J.P. Morgan Essay, Research Paper

John Pierpont Morgan is considered one of the founding fathers of the modern United States economy. He was an industrial genius that is accredited with the founding of many companies including General Electric and AT&T. However, Pierpont is looked upon as a saint and demon the same. He received a honorary degree from Harvard university that read: “Public citizen, patron of literature and art, prince among merchants, who by his skill, wisdom and courage, has twice in times of stress repelled a national danger of financial panic.” But Robert LaFollette, the Wisconsin progressive, saw him as “a beefy, red-faced thick-necked financial bully, drunk with wealth and power.” Despite conflicting opinion on his persona, his influence and character shaped the business world more so than any other person at the turn of the century. Morgan was a banker, railroad czar, industrialist, financier, philanthropist, yachtsman, and ladies’ man. He was king to a handful of millionaire barons who controlled the country’s wealth in an era of little government regulation.

The wealth of the Morgan family did not begin with Pierpont but with his grandfather Joseph Morgan. Joseph prospered as a hotelkeeper in Hartford, Connecticut. He helped to organize a canal company, steamboat lines and the new railroad that connected Hartford with Springfield. Finally he became one of the founders of the Aetna Fire Insurance Company. Joseph’s first son was Junius Spencer Morgan, also destined for the life of a businessman. He spent a number of years as a dry-goods merchant before moving to Boston and into the foreign trade business. Junius was invited to join the firm of George Peabody & Co. in 1854. In 1864 Junius took over the Peabody Company and changed the name to J.S. Morgan & Co.

John Pierpont Morgan was born on April 17, 1837 in Hartford, Connecticut. He was nicknamed “Pip” by his childhood friends. The family prospered in Hartford until Junius moved the family to Boston where Pip began Boston English High. He did well in the prestigious high school and then in his second high school in Vevey, Switzerland. The family moved to London and John transferred to the University of Gottingen in Germany. John continued to excel in his studies and majored in mathematics. He began to become interested in business affairs as he started and investing club amongst his friends and kept strict records of his own finances.

In 1857, Junius Morgan decided to broaden his son’s experience by sending him to New York. The firm of Duncan, Sherman & Co. was the American representation of the George Peabody Company. He wrote to the company asking for a position for his son and advertising the fact that his son had “many admirable qualities for a worker” To the company, J.P brought an energetic and enterprising spirit, mathematical wisdom, great confidence and a useful tie with the English banking world. In less than three years Morgan went from clerk to cashier in the company. Although, he was denied a promotion when his father requested one, he did receive a promotion in the firm later in his career. In 1860 Morgan left Duncan, Sherman and founded J. P. Morgan and Company to act as an agent for his father’s business. Young Morgan had his hands full at time putting through sales of American securities on behalf of his fathers anxious English clients, who doubted if the Union would survive and wanted to unload their American holdings in. In 1864 Morgan joined up with another former businessman of Duncan, Sherman & Company. Charles Dabney and Morgan started their own company named Dabney, Morgan & Co. Morgan’s business continued to grow as he intensively involves his company in more trade and commerce transactions. In 1871 Dabney retired and Anthony J. Drexel became Morgan’s new senior partner. Drexel was already the head of the Philadelphia investment bank Drexel & and Company. The new company Drexel Morgan & Co. became one of the largest and most successful companies on Wall Street. The firm also became the predominant force in US government funding. When Junius Morgan died in 1890, J.P. became head of the London house. Pierpont now was able to control all the dealing between the New York based firm and their oversees partner. Anthony Drexel also died in 1893, and Morgan reorganized the Morgan and Drexel firms two years later. The New York based Drexel Morgan became J. P Morgan & Co. Drexel, Harjes & Company was Drexel’s prominent Paris-based invest banking business. Morgan’s new French connection was renamed Morgan, Harjes & Co. Pierpont was now at the head of houses in New York, Philadelphia, London and Paris. He was the commanding figure in international finance.

Pierpont Morgan was an imposing figure on Wall Street and in the financing world but was virtually unknown to many until 1869. That year a war over railroads began including Jay Gould and Jim Fisk, both famous financiers. Gould already had dominant control over the Erie railroad and began to buy up stock in the Albany & Susquehanna Railroad. The board of the railroad was prevented from issuing new stock to protect itself and the president of the company, Joseph Ramsey, was suspended. A judge appointed Jim Fisk as temporary controller of the company until the ownership argument was settled. Ramsey and the board of the company fought Gould buy acquiring more shares of the company. Both sides had judges that placed injunctions on the opposing sides of the war. Mr. Ramsey soon found himself with not enough money to keep up his contention for the 142 miles of track. The board of directors and Ramsey asked Morgan for his financial support. Morgan deposed the Erie railroad directors and was more than happy to assist the Ramsey plea. Through legal feuds with Boss Tweed and other characters and holding covert stockholder meetings, Morgan was able to obtain a lease over the company. The state supreme court upheld the lease and ensured ownership over the company to Morgan, Ramsey and the original owners. It was an astonishing victory for Morgan and one that set precedence for his future dealings.

