

MARTIN HORN

J.P. Morgan & Co. and the Crisis of Capitalism

*From the Wall Street Crash
to World War II*



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During the interwar period, J.P. Morgan was the most important bank in the world and at the crossroads of US politics, international relations, and finance. In *J.P. Morgan & Co. and the Crisis of Capitalism*, Martin Horn brings us the first in-depth history of how J.P. Morgan responded to the greatest crisis in the history of financial capitalism, shedding new light on the Great Depression, the New Deal, and the coming of World War II. Horn shows how J.P. Morgan & Co. as a business responded to the crash of 1929 and the Depression, including its part in the Wall Street Crash, arguing that the Morgan partners misread the seriousness of the crash. He also offers new insights into the interactions of politics and finance, exploring J.P. Morgan's relationship with the Hoover administration and the bank's clash with Roosevelt over New Deal legislation.

Martin Horn is Associate Dean of Graduate Studies and Research in the Faculty of Humanities at McMaster University. His previous publications include *Britain, France and the Financing of the First World War* (2002) and, with Dr. Talbot Imlay, *The Politics of Industrial Collaboration during World War II: Ford France, Vichy and Nazi Germany* (2014).

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Martin Horn

McMaster University, Ontario



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To Lisa, Madelaine, and Miranda

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Acknowledgements

This is a book about bankers that has been too long in gestation. Less promising opening sentences may be imagined but a search would be needed. There is a view that bankers and banking are grey men (almost always men) conducting a grey business, hardly worth a book. If a book there must be, it, like its subjects, will be dull. I hope that readers will find that this book is not dull, for its subjects and its time are not. One encounter with the J.P. Morgan & Co. partner Russell C. Leffingwell will dispel any notion of the banker as a grey man. If readers do find the book dull, that verdict, like the gestation, should be laid at my feet.

Scholars have generally been uneasy about bankers. Some of this has been due to the abiding strength of Marxist thought in the academy, which, while appreciating that the banker was necessary to move along the dialectic, also regards the banker as emblematic of the persistence of capitalism and its evils. Some of this has been down to a fear that historians who work on banks have been captured either by the bank or by the bankers. Authorized histories – which this is not – are often seen as tainted. Some of this has been a result of the trends that have reshaped history as a discipline. Over time, the fissuring of “That Noble Dream,” which has been positive for so many who were ignored or written out of history, has relegated bankers – never a popular field of inquiry even in the days when history was about great white men doing great things – further down the sporting table.

Perhaps this is because one problem encountered in writing about a bank is the archives. Unlike public archives such as The National Archives, UK, at Kew, company archives remain at the disposal of the firm. As J.P. Morgan & Co. was a private partnership until April 1940, where this book leaves off, the records of the firm belonged both to the partners and to the bank. Happily, this has meant the survival of several major collections of archival material, especially concerning the three most important Morgan partners of the 1930s: J.P. Morgan Jr., Thomas W. Lamont, and Leffingwell. Each left copious documentation. In Lamont’s case, the finding aid to his papers runs into the hundreds of

pages. Less happily, the partnership kept no records of its weekly meetings, and the other Morgan partners' impress is not as detectable in the surviving archival material. Some of this weakness is offset by material held in The Morgan Library in New York. These core collections have been supplemented by research conducted in archives in the United States and in Britain. I would like to thank all of the archives referenced in the bibliography for permission to use their manuscript collections.

I am indebted to various individuals who have helped bring the book to fruition. Archivists are wonderful to deal with; they want scholars to learn from and use their collections. All of those whose assistance I relied on I wish to thank for their generosity of spirit and time. Special thanks go to the staff and personnel at the Baker Library (Harvard), The Morgan Library, and the Herbert Hoover Presidential Library. Karl Taylor, who is not an archivist, deserves particular note. Working on his own history of Nelson Dean Jay, an American partner in Morgan & Cie., in Paris, he brought to my attention the existence of the Jay papers now held at Knox College. To him and to the college, my thanks.

Others have aided by reading what I have written and providing informed, pithy commentary that has improved the book. My sometime collaborator Talbot Imlay and my colleagues Pamela Swett and John Weaver have all read substantial chunks of the manuscript. Their remarks strengthened the book immeasurably. Stephen Schuker kindly gave of his time to share his unrivalled knowledge one night in Charlottesville.

One historian falls into a special category of thanks due. I never met the late Vincent Carosso, the author of the authoritative study of the Morgan bank down to 1913. He had begun work on a successor volume and collected considerable material in the pursuit of this aim, which is now available as the Carosso papers in The Morgan Library; however, he did not get far in writing his sequel. I am quite sure that he would have written a very different study from what readers will find in these pages. I am indebted to his pioneering research.

Stephanie Corazza, Brittany Gataveckas, and Katarina Todić, exemplary graduate students one and all, and now holding well-deserved doctorates, assisted in the research. I am grateful to each of them. Finally, at various times, and in various places, scholarly audiences listened to what I had to say, forcing reflection with their comments and questions, which were always beneficial. To those who participated, my thanks.

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sample chapters, and to submission past the deadline. To him and to his team at Cambridge University Press, my gratitude. To the anonymous reviewers, I am grateful for their positive assessment as well as the directions suggested.

My wife, Lisa Pasternak, was instrumental. She read every word of the manuscript while balancing her busy career as a municipal lawyer. Without her input, the book would be much impoverished.

The book was finished as the COVID-19 pandemic struck. Readers will notice that nothing is said of this crisis and capitalism. As the human tragedy of the coronavirus unfolds, it is too early, too raw, too visceral, to make generalizations about our current crisis and the crisis of the capitalism in the 1930s. More distance is required, not least as we hope that the pandemic will be mastered.

Introduction

Late in February 1930, Owen Young journeyed by private railcar to Arizona. Young was at the height of his fame as a General Electric executive, as the founder of the Radio Corporation of America (RCA), and as an international statesman whose name adorned the just-concluded Young Plan. *Time* magazine named him man of the year in 1929, and he was bruited as a possible presidential candidate in 1932.¹ Discussion with his travelling companion, Everett Case, turned to Young's friend, J.P. Morgan Jr. (Jack Morgan), the senior partner of J.P. Morgan & Co. Young thought that it was a pity that Jack Morgan was so little known to the American public, for J.P. Morgan & Co. was "the most important banking house in the world with the power of affecting the lives of people in this country and throughout the world." A decade later, Morris Ernst, a prominent New York lawyer and the general counsel of the American Civil Liberties Union from 1929 to 1955, wrote another Morgan partner, Russell C. Leffingwell. Ernst mused: "I think your house has a responsibility that is practically superhuman, and assuming complete honesty and ability can never be met to the satisfaction of society."² Young was an intimate of the Morgan partners, Ernst a critic who believed that the Morgan part in American life was baleful. Both agreed that J.P. Morgan & Co.'s influence was pervasive. Yet there is no account of the bank during the period, though references to J.P. Morgan & Co., its partners, and its doings populate the pages of many histories.³ This book corrects that omission.

¹ Josephine Young Case and Everett Needham Case, *Owen D. Young and American Enterprise*, Boston: David R. Godine, 1982, is the standard biography.

² Everett N. Case, 28 February 1930, St. Lawrence University (SLU), Owen D. Young papers (ODY), Box 976, Folder 2095; Morris Ernst to Leffingwell, 13 February 1940, Yale University Library (YUL), Russell C. Leffingwell MS (RCL), Series I, Box 2, Folder 36.

³ Ron Chernow's survey, *The House of Morgan*, New York: Atlantic Monthly Press, 1990, devotes several chapters to the bank in the 1930s. Chernow's book is focused on Thomas W. Lamont in these years, a tendency rendered understandable by the poor quality of the one biography of J.P. Morgan Jr. by John Douglas Forbes, *J.P. Morgan, Jr. 1867-1943*, Charlottesville, VA: University of Virginia Press, 1981. Edward Lamont's study of his grandfather, *The Ambassador from Wall Street*, Lanham, MD: Madison Books, 1994, has driven home the impression of a bank that was more Lamont than Morgan in the interwar period.

It has two aims. The first is to assay the history of J.P. Morgan & Co. as a business between 1929 and 1940. There are few book-length studies of banks in the interwar years, though nearly all historians would acknowledge their salience. As 1929 opened, the bank was a partnership in a prosperous United States. There ensued a convulsive decade of Crash, Depression, New Deal, and the coming of a new war. In 1940, the Morgan partners opted to turn their backs on their partnership, choosing to incorporate. Why? Answering this question involves asking others: Who were J.P. Morgan & Co.'s partners and what kinds of business did they carry out? How did the partnership meet and adapt to the challenges it faced from 1929 to 1940 as its business changed? Throughout these years, the Morgan perspective was conditioned by the dilemma of the private merchant banker enduring the crisis of capitalism. There were, the book argues, three different Morgan banks during these years: the J.P. Morgan & Co. of 1929 to mid-1931 when the full effects of the Depression had not yet been felt; the J.P. Morgan & Co. of late 1931 to 1935, battered by Depression and struggling to come to grips with it and with the New Deal; and the J.P. Morgan & Co. of 1936–40, a commercial bank shorn of its investment banking arm that was pondering its future. Navigating the rapids and shoals of the 1930s were the Morgan partners. They helmed the bank and set the Morgan course. For the Morgan partners, the choices of the 1930s were fraught. Events between 1931 and 1933, especially the last quarter of 1931 and the first quarter of 1933, when the bank suffered wrenching losses, scarred, reinforcing the habitual conservatism of these private merchant bankers throughout the remainder of the decade and colouring indelibly how the Morgan partners responded to the challenges that followed. Risk became unthinkable in Morgan banking practice. Forced by the Banking Act of 1933, better known as Glass–Steagall, to make a choice between commercial and investment banking, seeking to cope with an economy that sputtered from 1935, the long-term survival of J.P. Morgan & Co. meant ending their partnership. In this sense, the book is a case study of the response of financial capitalism to the greatest crisis in its history.

