become the first governor (the title for the job is now "president") of the New York Federal Reserve Bank. Governor Strong became, by acclamation, America's greatest central banker, admired even by the enemies of central banking. Morgan chose young men of quality to grapple with the affairs of 1907.

Finally, Morgan kept at his side Messrs. Baker, Stillman and Steele, representing the First National Bank, the National City Bank and J. P. Morgan & Co. Baker and Steele were "Morgan men" from way back, Steele a partner. Stillman was a Rockefeller man and had long since become a confidant of Morgan's, if a highly independent one. Baker and Stillman had joined Morgan in 1903 in the proposed pool of \$50 million of central reserves, so all the older men could well imagine what was coming. The young ones soon found out. Strong later reported nights without any sleep spent poring over records and wading through vaults as Morgan's *ad hoc* central bank burrowed its way into Wall Street to find the sources of weakness and strength.

Monday morning was mainly spent in observation. Morgan listened to some financiers; he avoided others. What was it going to be like? No one knew for certain. The first giant financial institution to totter and fall apart was the Knickerbocker Trust. Morgan was a stockholder, knew its affairs were very bad indeed. He made no move. The Knickerbocker Trust was doomed. The Knickerbocker's checks were being refused; lines of depositors were forming, and the panic would soon sweep the bank away. Tragedy or not, resources could not be wasted on such a shell. Meetings among Morgan and his colleagues lasted until late in the night; a more general run, in the wake of the Knickerbocker Trust failure, was expected next day.

On Tuesday, call money on the exchange reached 75 per-

cent. The panic was getting worse. Morgan could now see the outlines of his problem. He summoned the presidents of the major clearing banks, asked for their "figures" and on that basis allocated the amounts of the pool each bank was to prepare for. That day the 70-year-old Morgan had his breakfast at 8 A.M. with Perkins, worked at his office until 6 P.M. and the meetings in the library lasted until 3 A.M. Nineteen hours at the minimum. The old man was suffering from a cold and was clearly exhausting his physical resources.

On the morning of the 23rd, Wednesday, Morgan could be roused from his sleep (his son-in-law describes it as a "stupor") only by the family doctor with an assortment of sprays and gargles. The young men had been up all night examining the books of banks and trust companies likely to be hit by deposit runs.

The feeling of imminent disaster was everywhere that morning. When Morgan reached his office, Henry Frick, Harriman, Thomas Ryan and others were waiting. Was it time to act? Where and how? Ben Strong had been going over the records of the Trust Company of America; it was now undergoing a deposit run and would soon be "over the dam" with the Knickerbocker Trust. Morgan had not met Strong before the crisis but by now was mightily impressed. Did Strong believe that the Trust Company of America could be saved? Strong said, "Yes." Morgan turned to Baker and Stillman and said: "Then this is the place to stop the trouble." Oakleigh Thorne, president of the Trust Company, was instructed to hurry over to Morgan's with his securities as collateral for a loan. Morgan had the names of the securities read to him, jotted them down and quickly estimated their true market values, then had Baker and Stillman loose their cash upon the Trust Company. When the Baker-Stillman money arrived, the Trust Company was down to a mere \$180,000 and its frantic depositors at the tellers' windows were pressing in hard; by 3 P.M. closing they had \$3 million in the till from Baker and Stillman. Morgan had their securities in his vault.

But that had only been the beginning. The Pittsburgh Stock Exchange had closed its doors, and now a stock-market panic in New York could be expected. That would have to be met head on, but the short interest could be radically reduced simply by a flat threat from Morgan. He had it spread about that, if any member of the exchange sold short during the panic, such a member would be "properly attended to" afterward. That night Morgan called the trust company presidents

together again and asked them to pool \$10 million. During the bickering discussion he fell asleep in his chair, cigar and all; upon awakening his patience was at an end. He asked for paper and pencil, called for volunteers and wrote down the subscriptions. He got \$8,250,000 and left. He still had to dodge the platoon of newspapermen who haunted his steps at every turn going home (he stayed with the Satterlees during the panic). There was a final conference with Perkins before going to bed. He needed the sleep; next day he would have to save the Stock Exchange.

