

# The Family Heritage Series

A weekly discussion of Americanist truths and traditions for those "heirs of all the ages" who will have to preserve that most important inheritance of all — freedom. Produced by the Movement To Restore Decency.



Volume II

Lesson Ninety-Eight

## J. Pierpont Morgan

### LESSON IDEA

To highlight the background, character, and business practices of J. Pierpont Morgan, who was one of the most powerful monopolistic capitalists of the Nineteenth Century.

### PREPARATION

Define the stock market and "stock" before beginning this lesson, so that these terms will be understood when they appear in the story.

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**M**OST SAD STORIES have villains. And the story we have been telling about money — how it has been made almost worthless by the schemes of monopolistic capitalists and revolutionaries — is a very sad story. One of the chief villains, or monopolists, of the early 1900's was a six-foot, broad-shouldered giant with a thick, black mustache, and a voice of thunder. His head looked as if it had been chiseled out of rock; the brows were heavy and rugged; the eyes dark and angry; the nose huge and bulb-shaped. He was fascinating because he had the power of a raging, charging bull and the majestic bearing of a Greek war god. He was frightening for the same reasons. Both his friends and his enemies were afraid of him.

It was easy to understand why so many people feared him when you saw him walk along Wall Street, the New York street where he did most of his business. He did not dodge or zigzag or even slow down to make room for others. He just barged straight ahead, as if he were the only man on the

street. And that is the way he moved through the world; he walked as if he owned all the highways. He ignored almost everyone, walked over anyone who got in his way, and in general moved as if he were preceded by the great archangel Gabriel crying: "Make way! Make way for the Lord God Jehovah!"

This villain was J. Pierpont Morgan, and his money power was so immense and so widespread that the Pope honored him, and kings lunched with him and asked him for advice on what to do with their fortunes. Everywhere he went crowds gathered to get a peek at him. In New York people ran along the streets beside his cab to look in at him. In Rome his hotel was surrounded by crowds who wanted just to see the American "King" who had come to buy Europe's most expensive art treasures. In London, when he tried to get control of all the bus lines and build a subway, the street peddlers sold lapel buttons which said: *License To Stay On Earth*, and were signed *J. P. Morgan*.

Morgan was American by birth, but not by schooling or ideas. He was born April 17, 1837, in Hartford, Connecticut, where his father was a partner in a wholesale store that sold clothing and household necessities to other stores. When J.P. was fourteen, his family moved to Boston; and he was enrolled in English High School — which meant that only those of English descent need apply. In math he was a genius; but in most other subjects, partly because of lack of interest, he was a combination of classroom do-nothing and classroom menace.

Two years later the Morgans moved again, this time to England, where J. P.'s father became a partner of the millionaire banker, George Peabody. Peabody was an American who had made his fortune in London, handling the money of Englishmen who wanted to invest in our country. Now he was looking forward to retirement and wanted to turn his affairs over to a younger man. It was an extraordinary opportunity for the Morgans — and for J.P., who was sent to a fashionable French academy to finish high school and then to the University of Gottingen in Germany.

After two years of classes in mathematics and philosophy, J.P. decided his education was finished, and it was time to start his business career. Through his father's influence, he was given a job in a prominent New York banking firm. When he had learned what he wanted to know about moneychanging and moneylending, he went into business for himself. It was not much of a gamble, because his father could always send him enough clients from England to pay the rent and provide spending money.

**T**HE FUTURE looked bright for J.P., except for two things — the War Between the States, which threatened to make a soldier out of him, and the failing health of a lovely young lady, Amelia (or Mimi) Sturgis, whom he hoped to marry. Mimi had tuberculosis and was dying, but Morgan would not accept the doctor's verdict that "nothing could be done." The warm sun of northern Africa or southern Italy might heal her, he reasoned; so he made up his mind to marry Mimi, to give up his business, and to spend all his time trying to save her life.

On their wedding day, Mimi was so weak that Morgan had to carry her downstairs in his arms and hold her at his side while the ceremony was performed. They sailed for London immediately and then went to Algiers for its warm sun and, as she grew steadily worse, to Nice. She died there four months later; and her young husband was overwhelmed with grief.