The second, wider aim is to integrate the history of J.P. Morgan & Co. with that of the history of capitalism and of the 1930s. While there has been a resurgence of interest among scholars in capitalism, as evidenced in the acclaim for work by historians such as Sven Beckert, there remains much to be done. Linked is another development. Some years ago, Steve Fraser and Gary Gerstle lamented the turn away from the study of elites in American history, seeing in its abandonment by the academy a failing that needed redressing. The Morgan partners were the embodiment of the

interwar American elite. If we accept, to borrow the title of a well-known work, that there are “varieties of capitalism,” then a study of J.P. Morgan & Co. as a capitalist institution offers insight into the history of capitalism, into the study of elites, and into the varieties of capitalism as the crisis of the 1930s raised questions about its survival.⁴ What follows is both granular, in its focus on the bank as a business, and expansive in the sense of the bank as a symbol of American elites and American capitalism.

The Morgan partners were bankers. That reality shaped their responses to the challenges they faced. Yet J.P. Morgan & Co. was not just any bank, as attested to by the testimony of Young and Ernst. From 1918, it was the most important bank in the world. The partners were entangled in domestic politics, international relations, and finance. Ford, Morgan, and Rockefeller were the Olympians of American capitalist gods in the interwar years. As the crises of the 1930s unfolded, J.P. Morgan & Co. were participants in and observers of the tumult. If the overarching story is one of decline – the Morgan bank was less consequential in 1940 than it had been in 1929, Ernst notwithstanding – this arc was less apparent to contemporaries. The Morgan partners were immersed in the New York Stock Exchange Crash of 1929, counselled Herbert Hoover as the Depression progressed, and sparred with Franklin D. Roosevelt during the New Deal. They were pilloried by Father Coughlin and Senator Huey Long, and they were the American bankers to Italy and Japan. Their experience speaks to questions of abiding and enduring interest for economists and historians. How did J.P. Morgan & Co. respond to the Crash and the coming of the Depression? What was the bank’s relationship with the Hoover administration? Between 1933 and 1936, Roosevelt’s New Deal reshaped American capitalism. How did the Morgan partners react? After Roosevelt’s re-election, what part did the Morgan bank play as the sharp downturn of 1937–38 threatened renewed destabilization? As the New Deal’s energies flagged, Americans became more preoccupied with the spectre of war. What role did J.P. Morgan & Co. play as the revisionist states of Germany, Japan, and Italy challenged the existing order? What was the relationship between J.P. Morgan & Co. and the foreign policy pursued by the Roosevelt administration?

⁴ Sven Beckert, *Empire of Cotton: A Global History*, New York: Alfred A. Knopf, 2014. Beckert is also co-chair of Harvard’s Program on the Study of Capitalism. Another indication of renewed interest in capitalism was the launch of the journal *Capitalism: A Journal of History and Economics* by the University of Pennsylvania Press in 2020. Steve Fraser and Gary Gerstle, “Introduction,” in Steve Fraser and Gary Gerstle, eds., *Ruling America: A History of Wealth and Power in a Democracy*, Cambridge, MA: Harvard University Press, 2005, pp. 1–26. Peter A. Hall and David Soskice, eds., *The Varieties of Capitalism: The Institutional Foundations of Comparative Advantage*, Oxford: Oxford University Press, 2001.

These questions are at the core of the book. The first two chapters address the Morgan bank and its place in the United States and the world before 1929.⁵ Background these chapters may be, but they are fundamental in appreciating J.P. Morgan & Co. and the 1930s. If, as the book demonstrates, the crisis years between 1929 and 1940 were far more than a coda to what went before, there is no question of divisibility. Understanding J.P. Morgan & Co., its place in American life and in the world, begins well before 1929. [Chapter 1](#) assesses the firm's antecedents and its connections to Britain and France, as well as setting out the history of the bank to 1918. Within this world, Britain was the lodestone for the Morgan partners, its banking culture and history imparting a permanent stamp on J.P. Morgan & Co. Contrary to what may be thought, the bank of the 1920s was a sober, conservative banking house. Active in a range of areas at home and abroad, delineating these activities – clients, credits, and loans – demystifies what J.P. Morgan & Co. did. An examination of the structure of the bank, with an emphasis on the partners, follows. The senior partners – Jack Morgan, Thomas W. Lamont, Leffingwell, and George Whitney – are analysed to weigh their personalities and beliefs. Their convictions determined the bank's outlook through the 1930s. The [second chapter](#) is a consideration of J.P. Morgan & Co. in American life, from the Progressive charge that it epitomized the Money Trust to its status as the bulwark of the established financial order on Wall Street. The American financial system of the 1920s was under duress due to a variety of factors. So too was the Morgan place at the apex of the pyramid of American finance. J.P. Morgan & Co. led Wall Street, but Wall Street was not the sum of American finance, nor was the Morgan supremacy uncontested. There were many voices on Wall Street, not just the stentorian Morgan tone. Much of J.P. Morgan & Co.'s influence arose from its international reach – with its associated firms in London, Morgan Grenfell, and in Paris, Morgan & Cie. – known as the House of Morgan.⁶ [Chapter 2](#) suggests that Morgan power was tied intimately to Britain and France as the victors of World War I. When Anglo-French suzerainty over

⁵ The history of the bank before 1914 is served by Vincent Carosso, *The Morgans: Private International Bankers 1854–1913*, Cambridge, MA: Harvard University Press, 1987. Pierpont Morgan has been the subject of many studies. The most recent full-length biography is Jean Strouse, *Morgan: American Financier*, New York: Random House, 1999. Susie J. Pak, *Gentleman Bankers: The World of J.P. Morgan*, Cambridge, MA: Harvard University Press, 2013, is a fine study that covers the period 1900–29 in a series of thematic chapters.

⁶ J.P. Morgan & Co. was the New York firm. It was also known as the Corner, for its position at the corner of Wall Street and Broad, or as 23 Wall Street, its formal address, or less precisely as the House of Morgan, which included Drexel & Co. in Philadelphia, Morgan Grenfell, and Morgan & Cie. In this book, J.P. Morgan & Co., the Corner, and 23 Wall Street all refer to the New York partnership.

the international system crumbled, so too did Morgan sway erode. J.P. Morgan & Co.'s international orientation meant that its partners, naturally enough, saw the challenges of the 1930s as both international and domestic. The two were interwoven. [Chapters 1 and 2](#) thus contextualize the debates, controversies, and divides of the 1930s in terms of the developments of the decades before 1929.

In October 1929, the New York Stock Market crashed; by 1933, the world was years into the Depression and into the crisis of capitalism. Explaining these events remains a challenge that [Chapters 3, 4, and 5](#) tackle. Division remains in analyses on the origins and course of the Depression. The search for the “Holy Grail” of economics, an explanation that will unite if not all then most scholars in an understanding of what happened, continues. These analyses emphasize systemic failings to understand the Depression.⁷ J.P. Morgan & Co. fit uneasily into such explanations. As a private merchant bank, it was not a member of the Federal Reserve and was outside the system in a formal sense. That said, its influence was seen – often negatively – as greater than any other on Wall Street or, in more conspiratorial formulations, than the Federal Reserve itself. The “paranoid-style” is rejected in these pages in favour of a nuanced and, candidly, imprecise formulation of Morgan influence. As for the United States proper, debate about President Herbert Hoover and his administration's response to the onset and deepening of the Depression remains lively. Here, a different perspective is proffered of Hoover.

[Chapters 3–5](#) argue that J.P. Morgan & Co. played a serious, sustained part in the events of 1929–33. The Morgan partners believed in a multilateral liberal capitalist trading order resting on a restored gold standard. They were convinced that American prosperity was connected to European prosperity. J.P. Morgan & Co.'s participation in wartime Allied financing and European reconstruction in the 1920s had solidified this world view. [Chapter 3](#) opens with 1929. As the new year began, the Morgan partners were preoccupied with resolving the last hindrances to a stable, harmonious Europe. Once this was accomplished, they thought a halcyon future beckoned for Europe and for the United States. Creating new financial machinery to accomplish this end, in the form of the Young Plan and the Bank for International Settlements (BIS), drove them in 1929. The Stock Market Crash was of less moment for the Morgan partners. When it came – to their surprise – Morgan efforts were directed at restoring order in the market rather than seeking a resolution to the panic. Nor did the Morgan partners consider the stock market fall

⁷ Charles R. Morris, *A Rabble of Dead Money: The Great Crash and the Global Depression, 1929–1939*, New York: Public Affairs, 2017, is a recent survey.

a transformative event. For them, it was a fleeting phenomenon betokening no lasting damage. The Morgan partners were, cautiously, optimistic after the Crash, a position that both reflected and fed American opinion. What mattered in the Morgan view was implementing the Young Plan and BIS, a conviction that lasted until the summer of 1930. It was not until the fall that the Morgan partners admitted that a depression was in the offing. This explanation of Morgan actions and outlook in 1929–30 helps us understand why Wall Street was slow to react as the American economy deteriorated. J.P. Morgan & Co., the leader of the Street, was focused on international developments, not domestic considerations.