On Thursday the 24th, the morning papers carried "Morgan" headlines, with front-page pictures. Morgan clearly enjoyed all the fuss. He may have thought that the panic had been beaten the day before, so on Thursday he rode grandly down to Wall Street in a brougham drawn by a white horse, like a conquering hero. The crowd, pressed "curb to curb," opened to let him pass with cries (according to Satterlee) of "There goes the Old Man" and "There goes the Big Chief." The Old Man and Big Chief had little time to savor his triumph. He had won a battle but the war was still going on. At his office the bank presidents waited nervously. Morgan's efforts had had some effect; John D. Rockefeller had cracked open a bit and deposited \$10 million at the Union Trust Company to be used in the slush fund. But only a beginning had been made.

The stock-market panic was now on; "money" was quoted at 100 percent, which is arithmetic for "try and get it." The president of the New York Stock Exchange was already scared out. He came to Morgan to say that the exchange would have to be closed. Morgan pointed his finger at the unhappy man and, emphasizing each word with a jab, ordered him to keep the Exchange open; Morgan would find money to lend the brokers.

He called an immediate meeting of the clearing-bank presidents. They must supply \$25 million within fifteen minutes or the Stock Exchange would go under. Some of the bankers were losing their taste for dramatic actions ". . . and Mr. Morgan had to speak to them pretty plainly." Thus instructed in the ways of righteousness, the bankers formed a pool of \$27 million. To get the news instantly to the riot scene on the floor of the exchange, a group, including one Amory Hodges, was chosen to announce that money would be available at 10 percent. Violence roared through the packed humanity as

the chance to survive suddenly appeared. "Everyone surged to the money post and fought to get his share. Hedges' coat and waistcoat was torn off. . . ." Even his waistcoat. The Stock Exchange stayed open until its usual closing time.

That night the library conferences took up again. Hoarding of currency together with country bank withdrawals made it necessary to issue Clearing House Certificates in place of legal tender. Morgan, as a good gold-standard man, didn't like it, but knew that it had to be done. It would work. Morgan sat in the West Room of the library alone playing solitaire while the bankers worked out the strategy in the East Room. All Morgan had to do was say "yes" or "no"; he knew how to use a staff.

Next morning it was Baker and Stillman again after breakfast. Money had to be raised for the Trust Company of America again and for the Union Trust Co.; they were still under siege from long queues of depositors who had waited through the night. Moreover, panic had broken out again on the floor of the Stock Exchange where "money" was at 150 percent, even more nearly impossible to get than it was the day before. Morgan called the bank presidents together again; he thought that \$15 million would be enough to hold the line at the Stock Exchange. The bankers gave him \$13 million. Morgan left the Clearing House for his office. His son-in-law described the old man's progress down Nassau Street in a classic paragraph.

Anyone who saw Mr. Morgan going from the Clearing House back to his office that day will never forget the picture. With his coat unbuttoned and flying open, a piece of white paper clutched tightly in his right hand, he walked fast down Nassau Street. His flat-topped black derby hat was set firmly down on his head. Between his teeth he held the paper cigar holder in which was one of his long cigars, half smoked. His eyes were fixed straight ahead. He swung his arms as he walked and took no notice of anyone. He did not seem to see the throngs in the street, so intent was his mind on the thing that he was doing. Everyone knew him, and people made way for him, except some who were equally intent on their own affairs; and these he brushed aside. The thing that made his progress different from that of all the other people on the street was that he did not dodge, or walk in and out, or halt or slacken his pace. He simply barged along, as if he had been the only man going down Nassau Street hill past the Subtreasury. He was the embodiment of power and purpose. Not more than two minutes after he disappeared into his office, the cheering

on the floor of the Stock Exchange could be heard out in Broad Street.

The new money was at the money post.

Except for the Knickerbocker Trust, the major trust companies had been kept open and the Stock Exchange had survived a two-day siege. Morgan enjoyed Saturday afternoon and Sunday at Cragston, but Monday, Oct. 28, he was back in the trenches. The City of New York could not meet its current obligations. Morgan called in the Mayor, George B. Clellan, to work out the city's finances; \$30 million worth of 6 percent city warrants were to be issued. Stillman and Baker would arrange for the banks to buy them *pro rata* and then exchange them for Clearing House Certificates (money was thus created based upon debt, just as it is today with a managed currency whenever Federal deficits are financed through the banking system). Throughout the week Morgan's men kept at it, a loan here, an admonition there, constant consulting and auditing. It appeared that the defenses would hold. On Saturday, Nov. 2, the last great explosion occurred.

