J.P. Morgan Saves the Country

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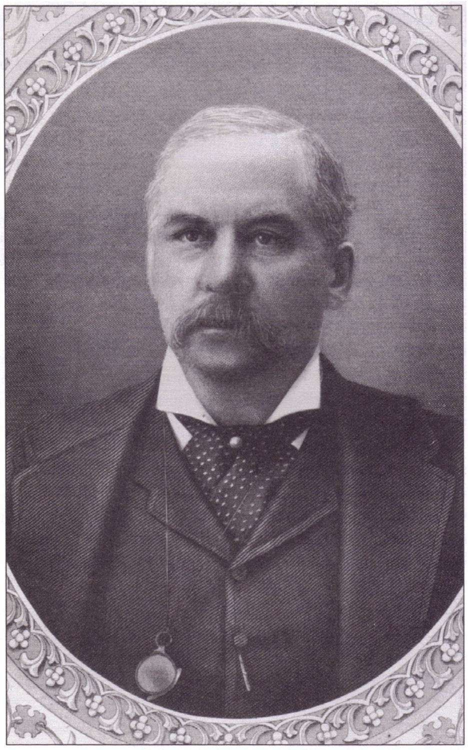

John Pierpont Morgan, Wall Street banker.

In the fall of 1907 the future of America's financial system hung in the balance. A period of solid growth following the bitter recession of 1903 had degenerated into prolonged, feverish speculation. As the economy began to slow, over-extended companies had difficulty raising funds. In October, a New York financier failed in a reckless bid to take over United Copper Company, which caused a major trust company and two brokerage houses to collapse. This precipitated runs on New York's trusts and banks, as anxious depositors queued up on the streets of lower Manhattan to salvage their savings. With money and credit suddenly scarce, high-flying financiers were ruined, and even the largest and most significant institutions—including the New York Stock Exchange—had difficulty obtaining the funds that fueled their daily operations. Since there was no government body that could combat financial crisis, public authorities watched helplessly from the sidelines.

Onto this stage strode the only person capable of saving the show: John Pierpont Morgan. As the nation's leading corporate statesman, its most powerful financier, and the force behind U.S. Steel and General Electric, Morgan emerged from semi-retirement and worked to restore order to a system paralyzed by crisis. In late October and early November 1907, the seventy-year-old Wall Street veteran assembled a group of prominent bankers in his private library to act as an informal rescue committee. Time and again, he raised huge sums of money in a matter of hours to provide life-support to institutions like the New York Stock Exchange and the New York City government. And before it was all over, Morgan persuaded leaders of the trusts to create a salvage fund to bolster their troubled colleagues.

Morgan's leadership in this time of crisis marked the great last act in a career that stretched from the Civil War to the presidency of Woodrow Wilson. "It was Morgan's supreme moment, the final measure of power and its ecstasy," wrote his biographer Lewis Corey. His actions helped convince the financial world of the critical need for a central government agency—the Federal Reserve System—that would act as he had to provide stability for the modern banking system and financial markets.

A Crisis of Confidence Brews in the Fall of 1907

J.P, Morgan was born in 1837, a descendant of Welsh ancestors who had come to the Massachusetts Bay Colony in 1636. His father, Junius Spencer Morgan, was a prominent international banker, and he made sure his son had a first-rate education and a smooth entree into the financial world. J.P. began his career in 1856, and in the next four decades he leveraged his banking expertise into control of large segments of the boom-and-bust railroad industry. So pervasive were his holdings that in 1895, as the *New* York *Tribune* noted, "There are only a few Wall Street interests of moment which J.P. Morgan & Co. have not some connections with." But Morgan's leadership was even more impressive than his holdings. By the turn of the century, J.P. Morgan had demonstrated again and again that he could impose order on chaotic situations and change entire industries through sheer strength of character.