International turmoil continued in 1931, with shattering consequences, as the [fourth chapter](#) discusses. A new Morgan partner, S. Parker Gilbert, the former Agent-General for Reparations, was a notable force in making Morgan policy in 1931–32. Three crises – the collapse of CreditAnstalt in May; turmoil in Germany in June–July; and the Sterling Crisis in Britain in July–September – dominated 1931. The partners took for granted that their advice would be welcomed in Washington, London, and Paris, a reflection both of their importance and of their hubris. J.P. Morgan & Co. counselled that these crises should be met through a reconstitution of the wartime alliance, not just in form but also in deed. This approach, which developed as the crises unfolded, was driven in part by Morgan fear that transmission of the German crisis might destabilize the American banking system. Its implementation depended on cooperation with the Hoover administration, which proved troublesome. The Morgan partners were ambivalent about Hoover, doubted his capacity, lamented his diplomatic skills, and yet needed his support. The British departure from the gold standard in September 1931 was a tremendous blow, confirming to the partners in their view that Franco-American cooperation was necessary if the Depression was to be overcome and raising for the first time the possibility that the Depression threatened capitalism. In the last months of that year, capital fled the United States after sterling's departure from gold, triggering a Federal Reserve rate increase and spurring deflation. The American economy contracted as did global economies. The J.P. Morgan & Co. balance sheet collapsed, with swingeing losses compressed into the last quarter of 1931. The harrowing effects of the latter, financial and psychological, lasted through the remainder of the decade but in the short term catalysed a Morgan reappraisal of what was transpiring. [Chapter 4](#) strengthens the case of scholars who have seen 1931 as the year that transformed a deep recession into a global Depression.⁸

⁸ Harold James, *The End of Globalization: Lessons from the Great Depression*, Cambridge, MA: Harvard University Press, 2001, is one leading study that has advanced this argument.

The Depression in the United States between 1930 and 1933 is the subject of [Chapter 5](#). Bankers are often seen as missing in action in the Depression in America in these years, conspicuous primarily either by the waves of bankruptcies that whittled their number or through their inertia that contributed to, and was promoted by, economic catastrophe.⁹ The argument made in this chapter is for an activist J.P. Morgan & Co. Activism did not mean that the Morgan partners had solutions to the Depression – they did not. Self-appointed as clinicians for ailing private firms, J.P. Morgan & Co. undertook, selectively, to aid New York institutions that found themselves in trouble in 1930–31. The Morgan capacity to perform this role was overwhelmed by the 1931 debacle. Morgan activism of this kind was short-lived. Activism, however, continued albeit in a different form. By the late summer of 1931, Leffingwell and Parker Gilbert were convinced that deflation was cutting into the bone of capitalism. The root cause of the trouble was World War I. Leffingwell and Gilbert argued that 1918 was only a hiatus; economic war had replaced open war, a state of affairs revealed by the Depression, deflation and the British departure from the gold standard. This analysis led the Morgan partners in 1932–33 to urge policymakers to adopt “war-time expedients” to counter deflation. Diluting the force of this argument were various complications. One was the Morgan relationship with Hoover. Superficially the Morgan analysis of the Depression and Hoover’s were not dissimilar. Both saw the Depression as an international phenomenon. There similarity ended. Hoover’s reluctance to jettison his reliance upon private, associational means to claw the United States out of the Depression meant that his efforts were too tepid for the Morgan partners. They advocated bolder measures to overcome deflation. Hoover resented these efforts, feeding his contempt for Wall Street bankers who he believed were out of touch with America. The Leffingwell–Gilbert prescription to combat deflation called for cuts in government expenditure to bring wages down to world commodity price levels. Somehow equilibrium would result. It was a muddled concoction. Simultaneously they

⁹ There is no overarching study of American banking from 1929 to 1933. The most thorough account is Susan Estabrook Kennedy, *The Banking Crisis of 1933*, Lexington, KY: University of Kentucky Press, 1973. Kennedy suggests that: “By protecting themselves rather than by helping others fight the depression, bankers abdicated leadership in their communities and threw away prestige with both hands. The same men who had claimed credit for prosperity refused to accept responsibility for adversity and rejected the opportunity to maintain confidence in themselves and their institutions . . . Throughout the 1920s and until 1931, the nation had looked to its bankers first to ensure prosperity and then to lead others out of the depression; thereafter, however, the bankers seemed scarcely able to help themselves. Loss of confidence in the leaders of finance, moreover, made the depression harder to fight and increased the burden on those left in command” (pp. 20–21).

encouraged expanding open-market operations by the Federal Reserve. The Morgan partners remained insistent that the global crisis required international remedies, leading them to fruitless wrangling over war debts and reparation. Any thought that the Morgan partners were Keynesians *avant la lettre* should be discarded. Nevertheless, while the Morgan posture was contorted, it was not idle. Though shackled by what Barry Eichengreen has called “golden fetters,” the Morgan partners cast these off before most on Wall Street.¹⁰ Distressed at the savagery of the banking crisis of the opening months of 1933, the Morgan partners abandoned their long-standing belief in the gold standard, having concluded that its preservation was inimical to capitalism’s survival. This was a step that a lame-duck Hoover could not countenance. While the Morgan partners were alive from 1931 to the depredations of the Depression and developed a plausible explanation for what underpinned it, they were unable to translate insight into action, contributing to the banking community’s ineffectiveness in the face of economic dislocation.

The coming of the New Deal changed the Morgan role in American capitalism. Before March 1933, contemporaries considered J.P. Morgan & Co. as one of the centres of capitalist power in the United States. After 1933, as [Chapters 6, 7, and 8](#) suggest, this assumption was questioned in an America struggling to escape the Depression. J.P. Morgan & Co. still mattered but more as a symbol than as an institution blazing the American capitalist path. In his ringing inaugural peroration in March 1933, one of the most famous of the twentieth century, Roosevelt declaimed that Americans had nothing to fear but fear itself. He told his listeners that “the money changers have fled from their high seats of the temple of our civilization,” that there would be “an end to speculation with other people’s money,” and that there would be no return to the “evils of the old order.” This raises the question of the relationship between the Roosevelt administration and J.P. Morgan & Co., which is addressed in the [sixth chapter](#). Generally, historians have portrayed the dealings between the Roosevelt administration and business as adversarial.¹¹ American business, while welcoming gratefully the energy and purpose of the New Deal in 1933, became progressively disenchanted by it in operation, leading to a wholesale abandonment of the Roosevelt program by 1935. J.P. Morgan & Co.’s relationship with Roosevelt and with the New Deal was complex and not reducible to this familiar narrative. Jack Morgan welcomed Roosevelt’s announcement of the American departure from gold with

¹⁰ Barry Eichengreen, *Golden Fetters: The Gold Standard and the Great Depression, 1919–1939*, New York: Oxford University Press, 1992.

¹¹ Patrick Reagan, “Business,” in William D. Pederson, ed., *A Companion to Franklin D. Roosevelt*, Oxford: Wiley-Blackwell, 2011, pp. 186–205, is a survey.

a public expression of support in April 1933. The Morgan partners were impressed by the boldness of Roosevelt's actions in 1933. Leffingwell was convinced that the president had saved capitalism. However, the New Deal in action, drawing on its "Money Trust" antecedents, promulgated a package of reform legislation that threatened J.P. Morgan & Co. Glass-Steagall was the most consequential of these measures. Confronted with the legislation, the Morgan partners sought its abolition, delay, or revision. After Glass-Steagall, the chapter argues, the Morgan partners became more insular, more parochial, and less concerned about the crisis of capitalism as they worried about their bank. Despite this, though the Morgan partners were opposed to much of the New Deal legislation, which fractured their initial admiration for the president, the Morgan relationship with the Roosevelt administration did not rupture irretrievably. The firm did not lead or follow much of American business into the camp of the unreconcilables in 1935–36. Contrary to what many Americans suspected, and Father Coughlin and Huey Long proclaimed, J.P. Morgan & Co. was not arrayed with those who preached against Roosevelt. Hatred existed, in the shape of Jack Morgan's bile toward the president and in the utterances of other partners, but there was also Leffingwell and Parker Gilbert, Democrats who continued to champion Roosevelt within Morgan counsels. In 1936, Marquis Childs argued that the animosity of the wealthy toward the Roosevelt administration was such that "they in effect resign[ed] from the United States."¹² The Morgan partners did not do this, as the book demonstrates. They opposed Roosevelt's domestic agenda, often bitterly, but kept their fidelity to their idea of American democracy, a commitment that meant ongoing engagement with American economics and politics. Paradoxically that commitment helped to maintain the trappings of Morgan power in a New Deal that had hollowed out Morgan consequentiality.

