

APPENDIX

APPENDIX

J. PIERPONT MORGAN AND THE OLIGARCHY OF CREDIT

This should have followed the account of J. D. Rockefeller's fortune in Chapter X, Section 1, but there was a delay in its preparation and the pages of the book were already made up when the copy was sent in.

THE broad facts in the history of great accumulations during the last century are not complete without a brief account of the rise of the great firm of J. P. Morgan and Company and its bearing on the present situation. On one facet this great agglomeration of monetary power has been associated since its beginnings with the adventurous story of American railway exploitation, on another it marches with the mighty organizing abilities of J. D. Rockefeller and the attempt to link the whole monetary and industrial life of America and perhaps of the world into an aggregate of co-operating non-competitive trusts. This attempt was fought and thwarted, on sentimental and democratic grounds, by Theodore Roosevelt. As it developed, as J. P. Morgan the First aged and passed, the Morgan organization took on more and more of the character of a responsible institution, becoming aware, to a certain extent, of the implications of its opportunity. The War made it a power capable of dealing upon more than equal terms with states and governments. Whether it is as yet fully aware of the implications of its opportunity we cannot say. It is still to-day a cardinal reality in our debt-strained world.

There is no authoritative life of J. P. Morgan, the virtual founder of this creditor organization, but J. Kennedy Winkler has produced a vivid and convenient sketch of his career (*The Life of J. Pierpont Morgan*, 1931) to which we are considerably indebted in this summary. He was the son of an already prosperous banker who had begun as a dry goods merchant, and from the first he moved in an opulent atmosphere. He was born in 1837. At school he was "the richest boy in the school" and he completed his education at Vevey and Göttingen. He was, he held, a "gentleman," and

THE WORK, WEALTH & HAPPINESS OF MANKIND

bound to observe certain standards of veracity and honour. His contempt for contemporary democracy was profound. At Göttingen he distinguished himself in mathematics and played a leading rôle in his students' corps, with cap and feather, long porcelain bowled pipe, sword and leather breeches all complete. He went to London in 1856, when he was still only nineteen, and was at once taken into the Anglo-American firm of Peabody and Co., in which his father was a leading partner. He returned to New York the following year, and found America in a state of panic following upon a phase of world optimism and expenditure, that had arisen out of the over confidence and excess of enterprise produced by the Californian gold discoveries. He saw a suspension of gold payments and all the distress and tragedy of a financial tornado. It was the first of a series of devastating panics that have followed the gold discoveries of '48 and onward. He seems to have accepted these successive panics without any attempt to probe their nature or avert them. Later on he was to find them seasons of opportunity for a wary and conservative financier.

After the panic came the Civil War, and the young speculator seems to have burnt his fingers and involved himself in a manner difficult to explain over the purchase and resale to the government of 5,000 condemned carbines. He never did explain. He was too much of an aristocrat. Apparently he was misled and blundered and learnt a lesson and went on stoically to live the story down. He was presently actively engaged in the manipulation of gold on behalf of Peabody and Co.

In this phase and in certain of its later characteristics, the story of Peabody and Company and the Morgans recalls the Rothschild story. Peabody set out to be trustworthy. His firm manipulated situations, they charged as high interest as they could exact from a government in trouble, but they were scrupulously exact and honourable in the conduct of their transactions; they never lied nor cheated. All this was according to the highest financial standards of their time. They backed the Union Government in the Civil War, when the confidence of the overcautious Rothschilds was failing, and the reward was great. At one time, they were getting gold for the government from Europe at twelve per cent interest. Peabody and Co. possessed the complete confidence of the British investor at that time, and the Morgans came into the irresponsible

APPENDIX

Wall Street of Drew, Fisk, Jay Gould and Commodore Cornelius Vanderbilt, to inaugurate a new phase of integrity and stability. But their ethical code was strictly individualist. The necessity of the community was the investor's opportunity.