In the fall of 1907, Morgan headed for Richmond, Virginia, to attend the three-week-long Triennial Episcopal Convention. He settled into a mansion he had paid $5,000 to lease for three weeks. Despite the opulent surroundings, he did not rest easy. He repeatedly received disturbing telegrams from New York that warned of impending fiscal disaster. "If one came during a meal, he tore it open, read it; then putting the palms of both hands on the table, a habit of his, he looked straight ahead with fixed eyes and deep thought for a few minutes," Bishop William Lawrence, another convention attendee, recalled.

Morgan blamed the sour business climate partly on President Theodore Roosevelt, the great trust buster. In the preceding years, Roosevelt's Administration had been overtly hostile to many of the large corporations dominated by Morgan and his allies. The president was the nation's chief opponent of industrial consolidation, while the banker was its greatest practitioner. In August 1907, the president used the bully pulpit to rail against "malefactors of great wealth." For Morgan's part, the staunchly Republican financier resented what he saw as the president's class warfare. "I'd even vote the Democratic ticket to get that fellow out of the White House," Morgan once said. "If he had his way we'd all do business with glass pockets."

At Roosevelt's urging, the government had investigated the business practices of John D. Rockefeller's massive Standard Oil Company. A court fined Standard Oil $29 million after finding it had illegally extracted rebates from railroads. The verdict, combined with the prospect of increased regulation by an emboldened Interstate Commerce Commission, depressed the market-leading railroad stocks. Mounting evidence of a widespread credit crunch further stressed the market. As the overheated economy began to cool, even blue-chip companies began to find money scarce in the capital markets. *Dun's* Review noted that 8,090 companies with total liabilities of over $116 million had failed in the first nine months of 1907, with the September figures showing the highest level of bankruptcy since the near-depression of 1903.

But every conflagration needs a spark, and the Wall Street speculator F. Augustus Heinze provided one. Heinze was president of the Mercantile National Bank and had interests in several other companies. In October he tried to corner shares of the United Copper Company using funds from Mercantile. On Monday, October 14, the price of United Copper soared from $397/s to $60 in a fifteen-minute trading frenzy. But when Heinze's takeover attempt failed on Tuesday, October *15*, the company's shares plummeted thirty-five points from its high of 60. The next day it fell even farther to ten. United Copper's shocking plunge helped depress stocks to a four-year low. But the failed takeover bid created a more immediate problem: Mercantile National Bank was forced to shut down. The two brokerage firms that handled Heinze's accounts and abetted his failed takeover, Gross & Kleeberg and Otto C. Heinze & Company, also closed their doors.

The declining stock prices spelled trouble for many other financial institutions, especially the trusts. While commercial banks usually kept 25 percent of deposit liabilities in reserve funds, the trusts adhered to no such standards. Moreover, in an effort to attract deposits, the trusts often paid out dangerously high interest rates. And since they loaned out money against the value of securities on deposit, the sharply declining stock prices meant they had less and less collateral to back the loans. Aware that trust companies were woefully short of cash, depositors became concerned about the safety of their funds. Although Morgan was worried about the rumors of troubled trusts, he remained in Richmond. His stature was such that a hasty return to New York might spark a greater panic. "We felt **it** would be a mistake for him to show any anxiety over the situation and that he should come home at the time he had originally appointed," recalled his aide George Perkins.

Saturday, October 19: Morgan Takes Action

The confusion in New York stemmed in part from the fact that there was no agency—corporate or government—to provide a set of safeguards for the financial markets. Ever since Andrew Jackson closed the Bank of the United States in the 1830s, the country had lacked a central bank to regulate the money supply and watch over the banks' affairs. During periodic bank crises, notably in 1873 and in the 1890s, there had been calls for greater federal involvement. But in each instance voices quieted when the banks and other financial institutions recovered. While each state maintained a set of laws that governed banking, no government agency—

federal, state, or local—was empowered to conduct a bailout should several institutions fail at once. And no government official had the moral authority or fiscal muscle to muster support from captains of financial industry.