Making this adjustment simpler was foreign policy. If before 1933 J.P. Morgan & Co. influenced American foreign policy, after 1933 the Morgan partners observed rather than made it. The outsized Morgan role in the international relations of the 1920s had rested on the dominance of Britain and France over European international relations, the centrality of economic and financial questions in the processes of reconstruction, the availability of plentiful American capital, and the willingness of the Harding and Coolidge administrations to allow private

¹² The article "They Hate Roosevelt" appeared in the May 1936 issue of *Harper's*. In expanded form it was republished as a pamphlet by the Democratic National Committee for use in the 1936 presidential campaign. It is reprinted in Frank Friedel, ed., *The New Deal and the American People*, Englewood Cliffs, NJ: Prentice Hall, 1964, pp. 98–104.

banking interests a substantial role. By the time that the World Economic Conference ended in disarray in the summer of 1933, all of these had disappeared. [Chapter 7](#) considers J.P. Morgan & Co. and Germany, Italy, and Japan. Ominously, all were committed to disrupting the international order in their favour. All three nations were important to the bank in these years: Germany because of its efforts to end servicing of the Dawes and Young Plan loans, Italy and Japan because they were Morgan clients. All three, the chapter argues, were misunderstood by the Morgan partners. This misappraisal speaks to the larger issue of how and why so many in the 1930s misunderstood the imperatives driving Berlin, Rome, and Tokyo. The failure to discern the radical nature of each of these regimes led the Corner to a blinkered, cautious approach that opened J.P. Morgan & Co. to justified criticism. Recourse to such a tack was made easier because it conformed with Washington's foreign policy. Between 1933 and 1937, as [Chapter 7](#) suggests, the foundations for Morgan support of Roosevelt's foreign policy were laid, in part, in shared attitudes toward the revisionist states. Concordance was given a fillip by the lengthening shadow of World War I. From 1934 to 1936, Senator Gerald P. Nye chaired hearings investigating the Munitions Industry. They devolved into a debate on whether the United States had been inveigled into war in 1917. J.P. Morgan & Co. was accused of having bamboozled the Wilson administration into war. The White House could not block Nye, but nor did the Roosevelt administration assist the senator in his exploration of J.P. Morgan & Co.

The [last chapter](#) unites the strands of domestic policy, the Morgan bank as a business, and foreign policy. The New Deal was unable to translate its early success in combatting the Depression into a permanent improvement in the American condition. The suddenness of the slump of 1937–38 reawakened worries that the darkest days of 1932–33 might return. Examining the reasons for this state of affairs, scholars have pointed not just to the immaturity of the existing fiscal mechanisms of the American state, Roosevelt's own conservatism, and the implausibility of a massive fiscal stimulus but also to the failings of monetary policy apparent in the reformed Federal Reserve system chaired by Marriner S. Eccles. Almost uniquely, [Chapter 8](#) argues, Leffingwell and Gilbert held that monetary policy was ignoring the ongoing threat of deflation. Consulted by Eccles and by the secretary of the Treasury, Henry Morgenthau Jr., the Morgan partners advised against any measures that might choke the money supply. That counsel was ignored. It should not be construed from this that the Morgan partners were farsighted. Rather, it was a reflection of their certainty, born in 1931, that deflation was the true enemy. Evidence for this contention is found in the

Morgan palliatives on fiscal policy. They were conventional, differing little from the orthodox nostrums of the day. The severity of the economic contraction in 1937–38 led Roosevelt to sanction publicly and privately Morgan intercession. While this spoke to the White House continuing to believe in Morgan power, the outcome was, as the chapter argues, a hardening of the chasm between the Morgan partners and Roosevelt on domestic policy. At the same time, J.P. Morgan & Co. was struggling as a commercial, deposit bank. Divorced from its investment arm, constituted as Morgan Stanley in September 1935, the partners retreated into a state of near inactivity. Their conservatism in banking practice was so acute by 1938 that they were doing little more than amassing deposits fleeing the fear of war in Europe. The Depression and the New Deal had worked against the partnership, but, as the chapter argues, so too did the decisions by the partners. Hoping for a change of government that would overturn Glass–Steagall, the consequence, when this did not occur, was that the partners were forced in 1939–40 to embrace incorporation in 1940 as the only avenue forward.

Overlapping was the fear of war. Many Americans thought that J.P. Morgan & Co. would drag the United States into a new war. As [Chapter 8](#) shows, this was far from the Morgan desire. Not only were the Morgan partners by the late 1930s bystanders in foreign policy rather than makers of it; they hewed to a cautious course. Wholeheartedly sympathetic to Britain and France, the Morgan partners viewed appeasement as admirable. For them, appeasement offered a solution to European difficulties that would allow for a restoration of a liberal, international trading order and would, with time, promote peace. Making advocacy of this view simpler was Roosevelt's endorsement of appeasement. A great deal has been written about Roosevelt's foreign policy, but the Morgan partners were convinced that he intended to keep the United States neutral come what may, while assisting London and Paris with as much economic aid as could be extracted from Congress. This was a policy that the Morgan partners thought wise. The Morgan partners clung to Roosevelt's foreign policy. They believed in it. As it transpired, the coming of World War II displaced capitalism's crises of the 1930s with a crisis of a different kind – the challenge of survival in a military confrontation.

1 “The Heart of Contemporary Capitalism” The Partners and Their Bank

The co-partnership notice was sparse and the display advertisement tucked away on page eleven of the *Wall Street Journal* on 1 January 1929 discreet. In fifteen lines, J.P. Morgan & Co. announced that it had admitted five new partners: Henry S. Morgan (Harry Morgan), Thomas S. Lamont, Henry P. Davison Jr., Thomas Newhall, and Edward Hopkinson Jr. All were becoming partners at J.P. Morgan & Co. New York, Morgan Grenfell & Co. London, and Morgan & Cie. Paris.¹ Collectively these firms were known as the House of Morgan. The *New York Times* was less circumspect. Under the banner “Sons of 3 Partners Enter Morgan Firm,” the paper informed its readers that Morgan partnerships were “the most coveted posts in Wall Street.” “It is doubtful,” the article commented, “if in Wall Street equal responsibility has been placed before on three men all under 31.” There were compensations, *The Times* hastened to add. Wall Street reckoned that Morgan partners earned a minimum of \$1,000,000 per annum.²

Serious-minded observers pointed to the attractions beyond lucre. *The Nation*, on the occasion of the announcement of Dwight Morrow’s appointment as ambassador to Mexico in 1927, remarked “[h]ardly any post to which the President might appoint him could give Mr. Morrow power comparable to that which he wields as a partner in the greatest international banking firm in the world.”³ Some years later, the writer-cum-historian of contemporary American society Frederick Lewis Allen echoed that verdict. He asserted that becoming a J.P. Morgan & Co. partner was “as high a prize as a financier could hope for . . . it was a place on the general staff of what the business world considered the headquarters of financial power.”⁴ Writing under his adopted name, Lewis Corey, the left-wing intellectual Louis C. Fraina concurred. With

¹ The co-partnership notice can be found in the *Wall Street Journal*, 1 January 1929, p. 11.

² *New York Times*, 1 January 1929, p. 18.

³ “From Morgan’s Up,” *The Nation*, vol. 125, no. 3248, 5 October 1927, p. 327.

⁴ Frederick Lewis Allen, *The Lords of Creation*, New York: Harper Brothers, 1935. Reprint: Quadrangle Books 1966, p. 344.

a pedigree honed by experience in the American Communist Party, Corey penned his 1930 study of the House of Morgan under the auspices of the Brookings Institution. Deeply critical of the Morgan influence on American life, he distilled the essence: The House of Morgan was “the heart of contemporary capitalism.”⁵

The frisson that rippled through Wall Street in the wake of the co-partnership notice is thus understandable. The admission of new partners to the leading bank on the Street was a notable event. The reaction of the *New York Times* attested to the saying that men scanned their mail anxiously every morning to see if a letter offering them a place at the Morgan bank had arrived. In some Wall Street haunts, envy and irreverence coupled: Jack Morgan and his partners were referred to as “Jesus Christ and the Twelve Apostles.”⁶

How had J.P. Morgan & Co. reached this eminence by 1929? How was it organized and what kinds of businesses did it undertake? What of its partners during the interwar years? Who were they, what did they do, and what did they believe? Answers to these questions lay the foundations for understanding the bank and its partners in the crisis years between 1929 and 1940. What follows examines the history of the House of Morgan, its business, and its partners before 1929. The contests of the 1930s did not take place in a void. They were struggles in which the Morgan partners, their friends, and their foes were conditioned by the preceding decades. The debates that swirled in the 1930s – on how to respond to the Depression, on how to reshape American capitalism, on how to deal with the looming threat of war – were inflected by the Morgan rise to prominence well before 1929.

In 1836, when Junius S. Morgan entered into business in a dry goods firm in Hartford, Connecticut, the future eminence of the Morgan firms was remote. Assisted by a bequest from his father, Junius Morgan parlayed his means into a junior partnership with the Boston-based J.M. Beebe in 1851. The firm were traders, financing the flourishing trade between Boston and entrepôts around the world. It was, however, the connection of J.M. Beebe with the London-based merchant bank George Peabody & Co. that proved pivotal. George Peabody, aging, was searching for a dynamic, junior partner. He found Junius Morgan. Junius Morgan moved to London in 1854, bringing his family in tow, including his son,

⁵ Lewis Corey, *The House of Morgan*, New York: G. Howard Watt, 1930. Reprint: New York: AMS, 1969, p. 449.

⁶ W.M. Walker, “J.P. The Younger,” *American Mercury*, vol. 40, no. 42, June 1927, p. 133.

