

# J.P. Morgan

## America's Banker

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(1837-1913)

One of the most powerful bankers of his era, J.P. (John Pierpont) Morgan (1837-1913) financed railroads and helped organize U.S. Steel, General Electric and other major corporations. The Connecticut native followed his wealthy father into the banking business in the late 1850s, and in 1871 formed a partnership with Philadelphia banker Anthony Drexel. In 1895, their firm was reorganized as J.P. Morgan & Company, a predecessor of the modern-day financial giant JPMorgan Chase. Morgan used his influence to help stabilize American financial markets during several economic crises, including the panic of 1907. However, he faced criticism that he had too much power and was accused of manipulating the nation's financial system for his own gain. The Gilded Age titan spent a significant portion of his wealth amassing a vast art collection.

### Early Life and Career

Unlike many of his corporate contemporaries, Morgan had never experienced poverty. From his birth in 1837 to his death in 1913, James Piermont lived in luxury. Not long before he was born, his banker father, Junius Spencer Morgan, had received shares in Connecticut dry goods business from his father, which helped him build JM Beebe, Morgan and Co., the largest dry goods exporter in Boston. Using his firm, authoritative nature, Junius taught his son how to speak, act, and think like a banker throughout his childhood. During these years, J.P.'s parents sent him to study in Switzerland and in Göttingen, Germany,

where he excelled in math and spent his free time roaming the cathedral grounds, collecting discarded shards of beautiful stained glass – a premonition of his future as an affluent art collector. In 1853, when J.P. was sixteen, Junius was invited to become George Peabody's partner in his burgeoning London bank. He accepted and moved to England. In the years after his move, the firm became the largest American bank in London.

Despite his geographical distance, Junius Morgan remained an inescapable force in his son's professional life until his death in April 1890. The two men corresponded regularly – sometimes twice a week – in letters of lengths up to twelve pages that were rife with details of finance, politics, and business. In 1857, Junius sent 21-year-old J.P. to be schooled in American banking by Duncan, Sherman and Co., one of New York's leading private financial houses. After opening the U.S. branch of his father's bank with his cousin, James Goodwin, J.P.'s first endeavors as a partner of his father's bank were rocky; Junius often disapproved of J.P.'s financial decisions, accusing him of being reckless and lecturing him on the need to be conservative rather than chasing after quick gains. As a result of his father's chastisement, J.P.'s business moves became substantially wiser over time.

### The Road to Financial Dominance

Morgan's real breakthrough as an unstoppable financial force came in 1871, when he struck a deal with Anthony Drexel

to open Drexel, Morgan and Co. (after Drexel's death, it was shortened to Morgan and Co.). Within the year, the firm had moved to 23 Wall Street, which they had purchased for \$1 million, making it the most expensive piece of real estate in the world at that time. The company flourished, Morgan's gradually acquired conservative management allowing the firm to make it through several economic crises relatively unscathed. As his influence in the business world grew, he began to assert his presence in the political realm. Five years after the opening of his firm, during the 1876 presidential election, Morgan demanded that Drexel, Morgan and its syndicate partners each contribute \$5000 to Rutherford B. Hayes's campaign. His support was primarily economic; he explained his motivations with the simple statement, "Defeat means inflation."

Morgan was not just a partisan political force, but a federal one, as well. In 1873, two years after the opening of Drexel, Morgan, he underwrote federal bonds worth \$1400 million to help refinance the Civil War debt. In a sense, he had a hand in the overall financial stability of the entire nation.

The world of politics was not always friendly to Morgan, however. After the depression of 1893, the growth of the Populist Party and the widespread appeal of its presidential nominee, William Jennings Bryan, terrified the corporate world. To combat this growing threat to his omnipresence in business, Morgan headed a committee of New York bankers to fight Bryan by forming a \$50 million guarantee syndicate. Of this occurrence, Assistant Treasury Secretary William Curtis said, "U.S. finances [are] being controlled by a committee, of which J.P. Morgan is the chairman... while the Secretary of Treasury sits, practically powerless in his office."