Moore & Schley, a prominent firm of New York brokers, was near the edge. It was decided that they had to be saved. The panic was dying down; it must not be allowed to build up again. At the same time, the trust companies had to form one more pool to save themselves. There was plenty of "battle fatigue" among the financiers now, but Morgan drove them on. Ultimately, the President of the United States (Roosevelt, who had spent most of this time hunting) had to be brought in. Moore & Schley had sold shares of the Tennessee Iron & Coal Co. and had then made loans against the shares as collateral. The brokerage firm was now unable to meet its own current obligations and had nowhere to turn for aid. Its failure would have set up a new train of disasters.

Morgan decided that U. S. Steel would have to acquire the T. I. & C. shares; but Tennessee Iron & Coal was a direct competitor of the steel corporation, and none of the Morgan people was anxious to get into anti-trust trouble again. But if the deal could be made, Moore & Schley would be saved; financing of the stock purchases could be carried, if necessary, with the help of the commercial banks until U. S. Steel could acquire them. Seventeen to nineteen million dollars were involved.

The most famous of the meetings at the library in 1907 was called to get all of this going—the trust company pool and the

Moore & Schley deal. It took Saturday night, Sunday and Sunday night to work it all out. On Saturday night, Morgan put the presidents of the commercial banks in the East Room. The trust company presidents (Morgan figured they would need to pool another \$25 million to carry them through) were placed in the West Room. Morgan, waiting for the financial luminaries to work it all out, sat at the desk in the little librarian's office playing solitaire. There could be no turning back. This was to be the last great holding operation of the 1907 crisis. It must work.

The suits slowly sorted themselves out on the table in front of him as Morgan's cigars burned. The Big Chief took no chances. When, in the early morning hours, Ben Strong had made his report to Morgan (evidently regarding the commercial banks) and went to the door to go home, he found that he could not open it. Morgan had locked the bankers in the library and had the key in his pocket. He intended to have his solutions before anyone left. Finally he imposed his own pooling arrangements on the trust companies. Allen describes the scene.

At last Morgan walked into the West Room and confronted them. He had with him a document which provided that each trust company, according to its resources, would put up its share of the twenty-five million dollars. One of his lawyers read it aloud, then laid it on the table.

"There you are, gentlemen," said Morgan.

No one stepped forward. Morgan put his hand on the shoulder of Edward King, the dean of the group. "There's the place, King," he said firmly. "And here's the pen." And he put a gold pen in King's hand. King signed. Then they all signed.

It was 4:45 A.M. when Morgan unlocked the doors. The next day the details of the Moore & Schley maneuver were worked out at the library, and Frick and Gary took the midnight train to Washington. Would the President agree not to prosecute under the Sherman Act? After breakfast Roosevelt agreed to Morgan's plan. When the market opened, it rallied. The deposit runs continued for some days, slowly dwindling, but the trust pool was sufficient to keep the doors open. Morgan, Stillman and Baker each took one-third of the T. I. & C. shares, these to be turned over to U. S. Steel as soon as possible. Stillman balked but followed Morgan on his assurance "I know my man" and that the T. I. & C. deal would be enough to save Moore & Schley. The depression of 1908 was

relatively mild, not having been detonated by an enormous monetary collapse like the one which came in 1929. After 1908 recovery came fairly rapidly and was strong.

The Panic of 1907 was a profound lesson. If Morgan could avert a catastrophe by mobilizing existing resources (the only new "money" was the increase in Clearing House Certificates), what might a real central bank do? In the next two years Morgan spent a good deal of time with Senator Aldrich on the subject. A National Monetary Commission was appointed to examine the prospects for a new central bank. The Pujo committee of the Senate, looking for bogey men, interviewed Morgan himself to see if there were secret devices, a vast "money trust" which controlled events (naturally they concluded for the "evil men" theory of history).

In the end we got a central bank, the Federal Reserve System in 1914, as a result of the Panic of 1907, the National Monetary Commission, the Pujo committee and a very large dose of partisan politics. The new central bank was to have less than a complete success at playing J. P. Morgan, as the thousands upon thousands (more than 16,000) of bank failures in 1920-34 show. After the 1933 debacle in which all of the nation's banks closed (and more than 4,000 did not reopen), the Federal Reserve System, together with the new Federal Deposit Insurance Corporation, seemed sufficient to cope with the problem; bank failures due to deposit runs have been virtually unknown since.