Do these acts of tenderness and sacrifice sound villainous? Why not? Are heroes always consistently good and scoundrels always consistently bad? [*In the discussion, help family members to understand the complex mixtures of good and evil in each of us and how one characteristic or the other ultimately domi-*

*nates, so we think of a person as a hero or a scoundrel according to the characteristics we see most.*]

**B**Y THE TIME Morgan had recovered from the tragedy of Mimi's death, the War Between the States was bleeding both the North and the South of men, money, food, ammunition, and arms. Anyone who had rifles to sell, for example, could name his own price and make a tidy profit for himself. Which is exactly what Arthur Eastman and Simon Stevens planned to do — with the help of Morgan. Eastman and Stevens needed Morgan because their money-making deal depended on Eastman's buying 5000 rifles from one department of the Army for \$3.50 each and Stevens' selling them to another department of the Army for \$22. The problem was that Eastman needed \$17,500 to buy the rifles; and neither he nor Stevens had that much. Morgan, however, could get it; and he did — for a share of the profit. What makes this story particularly gruesome is that the rifles being sold had a defect which made loading them dangerous. In fact, some soldiers had shot off their thumbs trying to load, and this was the reason the Army had gotten rid of most of the rifles four years before the war started. It was also the reason the Army had stored the 5000 leftovers in New York and Philadelphia, and had not sent them to its troops — even though the need for rifles was desperate.

But General John C. Fremont, in command in the West, did not know this; he thought he was buying *new* rifles from Stevens; and even though there was a law against a general in the field buying arms, Fremont felt that he had to disobey the law if he wanted to keep his army in the fight. Neither Eastman nor Stevens nor Morgan cared whether Fremont's men lived or died, or how many soldiers' thumbs might be blown off; they had found a way to trick the government into buying guns it already owned. The money was all that mattered to them. You can see why if you subtract \$17,500, the amount the three swindlers paid to get the rifles, from \$110,000, the amount they were to receive. What is the difference? Yes, \$92,500 — less shipping, packing, and other minor costs, of course — was the profit that the three men planned to divide.

But that's not the end of the story. After the rifles had been delivered to Fremont and partially paid for, the whole ugly scheme was discovered, in-

vestigated by Congress, and denounced. Can you guess what Morgan and his associates did then? [*Encourage everyone to give an opinion.*]The swindlers made claims to the special investigating committee and to the Court of Claims for the balance due them! And they received it! Can you think of anything more audacious than a swindler, caught in the act of swindling, claiming his right to be paid for the swindle? Why do you suppose the authorities paid? [*Explain to family members that Morgan and his associates were within their legal rights: The government had made a contract and was bound by it, and the rifles had been delivered as agreed; so the authorities felt they had to authorize payment of the claim.*] What does this tell us about the efficiency of government? Is efficiency related to size? Could such a swindle have taken place as easily if the government had been small enough for the right hand to know what the left hand was doing? What does this incident do to the argument that the larger government is, the more efficient it is? And what does this incident tell you about the ethics and morals of J.P. Morgan?

**N**EEDLESS TO SAY, Morgan had no intention of putting on a uniform and fighting for either the North or the South. When the need for soldiers became desperate and the draft came, he hired a substitute. (John D. Rockefeller did the same, and so did other young men of like mind.) J.P. had his eye on that precious metal called gold which everyone seemed to want — and to want even worse when the South appeared to be winning than when the North was. To make money on gold Morgan had to buy gold, when the price had dropped after a Northern victory and sell it when the price rose after a Southern victory. But why be content, he reasoned, with buying and selling gold for a few hundred dollars profit when thousands could be made by buying a large amount, shipping it out of the country and creating a panic? Gold would then appear to be so scarce that everyone would immediately be willing to pay a much higher price for it than usual. The key to this great gold steal he contemplated was having the money — perhaps two million dollars — to do the buying, and having a partner who could make some of the purchases in order to keep others from suspecting what was happening.

What Morgan finally arranged was a father-son deal with the banking firm of Ketchum and Sons in New York and his own father in London. The elder Ketchum supplied the money, the younger Ketchum helped J. P. with the buying, and the gold was shipped to Junius Morgan's banking house in London for safekeeping. When the price had climbed as high as the two young speculators believed possible, they sold their gold and divided the profit — \$160,000.

By the time the war ended in 1865 Morgan was a rich young man with a partnership in the banking firm of Dabney, Morgan & Company. In London his father was equally well fixed as head of the old Peabody firm, now called J. S. Morgan and Company. Both Morgans were in excellent position to make even more money as Americans pushed westward, building towns, businesses, and railroads, and discovering new deposits of gold and silver. Wealthy Englishmen who wanted to become even wealthier brought their money to Junius Morgan in London and asked him to put into some promising American business where it would multiply rapidly; Junius passed it along to J.P., who did the placing and profit-watching — for a price, of course. With this kind of support, the younger Morgan moved up the ladder of success until he was the most powerful member of the board of directors of the New York Central Railroad, as well as the banker for William H. Vanderbilt, one of the richest men in America.