By the weekend, the situation became so severe that Morgan needed to act. The crisis he faced was twofold, As *The* Wall *Street Journal* put **it** on Monday, October 21, when stocks fell to their lowest levels since 1903, "It may be said that in addition to more money we need more confidence." So, Morgan changed his mind: "They are in trouble in New York: they do not know what to do, and I don't know what to do, but I am going back," he told Bishop Lawrence. He had long been a corporate arbiter who once ironed out bitter disagreements by collecting rival railroad executives aboard his 165-foot yacht, the *Corsair,* and keeping them captive until they reached an agreement. At root, he was a relentless seeker of order; a banker, not a speculator. So Morgan rushed back to Manhattan to take center stage in a drama that would unfold in several acts.

Upon his arrival from Virginia, he immediately summoned James Stiliman of National City Bank and George F. Baker of First National Bank to a room in his library that was draped in red brocade from Rome's Chigi Palace. Later, the troika would be joined by the Morgan partner George Perkins and two young financial experts, Benjamin Strong and Thomas Lamont of Bankers Trust. In addition, John D. Rockefeller, the railroad executive Edward Harriman, and the financier Jacob Schiff immediately put themselves at Morgan's disposal. Morgan was not only the star of this hastily produced drama; he was the director. As George B. Cortelyou, the Secretary of the U.S. Treasury, later said: "By the consensus of opinion, he was regarded as the leading spirit, I think, among the businessmen who joined themselves together to try to meet the emergency. . . . He was generally looked to for guidance and leadership."

After all, Morgan had played similar roles at least twice before, stepping in when government failed to act when in fiscal distress. In 1877 Congress adjourned without appropriating money to pay soldiers. Morgan offered to front the $550,000-a-month payroll and set up a disbursement system. Morgan came to the government's rescue again in 1895 when the U.S. gold reserves fell dangerously low. At the time, he traveled to Washington in a private railroad car and announced: "I have come down to see the President, and I am going to stay here until I see him." The banker met with President Grover Cleveland the next day. Soon after, Morgan arranged to secure $50 million in gold from Europe in a private-bond sale, thus saving the Treasury from insolvency. In the fall of 1907, it was clear that Morgan had to step in again. Highlighting the federal government's fecklessness, as the fiscal crisis came to a head Congress stood in recess, and President Roosevelt was off hunting bear and deer in the wilds of Louisiana. Meanwhile, "bears" were roaming freely and safely on Wall Street.

Monday, October 21: Runs on Trusts Cause Chaos

Unlike the two crises Morgan had resolved previously, the current situation defied a simple solution. Charles T. Barney, a prominent financier who ran the formidable Knickerbocker Trust Company, had been involved with Heinze and the failed Mercantile National Bank. Concerned that the Knickerbocker would follow the Mercantile into insolvency, frantic depositors, armed with empty bags and valises, lined up at the Knickerbocker's lavish main office on Fifth Avenue and 34th Street on Monday morning in an attempt to retrieve some of the $60 million on deposit. "The greater part of the crowd apparently was made up of men of small capital, clerks and representatives of firms in the district," the *New* York *Times* noted.

As they waited, Morgan, whose own firm also had money deposited at Knickerbocker, was deciding whether these depositors would be made whole. In the latter years of his career, the powerful banker had often been referred to joshingly as Jupiter. But now he truly wielded the power of life or death over troubled trust companies like Knickerbocker. In a marathon session, Morgan heard urgent pleas from Knickerbocker officials. Although Barney knew Morgan personally, and Morgan was in fact a Knickerbocker shareholder, the ad hoc rescue committee, in one of its first moves, deemed the Knickerbocker beyond salvage. "I can't go on being everybody's goat," Morgan said. "I've got to stop somewhere." So at 12:30 P.M. on Tuesday, after giving out $8 million to depositors, the Knickerbocker folded.

