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.

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.

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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
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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. 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?

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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. 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. 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


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

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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.  

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.  

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

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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.”

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

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 hear-
ings 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 adminis-
tration 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 mea-
sures that might choke the money supply. That counsel was ignored. It
should not be construed from this that the Morgan partners were far-
sighted. 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