Morgan was in no sense the "father" of the Federal Reserve System. His actions in 1877, 1895 and 1907 showed that there was indeed a useful function to be played by a central bank, Andrew Jackson's fulminations against the evils of a money monopoly notwithstanding. The "art of central banking" is not generally viewed with approval by economists and bankers to this day. Perhaps central banking is a necessary evil. As the nation's economy became more complex, and industry and finance became inextricably entwined, some degree of Morganization seemed to be cheaper than the wild deposit panics, mass liquidations and bankruptcies followed by mass unemployment and possibly political upheaval which seemed all too real a possibility if there were no central-banking control. The change to extensive central-bank control was not immediate, even after the apparatus for it, the Federal Reserve System, was in operation. But Pierpont Morgan, with his almost irresistible personal power over his peers, showed in 1907 that financial crises of gigantic magnitude could be controlled by

intelligent and adroit financial management if that management could overlap all normal institutional frontiers when necessary. The nation's subsequent economic and monetary development owes Morgan a debt of gratitude for the lesson. If ever there was a private individual cast by circumstances into the role of statesman, it was Morgan in 1907. That the lessons of 1907 were not immediately comprehended was not his fault.

VII

Pierpont Morgan died in Rome on the last day of March, 1913, in his seventy-sixth year. When word of his illness was out, the hotel was besieged by art dealers, friends, private art sellers, photographers (they had a room across the street with a telescope trained on his windows) and newspapermen. The old man had been slipping for some months, had been taken ill in Egypt and in the end wanted to go to his home in London. He didn't make it. His affairs were in order. He had arranged to move his massive art collections to New York. He had been disentangling himself from some of his affairs, although not from the banking business itself. Much of his work, as already noted, is still with us today and continues to play a role in the shaping of the American destiny. His son Jack carried on the House of Morgan in the Morgan manner, and in the First World War the arts of international finance developed by Junius and Pierpont Morgan made the Morgan bank the center of finance in the Allied cause.

Such a life as Morgan's could hardly have been blameless and free of controversy. Yet, given the economic environment in which he worked together with the social and political milieu of his own experiences, it is difficult to criticize him with confidence; it was never hard to admire him. The old man, born during the great canal boom of the 1830's, had lived through the railroad era into the age of the airplane. Born when Andrew Jackson was President, Morgan lived to see Woodrow Wilson in the White House; born in the year of the young Victoria's accession, Morgan lived to see her grandson, the German Kaiser, at the brink of war. Born when the United States was in many respects an appendage of British trade and finance, Morgan lived to see and help organize industrial America. His life spanned the great American transformation. He played many roles as circumstances changed but found his greatest success as an organizer. By now few

of those works remain as he left them. But his contribution to the Metropolitan Museum of Art remains. In that, and in his other cultural benefactions to the nation, Morgan is still with us. To quote once more the *Economist's* remarkably prescient obituary:

... Mr. Morgan was undoubtedly a man of genius, with strong will power and a commanding personality. He will stand, as a contemporary remarks, with Carnegie the manufacturer, Rockefeller the commercial organizer, Harriman the railway man, as one of the four most original and typical products of modern America.

And so he has.

PART V

BUREAUCRACY: THE NEED TO MONITOR AND THE DANGER OF ORGANIZATIONAL GRIDLOCK

The fifth stage of economic life in our survey is bureaucracy—caretaking. Organizations cease to grow; the vital force ebbs. It may die with the founder, and what J. K. Galbraith calls "the entrepreneurial firm" becomes a memory. It is bureaucracy that takes over, and presides and administers in this world in which stability insensibly slips into stasis, stagnation and decline. The entrepreneurial energy is not only lacking; it is not wanted anymore. Routine administration abhors the disruption caused by new ideas. We all know this already, and the media entertain us from time to time with accounts of "whistle blowers" and other kinds of unwanted "idea people" who get forcefully ejected from various bureaucracies for disrupting the life of pure administration. As the saying goes (or used to go) in the Chicago political machine, "Go along to get along."

The life of order, routine and structure is the life of bureaucracy. It was reported, in a stellar episode in the annals of bureaucracy, that the American soldiers crashing into Cologne in the spring of 1945 disrupted the annual inventory of office supplies in the *Reichswinter*, to the great consternation of Hitler's hard-working public servants. Lenin was confident that the Tsar's bureaucracy would serve the Revolution as well as it had served the Tsar, and with equal ruthlessness, and Lenin was right. But the ridiculous *can be* subline. In an ancient Chinese novel there is a God of Promotions and a Temple of Salary Increases serving the administrators of the oldest continuous bureaucracy in the history of the human