Wednesday, October 23: Morgan Stops the Bleeding

As he left the office that afternoon, Morgan tried to offer some reassurance to the jittery public. "We are doing everything we can, as fast as we can, but nothing has yet crystallized," he said. Nonetheless on Wednesday, October 23, the Trust Company of America, which held a large chunk of the Knickerbocker's stock, was hit by a similar run. Just after 9 A.M., a crowd of more than a thousand depositors fidgeted outside the bank's Wall Street area offices. The financial district's sidewalks and streets became clogged with people. Early that morning, the Trust's president, Oakleigh Thorne, tried to calm the throng: "We have plenty of cash on hand and are facing the situation calmly." But the public wasn't reassured, especially when high-profile individuals began to panic. Thomas McAvoy, the leader of Tammany Hall, performed a highly public flip-flop. A few days earlier he had deposited several thousand dollars in the Trust Company. At 11 A.M. he assured friends that he had "every faith in the institution." But, as the *New York Times* reported, "Later, however, Mr. McAvoy changed his mind and got into line."

Around noon Oakleigh Thorne waded through the crowds to Morgan's office at 23 Wall Street, begging for a $2.5-million cash injection to stay afloat. Morgan was faced with a dilemma. He disliked the trusts, believing them to be inherently unstable. When talking about trust company relief, he said: "Why should I get into this? My affairs are all in order." But his grudging sense of public-mindedness ultimately won out. He realized that continuing failures like Knickerbocker would not only wipe out large and small depositors, but would trigger runs on banks and generally sap confidence and funds from the healthy few that remained on firm footing.

Morgan ordered Thorne to round up collateral. As Strong recalled: "Mr. Morgan had a pad in front of him making figures as we went along, and when he was satisfied that collateral had been delivered adequate for an advance, he would ask Mr. Stillman to telephone over to the National City Bank to send over currency for the amount determined upon." After reviewing the situation, he ultimately found the Trust Company of America worthy of salvation. "This, then, is the place to stop this trouble," Morgan declared. By 3 P.M., he had sent over enough cash to keep the Trust open. Later in the day, a porter came from Morgan's office holding a large box, followed by men with suitcases containing cash and securities. The rescue effort continued through the night as anxious depositors huddled in line. Under Morgan's direction, a group of banks agreed to establish a $ 10-million and to bolster the ailing Trust. The Trust Company of America remained solvent, but suffered a $47.5-million drain in deposits.

The improvised approach stopped the bleeding but didn't provide a long-term solution to trust companies' woes. To make matters worse, the trust company presidents proved unwilling to help one another. So Morgan and his associates quickly deemed it necessary to erect a salvage fund to deal with the ongoing crisis.

With Washington finally awakened to the severity of the problems, Treasury Secretary George Cortelyou came to New York on Tuesday night at Morgan's request. At 12:30 A.M. Morgan paid him a courtesy call, which proved effective. The next day Cortelyou offered government assistance—but only to a limited degree. "The government can offer relief only through the national banks and private financial interests when they are united," he said. On Wednesday, Cortelyou agreed to deposit $25 million of government cash into selected New York City banks, which could use the capital to bolster the troubled trust companies and banks.

Thursday, October 24: A Credit Crunch Threatens the NYSE

Despite the large injection of public funds, there were fresh runs on banks on Thursday. The Hamilton Bank of New York and two Brooklyn banks closed temporarily. Though the banks were solvent, people believed their deposits safer under a mattress at home than in a vault. The banks and trust companies didn't have on hand the cash they needed to back all deposits, so they began to call existing loans and stopped making new ones, thereby exacerbating the crisis.

The next near-casualty of the credit crunch was the New York Stock Exchange. The exchange's brokers and dealers needed to borrow money on a daily basis to conduct business. The call rate—the rate at which institutions and individuals lend each other money due without notice—usually stood at about 6 percent. And even though desperate borrowers were offering 100 percent, there were no lenders.

Just before noon, NYSE president Ransom H. Thomas crossed the street to 23 Wall Street and told Morgan he didn't have the funds to stay open until the regular closing time of 3 P.M. The Stock Exchange would have to shut down. Morgan realized the impact this would have on the public. *"It must not close one minute before that hour todayJ"* he declared. The financier quickly summoned the heads of the city's major banks and told them they had to come up with *$25* million within ten minutes. A little after two, when it was announced that just under *$25* million had been raised, cheers arose from the floor of the Stock Exchange. "The action of J.P. Morgan & Co. in offering $25 million on the stock exchange at 10 percent was one development during the day which indicated that the strongest financial interests in the Street are watching the situation closely and stand ready to render what assistance is necessary to legitimate banking institutions," *The Wall Street Journal* editorialized.