Pierpont Morgan. By the time Junius assumed full control of George Peabody & Co. in 1864, renaming it J.S. Morgan & Co. that year, he was established in the City, London's financial marketplace. Pierpont Morgan, after a three-year apprenticeship in London, returned to the United States in 1857, entering Duncan, Sherman & Co., which at the time was the Peabody bank's New York correspondent. A short-lived J.P. Morgan & Co. followed, lasting from 1862 to 1864, before Junius Morgan, uneasy at his son's impulsive risk-taking, insisted on a restructuring, bringing on board a more seasoned banker, Charles H. Dabney. Dabney, Morgan & Co., soldiered on until 1871.⁷

Change arrived with Anthony Drexel. Drexel was the dominant force in Philadelphia banking. His firm, Drexel & Co., had a New York affiliate as well as a Paris house, which from 1868 was styled Drexel, Harjes & Cie., after the managing partner, John H. Harjes. Drexel, who was looking for more effective leadership in New York, had much to offer – a good reputation, a careful hand, and a Paris connection. He also sought stronger links with the City of London. When Drexel, who had done business with Junius Morgan, broached the notion of an arrangement, the latter did not hesitate. The two orchestrated the formation of a new firm in New York, Drexel, Morgan & Co. Pierpont Morgan, who would helm the New York branch, was informed of the plans after the fact.⁸ Junius Morgan's death in 1890 left Pierpont Morgan as the senior partner in J.S. Morgan & Co. in London. Soon thereafter, Anthony Drexel died, and his son opted to withdraw from the business. A reorganization and renaming ensued: Pierpont Morgan established J.P. Morgan & Co. in 1895 as the New York partnership. Drexel & Co. continued in Philadelphia as an associated house, with Edward T. Stotesbury as the new senior partner. From this time on, Philadelphia and New York functioned independently. The Paris house was renamed Morgan, Harjes & Cie.

The demands on Pierpont Morgan as the senior partner in New York and in London were formidable, and he was determined to enlist his son and heir Jack Morgan, teaching him the trade of a private merchant banker. From 1891 to 1898, Jack Morgan served an apprenticeship in Boston and then in New York. Upon his father's instructions, Jack Morgan was sent to London in 1898 to be a partner in J.S. Morgan & Co. Jack Morgan was not only to act as Pierpont's lieutenant in London;

⁷ Carosso, *The Morgans: Private International Bankers*, is authoritative. To this should be added Chernow, *The House of Morgan*, pp. 3–35.

⁸ Dan Rottenberg, *The Man Who Made Wall Street: Anthony Drexel and the Rise of Modern Finance*, Philadelphia, PA: University of Pennsylvania Press, 2001, pp. 94–99.

he was directed to recruit new talent to J.S. Morgan & Co.⁹ Edward C. Grenfell was duly brought into J.S. Morgan & Co. from Brown Shipley & Co. in 1900, becoming a partner in 1904. In 1910, J.S. Morgan & Co. was renamed Morgan Grenfell & Co. When Pierpont Morgan died in 1913, Jack Morgan succeeded to the leadership of the House of Morgan.¹⁰

As the foregoing suggests, the connection between the United States and Britain was at the heart of the Morgan identity. All three of the men, the “Seniors” in Morgan parlance, who led the House of Morgan between 1864 and 1941 – Junius Morgan, Pierpont Morgan, and Jack Morgan – lived and worked in London at some point in their careers. From the time that Junius Morgan embarked for the city in 1854, the Morgan firms were linked indissolubly with Britain. Vincent Carosso, who has carried out the closest study of the Morgan banks, observed that “the House of Morgan, like the Barings, Hambros, and Rothschilds, was and remained, both in spirit and in practice, a nineteenth-century merchant bank.”¹¹ More precisely, the model was the nineteenth-century City of London merchant bank. Culturally this meant continuity from father to son of the core values necessary for the merchant bank. The testimonies of Pierpont Morgan in 1912 and of Jack Morgan in 1933 before congressional committees were interchangeable as to what constituted these core values. Both men insisted that trust, character, integrity, and reputation were paramount. There was good reason for merchant bankers to insist on reputation and character. Reputation functioned as a short-cut for assessing risk and overcoming limited information about doing business.¹² Those seeking to borrow always knew more about the state of their business than those lending. This prompted merchant bankers to develop sources of intelligence and to cultivate intimacy with clients that enabled

⁹ Forbes, *J.P. Morgan, Jr. 1867–1943*, pp. 30–31.

¹⁰ In addition to the works noted thus far, for the early history of the House of Morgan, see Longstreet Hinton, John E. Meyer Jr., and Thomas Rodd, *Some Comments about the Morgan Bank*, New York: Morgan Guaranty Trust Company, 1979, reprinted 1985.

¹¹ Vincent P. Carosso, “The Morgan Houses: The Seniors, Their Partners, and Their Aides,” in Joseph R. Freese and Jacob Judd, eds., *American Industrialization, Economic Expansion and the Law*, Tarrytown, NY: Sleepy Hollow Press, 1981, p. 5. Stanley Chapman, *The Rise of Merchant Banking*, London: George Allen & Unwin, 1984 is a good survey.

¹² Monika Pohle Fraser, “Personal and Impersonal Exchange. The Role of Reputation in Banking: Some Evidence from Nineteenth and Early Twentieth Century Banks’ Archives,” in Philip L. Cottrell, Evan Lange, and Ulf Olsson, eds., *Centres and Peripheries in Banking: The Historical Development of Financial Markets*, Ashgate: Aldershot, 2007, pp. 177–95.

assessments of character to deputize for informational lacunae. It was a practice that the Corner adhered to religiously. As Arthur M. Schlesinger Jr. put it, “No banking house better represented the cult of character than J.P. Morgan” in the interwar years.¹³

The transmission and inculcation of this ethos were amplified by, and overlapped with, the decades in which the City of London extended and consolidated its sway over international commerce and finance.¹⁴ The Morgan partners identified the extension of the gold standard with prosperity, with the City of London’s pre-eminence, and with sterling. Gold and sterling were the foundations of the trade, free movement of capital, and labour that the Morgan partners believed in fervently. Nor was this conviction diminished by the relative decline of Britain as an economic power as the nineteenth century drew to a close. As British industrial supremacy ebbed and then was surrendered to the United States and Germany, London’s suzerainty over global commerce and finance was unaffected. The intricate network of accepting houses, bill-brokers, discount houses, jobbers, bankers, and the myriad others that constituted the City was unmatched in its sophistication, making possible the international trade that moved through the medium of the sterling bill of exchange. Powered by international earnings in services and investments, British capital moved abroad in torrential volumes.¹⁵

The single largest beneficiary of this capital flood was the United States.¹⁶ The House of Morgan was one of the conduits through which British capital sluiced, to the advantage of British investors, American companies, and the Morgan partners. Reinforcing London’s importance for J.P. Morgan & Co. was the pre-war sectoral distribution of British capital in the United States. The bulk of British money went into

¹³ Arthur M. Schlesinger Jr., *The Crisis of the Old Order, 1919–1933*, Boston: Houghton Mifflin Company, 1957, p. 56.

¹⁴ For a sweeping account of the City, see the first two volumes of *The City of London* by David Kynaston: *The City of London, Vol. 1: A World of Its Own 1815–1890* and *The City of London, Vol. 2: Golden Years, 1890–1914*, London: Pimlico, 1995.

¹⁵ Michael Obstfeld and Alan M. Taylor, *Global Capital Markets: Integration, Crisis, and Growth*, Cambridge: Cambridge University Press, 2004, p. 60.

¹⁶ Herbert Feis placed the total British investment in the United States at £754.6 million (approximately \$3,720 million) in 1914. Cleona Lewis, working with different data sets, arrived at a figure of \$4,250 million in July 1914. Herbert Feis, *Europe: The World’s Banker, 1870–1914*, New Haven, CT: Yale University Press, 1930. See the reprint (New York: W. W. Norton, 1965, pp. 23) for the figure of £754.6 million, which I have translated into US dollars based on the EH.Net database exchange rate of \$4.93 per pound. For the total British investment in the United States, see Cleona Lewis, *America’s Stake in International Investments*, Washington, DC: Brookings Institution, 1938, p. 546.

railroads.¹⁷ Railroads were especially important to the House of Morgan. It was on the back of railroad investment, railroad consolidation, and contests for the control of the railroads that Pierpont Morgan extended Morgan authority.

The asymmetry born of the Anglo-American relationship and the dominance of the City of London in international finance meant that, within the House of Morgan, Morgan Grenfell was more important than the Paris house.¹⁸ Morgan & Cie., as it became in 1927 following the death of Herman Harjes in 1926, was not originally a Morgan firm, nor did successive Morgan seniors ever live and work in Paris, though Pierpont Morgan and Jack Morgan were both fluent in French and German. While France was second only to Britain as a capital exporter before 1914, the direction of those flows was very different. French capital was exported predominantly in Europe, most famously to tsarist Russia.¹⁹ This reality, in conjunction with the fact that American multinationals did not move into the broader European market en masse until after 1918, kept the Paris house firmly behind London in the eyes of the New York partners.²⁰ The senior partners in Paris after 1927, Bernard S. Carter and Nelson Dean Jay, were American expatriates.²¹ In contrast, the named partner in London, Edward C. Grenfell, was British and so too were the other resident partners in Morgan Grenfell. Morgan & Cie. had fewer partners, generated less business, and operated on a smaller scale than Morgan Grenfell.²² While Dean

¹⁷ Feis, *The World's Banker*, pp. 27–28. Lewis, *America's Stake*, p. 546; for her remarks on British investments in US railroads, see pp. 36–41. Ronald Findlay and Kevin O'Rourke, *Power and Plenty: Trade, War, and the World Economy in the Second Millennium*, Princeton, NJ: Princeton University Press, 2007, p. 409.

