Inspirational Figures

John Pierpont Morgan:

Putting the Capital in Capitalism

By Paul Orfalea, Lance Helfert, Atticus Lowe and Dean Zatkowsky

Often we write about men and women of the past who raised themselves out of poverty to achieve spectacular wealth and accomplish mighty deeds. John Pierpont Morgan knew little of poverty, born in 1837 to wealthy financier Junius Spencer Morgan. But J.P. Morgan accomplished many impressive deeds, and his approach to business offers lessons – positive and negative – for ambitious people today.

Legendary investor and financier Bernard Baruch called J.P. Morgan "the greatest financial genius this country has ever known," but the most compelling aspect of Morgan's genius was not his facility with numbers, or his knowledge of business. Rather, it was the blunt honesty with which he conducted his affairs, and his obsessively rigid view of fiduciary responsibility. In the exceedingly corrupt, unregulated world of industrial-revolution America, it is fair to say that J.P. Morgan may have saved capitalism from its baser practitioners on more than one occasion, and personally presided over the transfer of world financial power from London to New York.

PHILOSOPHY OF THE PATRIARCH

Joseph Morgan sold his farm in 1817 and resettled as a businessman in Hartford, Connecticut. Among his other ventures, Joseph helped to start the Aetna Fire Insurance Company. The Morgan approach to business shone through in 1835, when a fire destroyed six hundred buildings in the Wall Street area of New York. According to biographer Ron Chernow, Morgan "…insisted that the firm pay customers promptly and even bought up Aetna stakes from investors who hesitated to pay. Joseph Morgan's quick action made the firm's reputation on Wall Street and later enabled it to triple its premiums."

Responsibility and reputation permeate the Morgan family's history. Although they never articulated it this way, we might say that their motto was "doing the right thing is good for business." The philosophy was less altruistic than practical, and served Joseph's descendents for generations; his grandson John Pierpont came to be known (and to think of himself) as the conscience of Wall Street.

Joseph's son Junius launched the family's banking legacy, and built a fortune in partnership with George Peabody, the chief American banker in London. In the nineteenth century, London was the financial center of the world, and Peabody, legendary in youth for his greed and in dotage for his largesse, made his fortune defending the credit worthiness of the United States of America.

For most of our country's young life, we have been a debtor nation, but in the 19th century we were a notoriously unreliable debtor nation, and George Peabody worked tirelessly, and at great risk, to sell – and ensure the honor of – American bonds. The dishonor of American defaults haunted Junius and his son John Pierpont throughout their careers, and kept them focused on improving the stature and professionalism of American banking to the level they felt existed in England. For over thirty years, Pierpont served as his father's bank's agent in America. By the turn of the century, J.P. Morgan may not have been the richest man in America, but was easily the most powerful.

THE DE FACTO CENTRAL BANK

J.P. Morgan's accomplishments are too numerous – and some too complex – to cover in this brief article, but let us consider some of the highlights of his amazing career. After the Civil War, Morgan began buying distressed businesses, particularly railroads. He became the dominant figure in railroads at the most important time in their history. His railroad experience reinforced some of the central beliefs that led to his success and to his later vilification. First, although he was an ardent capitalist, Morgan was not exactly a "free markets" supporter. He believed that excessive competition merely destroyed businesses, and in the case of the railroads, he was correct; "nuisance" operators would lay tracks within sight of existing lines and depress prices just to get bought out. Thus, Morgan worked to reduce competition for companies his bank supported. Also, he started the practice of installing his own agents on company boards as a quid pro quo for financing; in effect taking control of his clients.

These two practices; creating trusts to limit competition and taking board seats – and effective control – of companies his bank financed, may seem abusive today, but several facts suggest that Morgan made the right choices for his time. For one thing, a study by economist J. Bradford De Long of Harvard University found that companies with Morgan representatives on the board commanded a 30% premium stock price over peer companies. The trusts, meanwhile, brought a discipline and order to otherwise out-of-control industries at a time when America needed railroads, steel, and other industries to function reliably.