October 25-27: A Weekend Effort to Boost Public Confidence

Throughout the week, Morgan shuttled between his Wall Street office and his library, remaining on call 24 hours a day. "He did not seem to see the throngs in the street, so intent was his mind on the thing that he was doing," the banker Herbert Satterlee wrote. "He simply barged along, as if he had been the only man going down the Nassau Street hill past the Subtreasury. He was the embodiment of power and purpose."

As the leader of the rescue effort, Morgan's every move was watched, his every utterance written down. He had generally found the notion of public relations completely alien. "Pierpontifex Maximus," as a churchman accurately dubbed him, carried 200 pounds on his beefy six-foot frame. Balding, sporting a bushy walrus mustache, a famously large nose, the man had become a ripe target for cartoonists. Comments like "I owe the public nothing" did not make him a more sympathetic figure.

Under the circumstances, however, Morgan was forced to assume a more public role. On Thursday afternoon, October 24, he attempted to reassure the public. "If people will keep their money in the banks, everything will be all right," he said. Over the weekend, clergymen were asked to pound this message into their congregations. On Saturday, Rabbi Joseph Silverman of Temple Emanu-El on Fifth Avenue called for optimism, urging people to brush aside greed and not hoard their funds. On Sunday, Archbishop Farley held a special mass for businessmen at St. Raphael's Catholic Church. "I have confidence in the solvency of the banks," he proclaimed. But on Sunday night, some 118 people waited with umbrellas in the rain outside the Lincoln Trust Company, at Fifth Avenue near 25th Street, anxious to withdraw their money.

October 28-29: Morgan Averts a New York City Bankruptcy

On Monday, October 28, a new crisis arose. New York City found itself in need of $30 million to pay salaries of teachers and other employees, and to meet general obligations. The city regularly issued revenue bonds to pay its bills. But given the circumstances in the marketplace and the general shortage of cash, the city couldn't borrow. Rather than turn to the state or the federal government, it turned to the *de* facto authority: Morgan. Mayor George B. McClellan and other officials visited the library and told him the city faced the prospect of default.

If the nation's largest city were to go bankrupt, it would have sent a horribly negative message to the markets and the nation. Morgan responded immediately. On Tuesday, October 29, he organized a syndicate of banks to buy for cash $30 million of the city's 6 percent revenue bonds, with an option to purchase an additional $20 million. Then Morgan had the banks hand their bonds over to a clearing house that issued $30—million worth of certificates backed by the bonds. Those certificates were immediately added to the accounts maintained by the city at National City and First National banks. With these funds, New York met its most pressing financial needs.

November 1-4: Morgan Organizes a Trust Bailout Fund

By Wednesday and Thursday, the panic seemed to have subsided. And although the second weekend presented another problem for Morgan, it also provided an opportunity. Despite the aid given to the Trust Company of America and a few other smaller trusts, many of the poorly capitalized institutions still teetered on the edge. Morgan and his colleagues decided that the solvent trust companies should create a fund to help save ailing trusts. Over the weekend, trust company presidents gathered in the library's West Room while bankers and other Morgan advisers held all-night sessions in the lavishly appointed East Room. "A more incongruous meeting place for anxious bankers could hardly be imagined," the Morgan partner Thomas Lamont wrote. In this climactic finale, Morgan bludgeoned the trust company presidents into subscribing to a $25-million loan for the trusts. At 4:45 A.M. on Monday, November 4, the exhausted bankers caved in and signed on the dotted line. "There's the place, King," Morgan said to Edward King, nominal head of the trust presidents. "And here's the pen."

In those tense final hours, Morgan also engaged in maneuvers that would bring direct benefits to a firm he helped control. When orchestrating a bailout of Moore & Schley, a troubled brokerage house, Morgan arranged for U.S. Steel to buy one of Moore & Schley's main assets: a large block of shares in the Tennessee Coal & Iron Company.