For most men this would have been enough. But not for Morgan. He did not want to be *a* wealthy banker; he wanted to be *the* American banker. Like John D. Rockefeller, Morgan wanted power and he hated competition. He started building his empire by collecting railroads, of which there were then so many that they resembled a flock of sheep, hungry and helpless. Morgan picked and sorted and bunched and herded until he had narrowed the field of competition to less than a dozen rail giants. The Southern Railway was one of his most ambitious creations; it included forty smaller roads, all separately operated before Morgan molded them all into one. Eliminating competitors delighted him. "Think of it!" he once said after a meeting of Western railroad presidents and their bankers. "All competitive traffic between St. Louis and the Pacific in the hands of thirty men." Nothing could have pleased him more; says one critic, except

perhaps to have that power in the hands of fifteen men — or better still, five — or best of all, one man, and that one J.P. Morgan.

From railroads, the ambitious monopolist moved to steel companies, then to telephone companies, electric power, farm machinery, and insurance — the list is endless. United States Steel is a Morgan creation; so are American Telephone and Telegraph, International Harvester, and General Electric. How exactly did he create these giants of business? The technique is simple. Suppose Brown and Smith own plants, and each plant represents an investment of ten million dollars. Morgan comes along and persuades Brown and Smith to combine their plants. A new company will be formed, says Morgan, that will issue forty million dollars in stock, double the amount that existed before the merger; Brown and Smith will each get 20 million in stock. Each will give Morgan at least a million for his work. Now the stock of the new corporation is listed on the Stock Exchange — which means anybody can buy it. To create interest, Morgan has some of his employees start buying the new stock. Naturally, the flurry of activity from Morgan's buyers leads people to believe that this may be the golden opportunity to become millionaires overnight, so they buy too. The price goes up, and the buying continues until Brown, Smith, and Morgan have sold all they want to sell. Suppose that Brown and Smith, having given Morgan one million each, now sell four million each, and keep fifteen million. How much has each man gained since the merger? Would you like to make millions of dollars without working for it — simply by forming a new corporation? Would you mind giving Morgan a position on your board of directors as partial payment for his help in selling your stock? [*Emphasize the point that by the magic of merger, Morgan had created twenty million dollars from nothingness — and a portion of it had become his. Both Smith and Brown doubled the amount they originally had.*]

During his career Morgan merged so many companies and was rewarded with so many positions on boards of directors, and so much stock and money in so many different industries, that he ultimately was doing business with himself. For example, the railroad of which he was a director might decide to buy steel from the corporation in which he was a partner while borrowing money

from the bank which he owned. Do you think a competing railroad could get as good a price on steel as Morgan's railroad? Or the same bank loan at the same low rate of interest? Would a competitor be able to match the low prices Morgan charged to ride his railroad? Why not? [*Encourage discussion.*]

This is what we call monopolistic capitalism, and no one practiced it more grandly than J.P. Morgan. In fact, it was Morgan who moved the monopolists' scheming from shabby backroom offices to elegant executive suites. He did not originate any of the techniques. But he did make them all seem wonderfully clever instead of cheap and conniving. And he established a pattern for money getting that every ambitious con man tried to copy and every socialist and communist used as ammunition to condemn the free enterprise system. He died in 1913, the year the progressive income tax became legal and a central banking system, the Federal Reserve, was approved by Congress.

#### DURING THE WEEK

Discuss and illustrate in every possible way the differences between monopolistic capitalists and competitive capitalists. Be sure family members understand that monopolists strive to gain power and control by eliminating all competitors, whereas competitive capitalists welcome competition and strive for freedom and individuality.

#### FOR SERIOUS STUDENTS

Morgan is often credited with stopping the drain of gold from the U. S. Treasury in 1895, thus rescuing the credit of the United States. For a better understanding of this and other Morgan dealings, we recommend *Men Of Wealth* by John T. Flynn, which should be available at most public libraries. Two other books that explain more of the results of Morgan's money manipulations are *None Dare Call It Conspiracy* (paperbound \$1.00) by Gary Allen and *The Naked Capitalist* (paperbound \$2.00) by W. Cleon Skousen. Both books are available at most American Opinion Bookstores, or directly from American Opinion, Belmont, Massachusetts 02178.

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#### The Family Heritage Series

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