We have told already of these early days of railway development. "Gould," says Winkler, "picked up railroads as one might collect old coins, manipulated their stock and unloaded on the public." He victimized the investor. But the Morgan code required that the financier should be loyal to the interests of his supporting investors. The promises of a prospectus must be observed. Morgan came into the railway business with the intention of making the properties pay. This improved upon the spirit of Vanderbilt which was chiefly to make them work, and Morgan's first fight was with Gould for the Albany and Susquehanna Railroad which Gould was trying to acquire and use against the Vanderbilt interests. It was a rough struggle after the early fashion. There was actual fighting for this line, head-on collisions of trainloads of toughs, wounds and bloodshed. Morgan emerged triumphantly with the prestige of having "beaten Jay Gould." This was his introduction to the world of American railroad adventure, to which he was to return with enormous effect in the eighties.

But the Morgan story is not only a story of increased integrity and a growing sense of efficient performance, it is also one of associated action instead of purely personal aggrandizement. Both Julius Morgan and his son were pioneers in financial combination. In October 1870 France was in the throes of her defeat by Germany, the army of Sedan had surrendered, the Emperor Napoleon was a prisoner, Paris was besieged and the government had fled to Tours. James Morgan was asked to raise a loan of 50,000,000 dollars for the French Government. He offered to do so in the form of a six per cent bond issue at eighty. These were hard terms for France but the need for cash was urgent. The bonds were offered to the public at eighty-five and were presently selling at par. In order to raise the money promptly a group of financial houses had to be assembled. This "Syndicate"—it was the first appearance of the word in British and American finance—was the beginning of a series of alliances centring upon the Morgan firm. The next was a big group concerned in funding the American War Debt. Thence Morgans—now completely under the personal direction of J.

THE WORK, WEALTH & HAPPINESS OF MANKIND

Pierpont, for his father Julius had retired at the early age of sixty-four—entered upon the work of underwriting American railway stock. So we come to the next chapter in the history of capitalist finance; the struggle—less planned perhaps than necessitated—for the consolidation and control of economic life by an oligarchy of banking organizations. It is a struggle—or a drive, shall we say?—which is by no means at an end.

We must refer the reader to J. K. Winkler for the particulars of this immensely interesting process. We will not attempt even a brief summary of the battles of Morgan, Hill, Harriman and the other financial barons in this internecine war. The characteristic and essential rôle of J. P. Morgan was reconciliation, combination, the elimination of conflict, the identification of financial interests. He persuaded or he compelled the men of money to cease from bickering and work together for the common end of profits. He was the bully of peace. We have shown already the inherent need there was in the case of the American railroads for a consolidation of the fragmentary and mutually injurious companies which first exploited the transport possibilities of the continent, and we have shown something of the adventures, robberies and wealth-grabbing that occurred almost inevitably because of this planless drive towards larger and more efficient systems. There was no effective economic government in existence; there was no 'competent receiver' (see Chapter VIII Section 6) to take these things out of the hands of private profit-seekers. The so-called democratic institutions of the time were ridiculously unfitted for the job. It had therefore to be done in this fashion or not at all. There were intelligent and vigorous American bankers who were attempting to bring order and a *paying* efficiency into the continental transport system, were in fact blundering towards a public service which was otherwise not attainable, blundering from pure piracy to a more and more centralized profitable administration, hardly knowing what they did. By way of steel rails and the like the financier of transport must presently come into the iron and steel industry. Coal concerns him primarily. Indeed he finds himself, almost unawares, exercising an unanticipated power over every type of distribution. Necessarily the expanding Rockefeller system was early involved in these railway concentrations. J. D. Rockefeller was a man of far greater inventiveness and adaptability than even Morgan, and his Standard

APPENDIX

Oil organization supplied patterns for Morgan's own interlocking devices. But while Rocketteller absorbed and grew, Morgan accumulated subservient allies. Morgan, says Winkler, hated Rockefeller. He found him cold-blooded and in a way terrible. He was a Puritan; he had no taste. Moreover Morgan detested Andrew Carnegie, who called him "Pierpont" to his incessant annoyance. Carnegie seemed, to this fastidious and self-conscious "gentleman," the quintessence of familiar democratic vulgarity. But this did not prevent Morgan from dealing with both Rockefeller and Carnegie until they had brought together a vast multitude of metallurgical plants and accessories into the one vast property of the United States Steel Corporation (1901). Its structure was frankly modelled upon that of the "Mother of Trusts" Standard Oil. It was evolved by the same forces; its natural ally and associate.