An Opporunity Amid Crisis

During the panic Morgan refused to take a commission on the New York City loan, and did not generally profit from the crisis. But being Morgan, he did not miss a good opportunity that came his way during the second weekend. Moore & Schley, a brokerage house, was virtually insolvent. Among its most worthy assets were 157,000 shares that represented a controlling interest in the Tennessee Coal, Iron & Railroad Company (TCI), one of the few remaining competitors of Morgan's mammoth U.S. Steel.

If Moore & Schley were to dump the stock en masse to raise cash, the move would have triggered a fresh banking crisis. So Morgan came up with a plan under which the U.S. Steel Corporation would acquire the shares at a heavy discount with its own highly rated gold-backed bonds.

Since such a transaction would plainly violate antitrust laws, Morgan quickly dispatched two of his lieutenants to seek Roosevelt's approval. On the night of Sunday, November 3, the industrialist Henry Frick and U.S. Steel's Elbert H. Gary went to Washington. Faced with the prospect of fresh financial trauma, the president agreed to endorse the transaction. On Monday, the White House gave its word that it would take no action against the acquisition. "The action was emphatically for the general good," the great trustbuster later said. The financial analyst John Moody later calculated the TCI shares, which Morgan acquired for a total of $50 million, to be worth about $1 billion. However, this favorable outcome didn't change Morgan's general opinion of Roosevelt. When the president went on one of his legendary safaris to Africa in 1909, the banker said: "I hope the first lion he meets does his duty."

Wednesday, November 6: The Crisis Subsides

On Wednesday, the market registered its first gain, effectively ending the panic. The same day, the federal government agreed to issue new debt in the form of low-interest bonds and to spread the proceeds throughout banks. Lines at trust companies started to move more quickly. Gold, which had been ordered from Europe at the height of the crisis, began to arrive. Seven—million dollars' worth had already docked, and the *Lusitania* had just arrived with $10 million more.

The drama ended, and rave reviews began to roll in. "MORGAN CLEARS UP THE WHOLE TRUST SITUATION," one headline blared. The Wall *Street Journal* fairly gushed: "Nothing in Wall Street history has been more important or dramatic than the day and night conference in Mr. Morgan's library of the leading financiers of Wall Street. . . . He has been distinctly the man of the hour, the undisputed leader who has stood between the business of the country and disaster."

An Era Ends as Morgan Retires

Morgan retired after the panic, but his example proved an impetus to broader action. Politicians and bankers alike realized the government needed to take a stronger role in keeping the financial system together. "Something has got to be done," said Senator Nelson W. Aldrich. "We may not always have Pierpont Morgan with us to meet a banking crisis."

The end result was the Aldrich-Vreeland Currency Act, passed by Congress in May 1908. The measure was intended to guard against future money shortages by letting national banks issue notes secured by non- federal bonds at the direction of the treasury secretary. The legislation also created a National Monetary Commission, with Aldrich at its head, to make further recommendations on federal monetary policy to Congress. This process ultimately culminated in the Federal Reserve Act in 1913, which created the twelve-unit Federal Reserve System under the leadership of the Federal Reserve Board. By monitoring the nation's monetary supply and insuring the availability of capital to banks, the Federal Reserve now affords the security that in 1907 only Morgan could provide.

While J.P. Morgan & Company executives had extensive influence over the legislative process, Morgan didn't live to see the passage of the Federal Reserve Act. In the middle of February 1913, Morgan took sick in Egypt, traveled to Rome, and checked into the Grand Hotel, where he died on March 31, at the age of seventy-five. Morgan left an estate valued at $68.3 million, 44 percent of which represented his interest in the House of Morgan. The rest consisted of holdings in an astonishing number of corporations, including the National Bank of Commerce, several railroad systems, and industrial conglomerates like International Mercantile Marine Company, which built the *Titanic*. His son, John Pierpont Morgan Jr., took over the family firm, and remained chairman of J.P. Morgan & Company until his death in 1943. But he was hardly the leader his father had been. As *The Wall Street Journal* wrote on April 1, 1913: "There will be no successor to Morgan."

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