¹⁸ Youssef Cassis and Eric Bussi eres, eds., *London and Paris As International Financial Centres in the Twentieth Century*, Oxford: Oxford University Press, 2005, is a comparative study.

¹⁹ The standard works on French capital exports include Ren e Girault, *Emprunts russes et investissements fran ais en Russie 1887–1914*, Paris: Librairie Armand Colin, 1973, to which should be added Jennifer Siegel, *For Peace and Money: French and British Finance in the Service of Tsars and Commissars*, Oxford: Oxford University Press, 2014. See also, Maurice Levy-Leboyer, “La capacit e financi ere de la France au d ebut du vingti eme si ecle,” in Maurice Levy-Leboyer, ed., *La position internationale de la France*, Paris:  cole des hautes  tudes en sciences sociales, 1977.

²⁰ Mira Wilkins, *The Maturing of Multinational Enterprise: American Business Abroad, 1914–1970*, Cambridge, MA: Harvard University Press, 1974. Wilkins has contributed a chapter to Hubert Bonin and Ferry de Goey, eds., *American Firms in Europe 1880–1980*, Geneva: Librairie Droz, 2009 that contains several pertinent essays.

²¹ There is little on the history of Morgan & Cie. H.O. Loderhose, *A History of Morgan, Harjes et Cie, 1872–1932*, can be found in The Morgan Library (TML), J.P. Morgan Jr. papers (JPM), Box 116. There is also a history of Morgan & Cie. written by Nelson Dean Jay in the 1960s. A copy is held in the Nelson Dean Jay papers (NDJ) at Knox College (KC). The collection is uncatalogued presently.

²² On Morgan Grenfell and its history, see Kathleen Burk, *Morgan Grenfell 1838–1988*, Oxford: Oxford University Press, 1989.

Jay and “Bunny” Carter were respected in New York, their voices were not as influential as those emanating from London. When the sterling crisis of 1931 transfixed J.P. Morgan & Co., it did so in part because of the centrality of Britain and London within the world view of the Morgan partners. They struggled to imagine a world in which Britain was off gold; it was alien to their thinking. In contrast, when France abandoned the gold standard in 1936, the reaction of the New York partners was muted. It is true that much had changed in the intervening years, but one thing had remained constant: France was less consequential to J.P. Morgan & Co. than Britain.

What kinds of business did J.P. Morgan & Co. do? Under Pierpont Morgan, the bank had floated stock offerings, orchestrated mergers, and participated in high-profile struggles for control of companies. Among the most famous of these were the New York Central and Pennsylvania railroads in the 1880s, the salvation of General Electric in 1893, the formation of U.S. Steel in 1901, and the fight with Edward H. Harriman over the Northern Pacific railroad that same year. “Morganization” became a well-known term, implying financial control with more than a dash of looting. Pierpont Morgan was, in the eyes of critics, the quintessential robber baron.²³ On two occasions, in 1894–95 and again in the panic of 1907, Pierpont Morgan played a significant role in quelling the financial unrest roiling American financial markets. Pierpont Morgan imparted a tincture to J.P. Morgan & Co. that coloured perceptions of the bank well after his death. Greed, imperiousness, ruthlessness, these were the traits that lived in the American public mind as Pierpont Morgan’s legacy. Yet, after the war, J.P. Morgan & Co. was not Pierpont Morgan’s bank. Directed by Jack Morgan, J.P. Morgan & Co. was less swashbuckling, less rambunctious. Jack Morgan was not inclined to be the promoter. *Fortune* drew the distinction: in Pierpont Morgan’s day, the bank was a promotion house; under Jack Morgan, it was a banking house.²⁴ Between 1913 and 1929, J.P. Morgan & Co. offered no common stocks for sale, handling only bonds and preferred stocks. Bonds were not only safer; they constituted a larger market than equities.

Not all changed. J.P. Morgan & Co. was a partnership from 1895 to 1940. This status conferred cherished privacy, though it imposed limitations. Unlike a limited liability corporation, partners were subject to unlimited personal liability. Consequently, the bank operated with high

²³ A classic account is Matthew Josephson, *The Robber Barons*, first published in 1934 and dedicated to Charles and Mary Beard.

²⁴ “Mister Morgan,” *Fortune*, August 1933, vol. 8, p. 84.

levels of liquidity and did not make a practice of retaining securities that it sold.²⁵ As a firm, J.P. Morgan & Co. did not engage in short-selling. Similarly, the bank did not engage in stock pools. A separate code governed the partners' private business. For their own accounts, the partners could do as they wished, subject to applicable law; and, as the Stock Exchange practices hearings in 1933 (often called the Pecora hearings after the lead counsel, Ferdinand Pecora) revealed, some, though not all, partners sold stocks short and participated in pools. The partners understood that they were merchants – in the business of furnishing credit and buying and selling money. As Lamont told Senator James Watson of Indiana in 1931, “our house, you see, is not a bank in itself; it is really a house of merchants.”²⁶ While J.P. Morgan & Co. accepted deposits, it was barred from advertising for them. This was not deemed an obstacle. An exchange between Pecora and Jack Morgan in 1933 attested to Morgan confidence:

MR. PECORA. Mr. Morgan, is the name of the firm on any outer door of the firm's office?

MR. MORGAN. It is not on the outer door. It is on the inner door.

MR. PECORA. Not visible from the street to the passer-by?

MR. MORGAN. No. Most of them know the address.

MR. PECORA. You do not think the firm suffers any lack of prestige in the banking world because it does not advertise itself to be bankers, do you?

MR. MORGAN. It does not seem to.²⁷

The minimum deposit to open an account was \$7,500. Prospective account holders required an introduction, restricting further those who banked at the Corner. Governments, corporations, and wealthy individuals had funds on deposit with the firm. The interest rate paid on deposits was that paid by the New York Clearing House. Harry Morgan estimated that J.P. Morgan & Co. had approximately 1,500 accounts in the mid-1920s with deposits totalling roughly \$500 million.²⁸ Deposits stood at slightly more than \$562 million on 31 December 1927, before

²⁵ The bank's liquidity ratios stood at 83 per cent in 1927, 82 per cent in 1928, and 76 per cent in 1929. Baker Library (BL), Thomas W. Lamont papers (TWL), Series V, Box 212, Folder 11.

²⁶ United States Senate Committee on Finance, *Sale of Foreign Bonds or Securities in the United States*, 72nd Congress, 1st session, Part 1, 18 December 1931, Washington, DC: Government Printing Office, 1932, p. 20.

²⁷ Hearings before the Sub-Committee of the United States Senate Committee on Banking and Currency, *Stock Exchange Practices* (hereafter Pecora Committee), 73rd Congress, 1st session, Part 1, 24 May 1933, United States. Washington, DC: Government Printing Office, 1933, p. 105.

²⁸ Vincent Carosso interview with Henry (Harry) S. Morgan, 4 December 1975, TML, Carosso Papers (CP), Box 8, Henry S. Morgan (interviews).

declining to \$481 million on 31 December 1928.²⁹ Between 1927 and 1932, thirty-eight corporations kept deposits in excess of \$1 million in any year with the bank, with an additional eighty-three companies maintaining more than \$100,000 on deposit. Among the companies with more than \$1 million on deposit were such well-known firms as General Mills, ITT, Montgomery Ward, and Standard Oil New Jersey. Less is known about governmental and individual deposits, which remain opaque, though it is clear that they were sizeable. Deposits also accrued from the firm's role as a paying agent for the coupons of various securities as well as its function as a custodian overseeing sinking funds.³⁰

Contrary to what is often assumed, the J.P. Morgan & Co. of the 1920s was not primarily an investment bank. Rather, it was a general banking house. Though the firm was an underwriter of corporate and governmental bonds, this activity was the smaller part of what the bank did. Setting aside foreign governmental issues, the bank was not a major player in the municipal bond market, offering only a total of \$160 million between January 1919 and May 1933.³¹ Harry Morgan thought that underwriting in the 1920s represented less than 25 per cent of the firm's earnings. He reckoned that about half of J.P. Morgan & Co.'s business in the 1920s was general banking and foreign exchange, with the residual half being corporate and governmental finance.³² Questioned in 1933, Jack Morgan told the Pecora Committee that "straight banking" was the larger part of J.P. Morgan & Co. business.³³ Insofar as its general banking functions went, the bank accepted deposits, issued letters of credit, acted as a transfer agent to handle dividends as well as coupon payments, dealt in foreign exchange when clients requested, and, if asked, oversaw trading on the stock exchange for its clients. The latter was described by Whitney as a "very good bread and butter business."³⁴ For some clients, the bank provided investment counsel. As a partnership, the bank could not act as a corporate trustee, and it was not until late in the 1930s that steps were taken to create an analogue to trust functions within the bank.³⁵ Finally, the bank did not lend money on real estate, a rule that may have reduced

²⁹ See [Appendix 1](#), J.P. Morgan & Co., Consolidated Statement of Condition, 1927–32.