In the closing decade of the century there arose a counter movement to this drive, of which Rockefeller and Morgan were the exponents, towards a vast economic organization that should eliminate waste and competition, and comprehend at last and control the entire material life of the community. The steady getting together of the great property concerns of America was making the politician, the minor economic adventurer and the common man uneasy. Although none of these consolidations had led to any deterioration in public services or any rise in the price of commodities, it was felt that they involved these possibilities. And their treatment of labour was unsympathetic and stupid. The fact that an economic system with definable headquarters—even if these headquarters are not politically responsible—is far more amenable to public opinion than an unorganized chaos, was ignored. The public was alarmed by the suggestion that so soon as monopoly was established prices would be raised to an unendurable level, and the minor producers and traders were rallied to an attack on this "octopus" of the confederating trusts. Washington had already measured itself unfavourably against the new money power. There had been another monetary crisis in 1895 and the government had had to accept hard terms from a combination of Morgan and Belmont, who represented the Rothschild group in America. In 1901, through the assassination of President McKinley, Theodore Roosevelt had become President, and he set himself without delay to a trial of strength between the formal government of the country

THE WORK, WEALTH & HAPPINESS OF MANKIND

and this new oligarchy which threatened to take control of all the more vital interests of its citizens.

Already in 1890, Congress had passed the Sherman Anti-Trust Act to prevent the elimination of competition in business, and this Act Roosevelt applied to a merger of the hitherto competitive Northern Pacific and Great Northern railroad companies in the Northern Securities Company. Morgan was outraged by the attack. He raved at Roosevelt as "worse than a Socialist." He threw himself into the presidential campaign to replace his antagonist by the Democratic candidate, Mark Hanna. "If Roosevelt had his way," he said, "we'd all do business with glass pockets." These are the phrases of a conspiring plutocrat and not of a public servant. Morgan manifestly did not understand the forces that had evoked him. The litigation went in favour of the government and the Northern Securities Company was dissolved. It was the first serious check in the growth of the octopus. Roosevelt was triumphantly re-elected in 1904, and proceeded to prosecute Standard Oil and the Harriman group of railroads as conspiracies in restraint of trade. He also carried through the Hepburn Law empowering the Interstate Commerce Commission to fix railroad rates.

The whole spirit of Roosevelt's work was boldly constructive, and in spite of certain personal limitations he posed the main issue of modern political life quite plainly to the world. The higher organization of the economic life of the community under the confederated activities of an oligarchy of irresponsible and adventurous money barons was confronted for the first time in America by the idea of the modernized administrative state. That issue remains undecided to this day.

The issue remains undecided because of the unpreparedness, incompleteness and inefficiency of the contemporary governments. There was no modernized administrative State behind Roosevelt. Only in his more exalted moments did he imagine there was. He felt that the community should control its economic life, make and enforce just laws, conserve its resources and plan its future. But his intelligence was not on the level of the vigour of his personality. He had no sense of the complex educational processes that must underlie a public organization adequate to modern needs. The political structure of America—the political structure of the world—was not responding to the demands of the time. This gave—and

APPENDIX

gives—the barons of finance their opportunity and their justification. It is still open to them to steal a march upon democracy and reconstruct and modernize the world. Moreover Roosevelt was a strong patriot. In that he was less enlightened than the financiers. He saw his administrative state as pure American. But though he disavowed Socialism he sustained the railroad workers and miners against the illiberal methods of the profit making trusts.

We have no space here to analyze the causes of the great American panic of 1907 which foreshadowed in many of its incidents the great slump of 1929-31—the slump of which we have given a summary in Chapter IX Section 11. Morgan appeared as a supporter and saviour of tottering financial institutions. But at a price. He forced Roosevelt to acquiesce in the purchase by the Steel Corporation of the Tennessee Coal, Iron and Railroad Company, one of its chief outstanding competitors, before he would bring his forces to the restoration of confidence. Then for a brief period he was a great popular figure.

