



John Pierpoint Morgan



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MANAGEMENT GIANTS

A sickly child, and a sickly adult, but despite his fragile health J P Morgan was one of the greatest financiers of his age. As a child Morgan kept a close account of the receipt and expenditure of his allowance. As an adult he parlayed his attention to cash flow into a large fortune. After an education spread across the globe he joined the firm of Duncan, Sherman and Company, in America in 1857. He saw the American Civil War as an opportunity to make money, which he did. And in 1862 founded his own company Dabrey Morgan and Co. By 1871 he had teamed up with the firm of Drexel, based in Philadelphia, to form Drexel, Morgan & Co. Morgan swiftly established himself as one of the leading financiers in New York. Industrialists and governments regularly turned to him for advice, and he helped avert a US financial crisis in 1895. A Powerful influence in the formation of so-called industry "trusts" his business empire was eventually cut down to size by Theodore Roosevelt.

1837	Born in Hartford, Connecticut.
1857	Joins Duncan, Sherman and Company.
1862	Founds Dabrey Morgan And Co.
1871	Teams up with the firm of Drexel to form Drexel, Morgan & Co.
1879	Puts together stock offering of \$18 million for the New York Central Railroad.
1887	US government passes the Interstate Commerce Act.
1895	Helps avert US financial crisis.
1907	Bails out the US Government again.
1912	Appears before Pujo Committee.
1913	Dies March 31 st .

BACKGROUND AND RISE

J P Morgan was born in Hartford, Connecticut, on April 17th 1837. In the year of his birth America was plunged into financial gloom. Morgan, however, was unaffected;

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his father was a rich commodity broker, who managed to make the most of the financial downturn. When Morgan was still a boy his father moved the family to Boston where he became involved in the cotton trade.

Morgan took an early interest in business. Spurning childhood games he spent much of this time poring over his accounts (a habit he carried with him throughout his life) detailing the receipt and expenditure of his allowance. He had a bookish nature—partly a result of his interest in business and money and partly a result of a sickly constitution. The young Morgan suffered from a host of ailments including rheumatism and eczema. So concerned were his parents that they sent him to the Azores to recover. Morgan was never a popular child at school. His aloof

manner failed to impress his classmates, just as it would later alienate the US public. His habits, such as writing to Paris in fluent French to order a pair of \$900 boots, only served to reinforce the impression of arrogance.

Morgan's education was in keeping with his privileged status. When his family moved to London, Morgan was dispatched to private school in Switzerland. He studied at the University of Gottingen, and so impressed his tutors that he was asked to stay on as an assistant to one of the professors. The ambitious Morgan declined, insisting that he had to start out in business.

DEFINING MOMENTS

Returning to America, in 1857 Morgan joined Duncan, Sherman and Company, a firm with which his father had an association. From the very start Morgan showed an innate appreciation of the intrinsic value of objects. It was a quality that served him well. On one business trip he came across a consignment of coffee beans. Acting outside his authority he proceeded to buy the beans, ignoring the main purpose of his visit. By the time he was taken to task he had turned a substantial profit on the coffee.

When the American Civil War broke out in 1861 Morgan treated it not as a calamity but as an opportunity. He avoided enlistment through the accepted practice among the wealthy of paying a “substitute” to take his place. (The going rate was \$300.) In 1862, he left Duncan Sherman and founded his own company Dabrey Morgan and Co.. While the war raged Morgan piled up the profits. By 1864 he had amassed over 50,000 dollars. The war ended but Morgan continued to go from strength to strength. By 1871 he had teamed up with the firm of Drexel based in Philadelphia to form Drexel, Morgan & Co based on the corner of Wall Street and Broad Street in New York.

Morgan swiftly established a reputation as one of the leading financiers in America. His salary was in excess of \$500,000—an astronomical amount at the time. It was

“You can’t pick cherries with your back to the tree.”

(Attrib)



during the 1870s that his association with the railroads began. The financing of the railways required significant private capital something that Morgan was only too happy to arrange. He acted as a conduit for money from investors both in Europe and the US. In 1879 for example he put together the stock offering of \$18 million for the New York Central Railroad owned by William Vanderbilt.

Morgan's importance in the railroad business grew to the point that leading players would turn to him to resolve disputes and offer his opinion. In an industry where railway companies fought increasingly hostile battles to gain supremacy Morgan found himself playing the role of mediator.