³⁰ Pecora Committee, Part 1, 23 May 1933, pp. 5, 20, 49–52.

³¹ Pecora Committee, Part 1, 25 May 1933, p. 224.

³² Vincent Carosso interviews with Harry S. Morgan, 14 May 1974, 4 December 1975, 21 April 1976, TML, CP, Box 8, Henry S. Morgan (interviews). See also a further interview on 9 December 1976 in TML, CP, Box 18, Morgan & Co – Misc. Notes 1920s File 2.

³³ Pecora Committee, Part 1, 24 May 1933, p. 106. ³⁴ *Ibid.*, p. 124.

³⁵ See the chapter by Longstreet Hinton, "The Birth of a Trust Department," in Hinton, Meyer Jr. and Rodd, "Some Comments about the Morgan Bank."

profits in the 1920s but sheltered J.P. Morgan & Co. from plunging real estate values after 1929.

On the corporate finance side, the firm was fastidious in selecting its clients. William A. Mitchell, who joined J.P. Morgan & Co. in 1925, eventually becoming a partner in 1939, recalled in his memoirs that: “[w]e had been tossing people down the front steps for years. Mr. Morgan didn’t really want to be bothered very much with the commercial banking business.”³⁶ Legacy business in the railroad sector continued, and in the 1920s J.P. Morgan & Co. began a fateful association with the Van Sweringen brothers of Cleveland, who were amassing a railroad empire. At the Pecora hearings in May 1933, Whitney provided a breakdown by category of Morgan offerings between January 1919 and May 1933 (Table 1.1).

Occasionally, the bank engineered mergers or acquisitions. This was the case with Marland Oil, a leading producer whose rapid expansion and consequent money-losing tendencies fuelled a need for capital. Initially J. P. Morgan & Co. loaned money to Marland, before replacing the founder, E.W. Marland, with Daniel Moran as president in 1928. Subsequently, a complex merger involving Marland, Prudential Refining, and Continental Oil was consummated in 1929, the new company taking the name Continental Oil with Moran at its head. Edward Lamont has pointed out that Marland Oil was the first instance in which J. P. Morgan resorted to a practice later to become notorious – the private placement of stock with wealthy investors, a device which was repeated in 1927 with Johns-Manville Corporation.³⁷ More routinely, J.P. Morgan &

Table 1.1 *Breakdown of Morgan bond and preferred stock offerings between January 1919 and May 1933.*

| | |
|--|-----------------|
| Railway Company Bonds | \$1,845,639,300 |
| Public Utility Bonds (including holding company) | \$1,074,750,000 |
| Industrial Company Bonds and Preferred Stock | \$578,297,900 |
| Railway Holding Company Bonds | \$133,000,000* |

Note. * Pecora Committee, Part I, 25 May 1933, pp. 223–25.

³⁶ I have been unable to locate the Mitchell Memoirs. Vincent Carosso saw a copy and this quotation is from his notes, TML, CP, Box 18, Morgan & Co – Misc. Notes 1920s File 2.

³⁷ Lamont, *The Ambassador*, p. 252.

Co. issued commercial credits on a considerable scale for its corporate clients. Between 1927 and 1931, these totalled approximately \$400 million, funding the export of various American goods, such as fruits, metals, paper, automobiles, and machinery; paying for imports of commodities, like jute, tea, and coffee; and making possible the financing of the storage of American farm products.³⁸

Foreign loans took two forms. One was the provision of short-term credits, an example of which was the one-year \$20 million revolving credit for the Bank of Spain in August 1928. This particular line of credit was renewed in 1929 but did not run the full term, as the Bank of Spain opted to cancel it in April 1930.³⁹ More commonly, J.P. Morgan was a wholesaler of bonds, between 1920 and 1931 totalling slightly more than \$1.8 billion, for a range of governments, from the state to the municipal level. Slightly more than half of these loans were made to European countries, with Argentina, Chile, Cuba, Japan, Taiwan, Canada and Australia rounding out the picture.⁴⁰ Regardless of their geographic dispersion, the ability of J.P. Morgan & Co. to select the loans that they wanted to make ensured that the repayment record was very good.⁴¹ This was a profitable and prestigious business for the firm, though perhaps less remunerative than was believed at the time. Lamont, testifying to the Senate Finance Committee hearings on foreign securities in December 1931, remarked that any calculation of “net profit” on such transactions was impossible as the bank did not break out its costs on a per loan basis. Jack Morgan, in his formal statement to the Pecora Committee on 9 June 1933, was more definitive, suggesting that on foreign and domestic securities the bank had earned a “limited compensation averaging approximately one half of one percent.”⁴² Using this figure, J.P. Morgan & Co. reaped approximately \$90 million between 1920 and 1931 on the \$1.8 billion of foreign bonds it issued, though it must be emphasized that this is a crude calculation.

J.P. Morgan & Co. was active in the call money market. Call loans were demand loans made on a short-term basis, usually daily and typically

³⁸ BL, TWL, Series V, Box 211/20 contains an undated report [Possible Preliminary Report] that includes the \$400 million figure. Memorandum to TWL, 17 April 1933, BL, TWL, Series V, Box 211/23 lists the categories of commercial credits without the global \$400 million figure.

³⁹ Pecora Committee, Part 1, 25 May 1933, p. 252.

⁴⁰ *Sale of Foreign Bonds or Securities in the United States*, Part 1, 18–21 December 1931, table, J.P. Morgan & Co. sales of foreign government offerings, pp. 159–61.

⁴¹ Marc Flandreau, Norbert J. Gaillard, and Ugo Panizza, “Conflicts of Interest, Reputation and the Interwar Debt Crisis: Banksters or Bad Luck,” CEPR Discussion Paper Series, No. 7705, 2010.

⁴² *Sale of Foreign Bonds or Securities in the United States*, Part 1, 18–21 December 1931, p. 21; Pecora Committee, J.P. Morgan statement, 9 June 1933, p. 879.

renewable, with the loan being secured by stocks and bonds. The call loan market, as Margaret Myers pointed out long ago, was a “peculiarly American product” that was embedded in the history of the New York money market and distinguished New York from London and Paris where no such market existed.⁴³ The growth of the call money market, in particular the pumping of funds into speculative investment in the stock market through brokers, was one of the characteristic phenomena of the late 1920s. Call loans were divided into three kinds: loans made by the New York banks for their own account; loans made by the New York banks to non-New York domestic banks; and loans made by the New York banks for the “account of others.” Others might be corporations, whether domestic or foreign, investment trusts, individuals, and foreign banks. Analysis of the share of outstanding call loans in the run-up to the Crash indicates that loans made for others, preponderantly corporations, were chiefly responsible for the surge of money into the stock market.⁴⁴ While J.P. Morgan & Co. made call loans, they did not lend money for the account of others, believing it unwise – a policy that was to demonstrate its soundness in October 1929. At the end of 1927, J.P. Morgan & Co. had slightly more than \$54 million in call loans outstanding. A year later, the figure had reached nearly \$110 million. Brokers’ loans peaked at 2 per cent of total Morgan loans outstanding in 1929.⁴⁵ How much profit such activity yielded the firm is unknown, but the interest rate spread in 1929 was rich.

On the eve of 1929, J.P. Morgan & Co. was in an enviable financial position. The day that the co-partnership notice appeared, the company’s net worth was more than \$91 million, a considerable jump from the \$71 million recorded the year before. The firm was liquid, with more than \$259 million available in the form of cash, US government securities, and state and municipal bonds against deposits of slightly more than \$481 million.⁴⁶ Its principal lines of business were varied and performing well. The bank was not dependent upon any one source of

⁴³ Margaret Myers, *The New York Money Market*, Vol. 1, ed., Benjamin Haggott Beckhart, New York: Columbia University Press, 1931–32. Reprint: New York: AMS Press, 1971, p. 126.

⁴⁴ Benjamin Haggott Beckhart, *The New York Money Market*, Vol. 3., pp. 163–65. See the table on p. 83 breaking down call loans into the three categories.

⁴⁵ The 2 per cent figure derives from talking points compiled for Lamont in preparation for his testimony at the Pecora Committee hearings. BL, TWL, V, Box 211/14. National City Bank, a much larger institution, saw its call loans crest at almost \$513 million in October 1929. Harold van B. Cleveland and Thomas F. Huertas, *Citibank 1812–1970*, Cambridge, MA: Harvard University Press, 1985, pp. 130–31, table 7.7.

⁴⁶ See [Appendix 1](#), Consolidated Statement of Condition of J.P. Morgan & Co.

revenue for its success. Conservatively managed and conservatively run, J.P. Morgan & Co. was flourishing.

In the late 1920s, between 400 and 500 employees worked at the bank, which was organized into departments: Auditing, Bond, Bond Redemption, Bookkeeping, Collection, Coupon, Dividend, Foreign Exchange, Letter of Credit, Library & Files, Loan, Mail, Paying Teller, Receiving Teller, Securities, Statistical, Stock, Syndicate, Stock Transfer, and Vault. These departments were overseen by long-serving staff members, few of whom have left any trace. Their expertise and loyalty were critical to the smooth functioning of the bank. The partners drew heavily upon the staff to compose letters, conduct research, draft position papers, and proffer sage, informed assessments of frequently highly complex questions. Much of what eventually made its way into the public realm as Morgan opinion was the product of hard-working staff. Leonhard Keyes, the chief clerk from 1913 to 1932, before his appointment as general manager in 1932, supervised the departments. During the Pecora hearings in 1933, Keyes emerged from the obscurity that cloaked J.P. Morgan & Co. staff. Other exceptions were Martin Egan, who assisted Lamont in handling public relations, and his successor, R. Gordon Wasson, who had an idiosyncratic career, culminating in his postwar eminence as a leading mycologist.⁴⁷ The Morgan partners, as of 31 December 1928, are listed in [Table 1.2](#).