This incident was not the first time Morgan undermined governmental authority in finance. In 1877, a public outcry erupted when Congress adjourned without having adopted a budget to pay for the army. To placate the angry military, Morgan stepped in and offered to "protect a class of men whose interest should, in our judgment, command the greatest and most earnest solicitude of the Government and the Country." He provided the War Department with \$550,000 per month, which was to be disbursed throughout twelve centers around the nation, adding up to a total of about \$2.5 million contributed to the army payroll – all of which was eventually paid back. It was a noble gesture, but Congress was irritated with Morgan; after all, they had not approved this loan.

### **The Corporation Craze**

Morgan's true calling, however, was not in the governmental or political realms. Instead, he was a pioneer of corporation, aiming to consolidate competing businesses into momentous entities that he could control. This quest to take over the business world was a product of the financial crisis of 1893. The depression came after a period of booming prosperity, largely attributed to the railroad industry. However, with a rapidly increasing debt as a result of new technology and product output, a crash was inevitable. Competitive rates on railroads began to fall, leading to wage cuts and worker strikes. Soon, 75,000 New Yorkers were without jobs, 20,000 without homes, some found starved to death and frozen on the streets.

Morgan believed that the only way to get the economy afloat again was the merging of power and prosperity – that is, the creation of corporations, immense conglomerations of major businesses compounded into one publicly owned industry. The first step he took toward this

goal was his reorganization of the railroads into one, centrally controlled system. By the year 1900, Morgan controlled over one-sixth of the nation's railroad industry, and he had consolidated the nation's railroad network into six enormous systems that ran from New York City.

His next task was the electricity industry. In the late 1870s, Morgan had been very impressed by Thomas Edison's experiments and, against Junius's warning, invested as much money as he could in the eccentric genius's work.

Fifteen years later, he sought to capitalize on this industry even further. In 1889, Morgan had underwritten the creation of an electrical energy and equipment company that was the merging of Edison's original company and six others; it was known as Edison General Electric Co. Fortunately for Morgan's corporate aspirations, there were two major competitors for this company, one of whom, Thomson-Houston, was interested in combining with Edison General Electric. Edison was very reluctant about the idea, largely due to the fact that his name would be erased from the firm and his rival would be at the head of the corporation. But because the inventor had no real financial prowess, Morgan essentially ignored him and created the General Electric Trust in April 1892, which would go on to become one of the world's leading electrical monopolies.

By taking such a risk in investing in the just-beginning electricity industry, Morgan made it clear that he was a modern

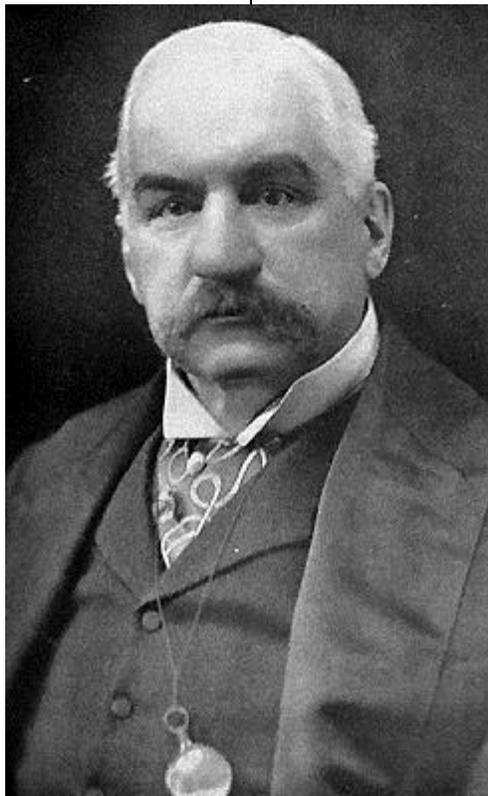
man. It would follow that he wanted his city to be a modern one; he even took a first step toward this goal when his house was the first in the city to be furnished with a completely electrical lighting system. This burgeoning industry was a symbol of progression and technological advancement in Morgan's eyes, and the use of extensive electric illumination in the Hudson-Fulton Celebration worked toward the same effect. Modern-minded Commissioners like

Morgan saw the inclusion of impressive electric displays as a way to draw attention to the city, both visually and technologically.