The true beginning of the “Age of Morganization” was his deal with William H. Vanderbilt. The legislature, at the time, began to propose control of railroad management, prevent stock watering, and tax profits. Vanderbilt inherited eighty seven percent of the stock of the New York Central Railroad. He made a secret agreement with Morgan to sell 250,000 shares of his stock to English investors. Vanderbilt also agreed to combine the Central railroad with the Wabash, St. Louis & Pacific Railroad. When the news broke out about the deal, Morgan was praised as an economic genius and stepped out of his father’s shadow. Pierpont also received a seat on the board of the New York Central. Morgan was achieving the influence he desired and had an appropriate venue to express the opinions of the English businessmen he dealt with oversees.

As Morgan enjoyed his position on the board of the New York Central, he used his position to settle a dispute of railroad organization in 1885. New York Central was competing with Pennsylvania railroad for control over the West Shore line. The two companies were engaging in rate wars and for control over surrounding lines. A second offspring, the South Pennsylvania line, was built by the Central to compete with the Pennsylvania line. Morgan argued that is was senseless for Vanderbilt and Gould, the two leaders, to compete over the lines. J. P. suggested that the Pennsylvania should allow Central to buy the West Shore and Central should turn over control of the South Pennsylvania to the Pennsylvania owners. The two parties agreed and Morgan was again hailed as an industrial wizard. Mr. Morgan developed into the nation’s railroad reorganizer. In 1886, the Philadelphia and Reading Railroad was in great difficulty with a deficit of six million dollars a year. Morgan was brought in to slash the value of the watered stock, reduce interest rates on the bonds, and assess the shareholders for more money. Morgan’s plans for the Philadelphia and Reading lines were working well until their president A. Archibald McLeod waged was against Pierpont. Archibald built connecting lines and shipped coals on the carts. Morgan objected to these and other actions but was still able to reorganize the rails. In 1888, John Pierpont was again called on to reorganize railroads in the east. He reorganized the Chesapeake & Ohio and the Baltimore & Ohio. He often encountered some resistance to his interference but managed, in the end, to accomplish his set goals and reshape the failing economic Railroad system. Morgan was unsympathetic with governmental regulation; however, he sought to help enforce the Interstate Commerce Act of 1887. The act asked for the maintenance of “public, reasonable, uniform and stable rates. The act served to at least establish some community of interest among railroads that, at the time, were engaged in ruthless and wasteful competition. Their alliance paved the way for the future great consolidations of the railroads. After the Panic of 1893, the government called on Morgan once more to reorganize a large number of leading railroad systems of the country. The major lines J. P. dealt with were the Southern Railway, the Erie, the Philadelphia and Reading for a second time and the Northern Pacific. By the end of the century only two American systems were outside of his control. Various devices were used to ensure Morgan’s continued control and that of his associates over the companies. One of these devices was his famous voting trust, by which shareholders voted to give their rights to Morgan’s nominees on the board. Morgan’s methods of railroad organization followed a standard pattern with small variations. He would first slash watered stocks, issued new bonds at a lower interest rate, assessed the stockholders for more capitol and eliminated all waste. Secondly, he would try to consolidate lines whenever possible. Third, Morgan and his associates would always charge enormous fees for their services. Pierpont, when questioned about his large compensation, said “I am not in Wall Street for my health.”

Morgan’s reputation most likely grows from his role in the emergence of many modern companies. Morgan, through his innate business sense, helped launch some of America’s largest corporations. Morgan was now known throughout the land for reorganizing the railroad system. He was able to invest and help foundling companies in need of his monetary support and guidance. Morgan was one of the earliest of Thomas Edison. Morgan allowed Edison to work in is office building and continue his experimentation, which caused several problems along the way. Morgan continued to support the growing company by acquiring many stock shares and facilitating the company’s merger with the Thomson-Houston Electrical Company. This merger created the General Electric company, one of the most prominent companies in the modern world.

Morgan went on to help create the Federal Steel Company, the National Tube Company and the American Bridge Company. One of Morgan’s most famous business deals was the formation of the United States Steel Corporation in 1901. Morgan collaborated with Elbert Gary and John Gates to consolidate different steel companies to form a “supercombination.” The U.S Steel Corporation was organized and acquired the outstanding bonds and stocks of the Carnegie Company. The company also bought the preferred stocks of Federal Steel, National Steel, National Tube, American Steel & Wire, American Tin Plate, American Steel Hoop, American Sheet Steel, Lake Superior Consolidated Iron Mines and American Bridge Company. The new company controlled over three-fifths of the steel business in the entire country and was valued at over one and a half billion dollars. A large percentage of the money went directly to Morgan, which made many Americans question as well as marvel at the accomplishment.