Though nineteen names are listed, the number of active partners was considerably smaller. Stotesbury, Lloyd, Gates, Newhall, and Hopkinson Jr. were Drexel & Co. partners in Philadelphia and played no role in J.P. Morgan & Co. in New York. By 1929, Stotesbury was retired and in 1930 Gates resigned to become President of the University of Pennsylvania. Of the fourteen partners resident in New York, Charles Steele was verging on inactive by 1929. The death of his wife in 1932 was followed by his retirement from the firm in 1934, though he continued to have the largest capital stake in the partnership until his death in 1939. Thomas Cochran experienced health problems beginning in the late 1920s that led to a progressive disengagement from the bank, though he remained a partner until his death in 1936.⁴⁸ One notable name is absent – Dwight Morrow. Morrow, who had become a partner on 1 July 1914, withdrew

⁴⁷ Keyes had joined J.P. Morgan & Co. as an office boy in 1903 and was successively chief clerk, general manager, secretary of J.P. Morgan Inc. in 1940, and vice-president in 1941, before retiring in 1951.

⁴⁸ On Charles Steele, a memorial address by Russell C. Leffingwell may be found in YUL, RCL, Series I, Box 9, Folder 184. Cochran's health problems dated from at least 1928. Young to Dwight Morrow, 16 March 1928, SLU, ODY, Box 10, Morrow, Dwight M.,

Table 1.2 *Partners in J.P. Morgan & Co., 31 December 1928.*

| Partner | Date of Entry into Partnership |
|------------------------|--------------------------------|
| Jack Morgan | 31 December 1894 |
| Edward T. Stotesbury | 31 December 1894 |
| Charles Steele | 23 March 1900 |
| Thomas W. Lamont | 31 December 1910 |
| Horatio G. Lloyd | 1 January 1912 |
| Thomas Cochran | 31 December 1916 |
| Junius S. Morgan | 31 December 1919 |
| George Whitney | 31 December 1919 |
| Thomas S. Gates | 31 December 1920 |
| Russell C. Leffingwell | 30 June 1923 |
| Francis D. Bartow | 31 December 1926 |
| Arthur M. Anderson | 31 December 1926 |
| William Ewing | 31 December 1926 |
| Harold Stanley | 31 December 1927 |
| Henry S. Morgan | 31 December 1928 |
| Thomas S. Lamont | 31 December 1928 |
| Henry P. Davison | 31 December 1928 |
| Thomas Newhall | 31 December 1928 |
| Edward Hopkinson Jr. | 31 December 1928 |

Note. TML, JPM, Box B.6, Folder 5 contains a chronological list of all of the changes in the partnerships of the Morgan firms down to 1939.

from the firm to become Ambassador to Mexico on 30 September 1927. Morrow's departure was a loss. Along with Lamont, he was the most diplomatically inclined of the Morgan partners, had excellent contacts in Republican circles, especially through his friendship with Calvin Coolidge, and soon demonstrated an independence from his former partners that discomfited and surprised them.⁴⁹ Discounting Steele and Cochran, a dozen men constituted the working J.P. Morgan & Co. partners in 1929.

The partners ran the bank. New partners, such as those made on 31 December 1928, were not required to furnish a capital stake when

Folder 38. Cochran's health issues related to depression. Thomas W. Lamont to Morgan & Cie, 30 August 1933, TML, Morgan Bank European Papers (MBEP), Box 16, Cables rec'd, 1 June to 31 August 1933.

⁴⁹ There is a biography by Harold Nicolson, *Dwight Morrow*, New York: Harcourt, Brace, 1935.

they entered the firm. Their compensation derived from a combination of salary and profit distribution. Salary and profit share were decided by Jack Morgan. In 1931, the individual profit share of partners ranged from slightly less than 1 per cent for the most junior partners to just under 25 per cent for Jack Morgan.⁵⁰ Profit distribution was independent of the size of the capital share that an individual partner had in the firm. Through the 1930s, the largest capital shares in the bank were held by Charles Steele and Thomas W. Lamont. Jack Morgan's capital trailed their totals substantially.⁵¹ The partners met daily, typically in the morning, with all those who were present in New York attending. No minutes were kept. Decisions were made on a consensus basis, requiring agreement on a course of action. Any partner could block any piece of business by registering an objection. One vote against meant that the firm did not pursue the matter.⁵² The allocation of work followed a straightforward formula – the partner who had raised the business was charged with shepherding it.⁵³ Among themselves, the partners accepted each other's vouchsafe as binding. Questioned in 1938 in the Securities and Exchange Commission hearings into the bankruptcy of Richard Whitney & Co. occasioned by the fraud of Richard Whitney, the brother of George Whitney, the Morgan partner Francis D. Bartow admitted that he had not questioned extending a loan of \$500,000 to Richard Whitney & Co. in the summer of 1931. He testified that he had no idea whether Richard Whitney & Co. had ever been audited, but he believed its affairs were sound, because "I had the best authority in the world when his brother (George Whitney) told me" that they were.⁵⁴

Harry Morgan divided the partners into two categories, those who brought new business into the bank and those who ran the bank. To a point this was a reasonable description. Jack Morgan, Lamont, and Cochran (before his illness) were in the first category. Whitney straddled this division, both bringing in new business and running the bank.

⁵⁰ TML, CP, Box 17, Morgan & Co. – JPM & Co., Misc. a/cs 1920s contains a table compiled by Carosso, drawn from J.P. Morgan & Co.'s Private Ledger 5, that lists the partnership percentages from 1925 to 1931.

⁵¹ In September 1935, after Morgan, Stanley was established, Steele's capital stood at \$9 million, Lamont's at \$8.5 million, and Jack Morgan's at \$1.5 million. J.P. Morgan & Co. Capital Account, TML, Ledgers and Journals J.P. Morgan & Co., Private Ledger 7.

⁵² *United States of America before the Securities and Exchange Commission in the Matter of Richard Whitney, et al.*, 3 May 1938, United States, Washington, DC: Government Printing Office, 1938, Vol. 2, pp. 851–52.

⁵³ George Whitney interview, 22 January 1963, Columbia University Library (CUL), Columbia Oral History Collection (COHC), p. 75.

⁵⁴ *Securities and Exchange Commission in the Matter of Richard Whitney*, 20 April 1938, Vol. 2, p. 567.

Whitney was the effective head of J.P. Morgan & Co.'s domestic operations after 1929 even if he did not have the title. Bartow fell clearly into Harry Morgan's second category. He was responsible for the Loan Department and functioned as the arbiter within the bank of the credit quality of loans that were made. As he told the Securities Exchange Commission in 1938, he had been given "direct responsibility for the portfolio of the office, including the Loan Department and the management of the internal organization."⁵⁵ To Bartow fell the task of economizing expenditures within the bank as the Depression bit. One partner, Leffingwell, was *hors catégorie*, neither a generator of new business nor responsible for running the bank. Leffingwell functioned as J.P. Morgan & Co.'s internal economist and lawyer who also supervised financial analyses of potential loans. Ordinarily he did not participate directly in discussions with clients or governments, though he was an important shaper of opinion outside the bank, notably through his friendship with the journalist Walter Lippmann. Harold Stanley was a generalist. Arthur Anderson (railroads and securities) and William Ewing (securities) had specific expertise, but they were not restricted to those areas.⁵⁶ Men such as Anderson, Bartow, and Ewing were respected on the Street but were not seen as front-rank figures. They were younger and in the 1920s newly minted as partners even if they had years of banking experience behind them.

The policy of bringing sons into the firm was mixed in its success. Writing in *The Nation* in 1939, Randolph Phillips identified partner recruitment as one factor in what he argued had been the decline of J.P. Morgan & Co., noting that "[t]he policy of making partners of the sons of partners has brought amiable men but no brilliant minds into the firm."⁵⁷ Edward Lamont has suggested that nepotism had its advantages, allowing the bank to make further inroads into well-connected circles, while furnishing individuals who could, by virtue of their socio-economic background, represent J.P. Morgan & Co. on corporate boards with aplomb.⁵⁸ Less charitably, neither Junius S. Morgan III (hereafter Junius Morgan) nor Harry P. Davison nor Thomas S. Lamont were as able as their fathers. Harry Morgan was the most competent of the epigone, but he would leave J.P. Morgan & Co. in 1935 to form Morgan, Stanley, taking with him Harold Stanley, arguably the most talented of the younger partners. Beyond the Corner, Wall Street believed with some justification that J.

⁵⁵ *Ibid.*, p. 563. ⁵⁶ George Whitney interview, 22 January 1963, CUL, COHC, p. 40.

⁵⁷ Randolph Phillips, "The House of Morgan: The Price of Its War and Post-War Policies," *The Nation*, vol. 148, no. 24, 10 June 1939, p. 699.

⁵⁸ Lamont, *The Ambassador*, pp. 188–89.