When the US government passed the Interstate Commerce Act in 1887 banning price-fixing collusion among railroads, the railroad companies naturally turned to Morgan to organise a response. But obtaining a lasting consensus among the distrusting railroad company bosses proved a task beyond even Morgan's talents. The misguided effort suggests a man whose ego was beginning to run out of control. While he failed to unite the railroads against the government he succeeded in setting himself up as the head of a conspiracy and an obvious target for the US government which were aiming to cut powerful business interests down to size.

By the 1890s Morgan had turned into a figure of hate among the US public. Yet despite this perception Morgan's greatest public service lay ahead of him. In 1893 withdrawal of funds from the US by British investors sparked a financial crisis. As banks failed and the stock market collapsed the US government resorted to shoring up the financial system with the gold reserves. Statute forbade the value of the reserves from falling below a prescribed level. The magic figure was \$100 million in gold and in January 1895 gold reserves collapsed to \$58 million and the Treasury secretary John Carlisle turn to Morgan to save the day. Morgan proposed a syndicate of investors that would sell gold coin to the US Treasury paid for with newly issued bonds. It was a brilliant solution as it provided not only an economic way out but also a politically expedient one. Morgan went further and guaranteed the scheme to the then president Grover Cleveland. The Morgan syndicate intervention succeeded in stopping the financial slide and made Morgan a considerable profit estimated at between \$250,000 to \$16 million.

This episode merely reinforced Morgan's already legendary financial prowess. He followed his rescue of the US financial system with a series of breathtaking deals such as the financing of United States Steel the largest Steel Co in the world. From the 1900s onwards Morgan devoted his attention to consolidating the railroad companies through his concern the Northern Securities Corporation and to building a shipping trust. Unfortunately for Morgan the incumbent president Theodore Roosevelt had decided that political advantage could be gained by cracking down on the so-called trusts. With the well-known figure of Morgan behind the Northern Securities Corporation, Roosevelt decided that the company should be made an example of. This time Morgan had met his match. Apart from a brief respite in 1907 when a US President turned to him for salvation during a financial crisis Morgan's power waned.

In his seventies by then Morgan devoted more time to his hobby of collecting art and his private life. In 1913 Morgan left America on his doctor's advice for some rest and recuperation in Europe. He died in Rome at the age of 76.

CONTEXT AND CONCLUSION

JP Morgan was a remarkable businessman. His success owed much to his self-belief and opportunism, and a little to his wealthy and well-connected father. He suffered ill-health throughout his life, particularly the periodic embarrassment of a large red bulbous nose which was the product of eczema, the appearance of which would inevitably send him into a deep melancholia. Yet despite frequent periods of illness-induced rest and recuperation Morgan managed to build a string of business interests in the fashionable industries of the day—railroads, shipping, electricity. He also, on more than one occasion, financed the US government out of a mess.

Although not as wealthy as the likes of Carnegie or the Vanderbilts, Morgan amassed a fortune worthy of Croesus. He also accumulated a fabulous hoard of art treasures, a who's who of the Old Masters including works by Vermeer, Gainsborough, Rembrandt and da Vinci as well as one of the finest libraries in the world. His reputation as a proud, vain, arrogant and greedy man is justified. But he could be generous when it interested him. To an old crone who offered him one of a missing pair of porcelain figures he gave a handsome sum of money and a cottage in Wales.

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POSTSCRIPT

JAY GOULD: A US FINANCIER, BORN IN 1836

Gould was the most despised and underhanded of the “robber barons”. He started out as a map maker and publisher of local history then inveigled his way into tannery business. He gained full control when his partner committed suicide. In the 1860s he took to speculating on the railroads. There followed a period of unscrupulous dealings, bribery of officials and dubious financial practices that would rival if not surpass the worst examples in modern times. Gould emerged from the 1860s/1870s with a fortune of some \$25 million (many others lost the shirts from their backs).

THE BEST SOURCES OF HELP

Books:

“Morgan the Magnificent: life of JP Morgan” by John Winkler. New York: DD, 1932.
 “Pierpont Morgan and Friends : The Anatomy of a Myth” by George Wheeler. New Jersey: Prentice-Hall, 1973.

Website:

<http://www.jp.morgan.com>



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“I’m not in Wall Street for my health.”

(Treasury of Investment Wisdom, 1999)