The deeper meaning of these actions comes from an understanding of the financial environment of the 19th and early 20th centuries in the United States: there was no central bank and there was no Securities and Exchange Commission. Beyond his genius and capital, the value that J.P. Morgan brought to the table was a *reputation for honesty*; in an environment of scoundrels and robber-barons, people could trust a company endorsed (and controlled) by Morgan, and because Morgan understood that reputation was the greatest value his bank possessed, he and his team worked tirelessly to ensure that their companies were run well and that their investors reaped rewards.

But Morgan was not only a titan of industrial financing and management; he became the de facto central bank for the United States, bailing out the government and the banking system in 1893, 1897, and 1907, as well as floating bonds for the country and rebuilding the nation's gold supply. He formed U.S. Steel, International Harvester, and the International Mercantile Marine trust. With his control of American railroads, steel, farm equipment, and shipping, Morgan was instrumental in the country's rise as an industrial power.

The United States government maintained a love-hate relationship with Morgan over the years; although grateful for his banking services, legislators and Presidents worried increasingly about the concentration of power in one man's hands. His conflicts with Presidents Teddy Roosevelt and Woodrow Wilson are the stuff of legend.

After Morgan skillfully thwarted a banking panic in 1907, the country moved to establish a central bank, and many legislators made their reputations by attacking J.P. Morgan and his firm. They accused Morgan of leading a "money trust" that controlled business in the United States, and in 1913 dragged the aging banker before a grueling Senate committee hearing. Although Morgan acquitted himself well and the committee failed to establish the existence of a "money trust," the experience sapped the 75-year-old's enthusiasm for life, and he died shortly afterwards. Family and friends unwaveringly blamed grandstanding politicians for hastening the titan's death.

GRUFF EXTERIOR, WOUNDED SOUL

From the Civil War until 1913, John Pierpont Morgan was a towering force in American finance, and is caricatured even today as the prototypical big-shot banker. Yet the man himself was far more complex – and sympathetic – than many imagine. Gruff, moody and hot-tempered on the outside, Pierpont was privately drawn to art, poetry, and romance. But he lived in a family where a father's rule was total, and when his father laid the mantle of responsibility for the family business on 24-year-old Pierpont's shoulders, he rose to the challenge. A tragic sadness dogged Pierpont's later years, when he felt misunderstood and wrongly accused by a country he repeatedly acted to preserve.

Supporters point to the purity of Morgan's motives by noting that when he died, the world learned he was not very rich. The standards of the robber-barons of his time were well expressed by Andrew Carnegie, who pondered the scope of Morgan's influence compared to his mere $68.3 million estate (in 1913 dollars) and observed, "And to think he was not a rich man." Half of Pierpont's estate was his massive art collection; a man of baser desires could have amassed a far greater fortune in Morgan's position.

Morgan may not have accumulated the kind of fortune that Carnegie and other industrial giants procured, but he made a great many fortunes possible, and he made a better life possible for many Americans. Many have said that Morgan's power did not lie in the millions he had, but in the billions he controlled.

> "Never be on the bear side but on the bull side when the United States is in question."
>
> *– John Pierpont Morgan*

BENIGN DICTATOR

In retrospect, it's clear that J.P. Morgan represented a model of fiduciary responsibility during the heady days between the Civil War and the roaring twenties. He could not serve two masters; although the companies he financed were technically his "customers," Pierpont's allegiance was to his investors. A ruthless adversary, Morgan was also a fierce defender of his investors' interests, and saw himself as a benign dictator, bringing order and decorum to a marketplace dominated by greed, fear, corruption and conflicts of interest. Morgan did not rely on guile and subterfuge to achieve his ends; frank confrontations and sheer force of will suited him better.

America owes its worldwide financial leadership to the cunning management of John Pierpont Morgan, who began his career representing the financial powers of Europe and ended as the most powerful man in what would soon prove the most powerful economy in the world: the United States of America.

Ron Chernow's *The House of Morgan* details the family's history, and makes stirring reading for anyone interested in finance, politics, and American history. We highly recommend this book for anyone seeking a deeper understanding of the complex and fascinating life of John Pierpont Morgan. ▲