In 1902 Pierpont was asked by the sons of Cyrus Hall McCormick, inventor of the reaper, to help end competitive warfare between farm-equipment makers in the Middle West. Morgan agreed to reorganize the situation and the two companies Deering Harvester and McCormick Harvesting Machine were merged with three other small companies to create the International Harvester Company. The company made instantaneous profits and became a huge success for the economy of the Mid-West.

A Boston firm primarily financed the American Telephone and Telegraph Company when they faced a consortium of New York bankers in 1902. The New Yorkers, led by J.P Morgan, brought back Theodore Vail as head of the company and funded the company with one hundred million dollars to reorganize the company on a national scale. After 1906, the company was revived and a commanding force it was also principally backed by the house of Morgan.

The first time that J.P. was truly introduced to the general public was his aide to the government in 1895. At the time many people believed that Morgan as well as other wealthy financiers including Carnegie and Rockefeller were stronger than the government and were not subject to ordinary laws. The validity of this statement can be only subjectively measured; however the power of Morgan was clear after the crisis in 1895. The national Treasury had been successively issuing bonds to maintain the depleting gold reserves. However, their actions were hurt by the ironic withdrawals of gold, by the Treasury itself, with which to make purchases. President Cleveland and his administration were forced to appeal to international bankers. Morgan formed an alliance between himself and several other financiers including August Belmont to furnish the government with 56 million dollars in gold, most of which was obtained abroad. Morgan was said to have greatly profited from the transaction, although much upheaval was caused when Morgan refused to reveal his profits to a congressional committee. In March of 1907, the stock market crashed, prices collapsed, brokerage houses close and interest rates soared. The panic of 1907 had begun with the public in mayhem and the government turning once again to Morgan for his leadership. Morgan pooled together an emergency committee with Rockefeller, Harriman, Frick, Schiff and H.H. Rodgers. This meaning of great financial leaders decided to help deal with the problem and deposit money into the government funds. Morgan rejected this idea; however, the group did instruct the secretary of Treasury to deposit substantial government relief funds and organize thousands of banks nationwide to deposit excess money into the relief fund.

Pierpont Morgan was a man of many pecuniary gains and along with these gains came speculations and controversy into his financial dealings. The public often questioned the large undisclosed sum of money Morgan made by supporting the Treasury in 1895. However, President Cleveland himself emphasized the public service that had been rendered. This event was only one of many debatable issues that concerned Morgan and his control over the government and the American market. President Roosevelt investigated Morgan’s large deal with the U.S. Steel Corporation and Tennessee Railroad Company but found that that the “means employed were none the less effective, as well as profitable.” The culmination of the government and public’s suspicion of Morgan’s activities were the Pujo hearings of 1912. The House Banking and Currency subcommittee headed by representative Arsene Pujo had been trying to establish that a “money trust” ruled over America’s major corporations, railroads, insurance companies, securities markets, and banks. The investigation served as the climax to many years of popular antagonism to the “big money” men and corporations. The attorneys prosecuting Morgan made the pivotal point that eighteen financial institutions effectively controlled a two-thirds majority of the 1912 capital resources, over twenty five billion dollars. The lead attorney questioned J. P. Morgan about his actions in a famous cross-examination. Morgan was questioned on his supposed monopolies, earnings and business practices. Throughout the examination he remained calm and relaxed finishing off the examination with his famous statement that, “Before money of property or anything else. Money cannot buy [character]? because a man I do not trust could not get money from me on all the bond of Christendom. After the hearings adjourned, the charges were dropped and it was concluded that there was no intentional monopoly of the economic market. One reporter stated that, ” J.P. Morgan lost no prestige through his appearance?On the contrary, his willingness as a witness and his evident sincerity and frankness seem to have created a distinctly favorable impression. After Morgan’s death in 1913, he was tributed in a great fashion by the same reporters that once scolded him for his greed. Tributes centered on his “rugged honesty and rock-ribbed integrity.” Theodore Roosevelt praised his “sincerity and truthfulness.” Others called him and uncrowned monarch and the “embodiment of the heroic age in American industrial history.”

It is without doubt that J.P. Morgan was one of the most essential men in the creation of the world’s modern economy. His unparalleled genius led to the enhancement of numerous companies, corporations, inventions and systems. His ability to restructure railroads transformed the various local economies and began an overall upsurge in the financial system of America. The value of Morgan’s organization of companies and funding is immeasurable, as these companies are some of today’s leading corporations. His assistance to the government in time of need, although profitable for himself, was a necessary act and was vital at the time for the continuance of a strong economy. Pierpont built America with more in mind than that of personal financial gain. His inspiring industrial genius shadowed whatever greedy impulses he acted on. A critic of Morgan said after his death, “Never again will conditions of government make it possible for any financier to bestride the country like a Colossus?having greater force, greater character, greater intellect and greater vitality than any other man on Wall Street, he naturally became the leader and remained the leader?in time little will remain except the feeling however much ability and strength and genius that man possessed.”

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