This was the last important phase in his financial career. He was over seventy. The war of the government against the big trusts went on, but he was already dead, and Roosevelt was dead, when—in 1919—the Supreme Court decided in favour of the United States Steel Corporation. His last public appearance was before the Pujo Committee of Congress “to Investigate the Concentration of Money Control of Money and Credit.” This Pujo Committee, says Winkler, “showed that a definite community of interest had been established between Morgan and Co., the First National, and the National City Bank. Figures made plain the enormous power of these groups in banking resources, transportation systems, producing and trading corporations, great public utilities. Firm members or directors of the three institutions, it was disclosed, together held 341 directorships in 112 corporations having aggregate resources or capitalization of no less than 22,245,000,000 dollars.”

Morgan died in Rome in March 1913. His bank has passed into other hands and has changed its manners and methods. In recent years it has played a similar rôle to that of the Rothschilds a hundred years ago. It follows the laws of its being. It is on the side of the creditors in a debt-strangled world. At the outbreak of the War, the City of New York found itself unable to meet its obligations in London and Paris amounting to £7,000,000 dollars, and was

THE WORK, WEALTH & HAPPINESS OF MANKIND

assisted by a bankers' syndicate organized by the firm. The J. P. Morgan and Co., became the official purchaser in America of foodstuffs and munitions for the British and French Governments. Before America entered the War the firm had arranged loan issues to the British and French Governments amounting to 1,550 millions of dollars and during the War and after the conclusion of the War up to 1926, loans amounting to 1,700 millions were issued to Britain, France, Belgium, Italy, Austria, Japan, Switzerland, Argentina, Australia, Cuba, Canada and Germany. A second J. Pierpont Morgan replaces his father at the head of the firm, but the organization is not like the Rothschilds, a family concern; it is a constellation of associates and still extraordinarily vital. It has lost any quality it ever possessed of autocracy. J. P. Morgan and Co., like Standard Oil, is not a man's creation, it was a necessary growth of the economic conditions and financial arrangements of the later nineteenth century. Something in the form and nature of these organizations would have come about had J. D. Rockefeller and J. P. Morgan never been born.

In this account we have said little of the personality of J. P. Morgan outside his financial career. For that and for portraits of him we must refer the reader to Mr. Winkler's book. There one may learn of his art collections and his interest in church affairs and beautiful women, often oddly interwoven, of his gusts of passion, of his black cigars and his trouble with a strange disfiguring growth of his nose and how he was obsessed by the resemblance of his life to that of a nobleman of the Renaissance, and many such things, entertaining and instructive in themselves but bearing little upon the attainment and use of his wealth—which is our concern with him here. He was an extraordinary man, but he does not seem to have been a great man; he was the creature of our methods and his time. It is the money power, and his abnormal arithmetical intelligence, and not the man, which will figure in history.

In an interesting article (*Kreuger and Toll*), in the *Fortnightly Review* for December 1931, Mr. T. G. Barman writes in glowing terms of the advent of the organized money power. It is destined, he thinks, to supply that sane and sustaining control of human affairs which existing national governments and democracies, at the present levels of education and civil service efficiency are unable to

APPENDIX

provide. The hero of his article, is, so to speak, Mr. Ivar Kreuger, a Swedish financier, who has acted as an intermediary between America and the distressed states of Europe, borrowing money from the oligarchy of credit in New York to invest it in loans against the security of the profits of match monopolies or other essential services in the various countries assisted. But there are many difficulties in the way to accepting this forecast of a benevolent oligarchy—or, if you prefer it—an aristocracy of finance. These great money accumulations grew most in times of crisis and arose out of the shortcomings of the existing money system. Are they likely to turn upon the forces that have created them and work for such a scientific monetary organization as Dr. Eisler has sketched (Chapter IX, Section 12 Page 412)? The principles involved in such a question are discussed with some fullness in Chapters VIII and XV. Our business here is to describe as simply and illuminatingly as possible.