The peak of Morgan's business consolidation was in 1901, with the formation of United States Steel, the world's first billion-dollar corporation. This merging was a feat for Morgan, whose personality clashed dreadfully with steel tycoon Andrew Carnegie's. Instead of meeting with Carnegie, then, he met with Charles Schwab, the president of Carnegie Steel. Impressed by the young businessman's prowess, he was able to negotiate a

deal in which he bought Carnegie's steel holdings for \$480 million, roughly equivalent to \$5.5 billion in the year 2000. In addition, he was able to pry away one of the world's largest ore properties from a reluctant John D. Rockefeller, completing his domination of the steel industry.

As a result of this extreme consolidation, most of which occurred under Morgan's watch, businesses depended on



Wall Street and Morgan's money. Because most had no choice but to give up managerial control, it was the bankers who approved mergers, handled legal matters, underwrote securities, appointed managers and framed policies. Even more importantly, the bankers set initial stock values for companies and marketed them on an international level. Therefore, if a company did not get Morgan's approval, it did not make it to market; it was doomed.

### **Hudson-Fulton and Philanthropy**

Morgan's unprecedented control over the city's finances was, undoubtedly, a major asset to the Hudson-Fulton Commission. Although it did receive funding from New York City and State, the largest portion of its receipts consisted of donations from the city's individuals and organizations. In addition to his constantly flowing riches, Morgan was adept at amassing incredible amounts of money from others. For instance, in the financial crisis of October 1907, he prevented the stock market from closing early by raising \$25 million in 15 minutes. This immediate access to money and omnipresent hand in the city's financial endeavors helped to ensure that the Celebration would be adequately funded. Morgan was sought out by a number of committees with causes to promote due to his good connections, wide acquaintance, boundless energy and forceful ability to make people go his way.

In addition, Morgan's authority over the railroad industry was a great advantage for the Commission. The cooperation of the railroad systems was essential to the

Celebration's success; without their "reduc[ed] rates, ...special train service, ...[and distribution of advertising] posters and information booklets" it is possible that many of the spectators who came from afar would not have been able to attend the event.

By the beginning of the twentieth century, Morgan was unstoppable. He controlled 70 percent of the steel industry, one-fifth of all the corporations trading on the New York Stock Exchange, the three largest insurance companies in the country, and several banks other than Morgan Co. In the words of one woman who knew him, "He was the king. He was *it*." He had transformed an economy of competing,



independent manufacturers into an elite set of unconquerable monopolies. In order to succeed, people had to hope for jobs with these monstrous corporations; independent businesses had no chance for competition.

Essentially, he had changed not only the face of American finance, but the American lifestyle in general.

After effectively commandeering the corporate world, Morgan invested heavily in art collection, both for personal use in his home and for philanthropic donations to the city of New York. He was not so interested in the subject matter of his acquisitions as he was in their history and resilience; it is doubtful that he had the time or the desire to read his Gutenberg Bible, Keats's original *Endymion*, and ancient Babylonian tablets. Judging by the emphasis he placed on the history and longevity of these items, it is likely that, in donating them to the city,

Morgan hoped to provide New York with a deeper historical base and a greater sense of permanence. Drawing from his vast collections, Morgan helped to organize the Metropolitan Museum of Art (of which he became the president) and the Museum of Natural History. Aside from his publicized gifts to the city, he made efforts to help a number of individuals and organizations with which he felt connected. For instance, after his friend Dr. James Markoe introduced him to the Lying-in Hospital, Morgan donated a million dollars for the construction of a new building. On a smaller, but more personal, scale, he went to great pains to create a job for an elderly woman who wanted to feel as if she were earning her way.

He also played the philanthropist in his position on the Hudson-Fulton Celebration Commission, where, as one of fifteen socially eminent vice-presidents, he exercised a great deal of influence over the momentous event that was given to the people of New York in 1909. His endless wealth allowed him to pursue his formerly hidden interests in the arts and his community, lending a more human side to this unyielding, corporate powerhouse.

Almost 100 years after Morgan's death, his impact on American economics is still clearly visible. The corporation is still a vessel of prosperity and contempt, opportunity and greed. Even his name still lingers in the world of finance; JPMorgan Chase is still the largest bank in the United States. Morgan's identity is somewhat of an elusive one, even now. To some, he was an embodiment of opportunity in America; to others, he was a money-hungry tycoon.