

The House of Morgan, Ron Chernow

Chernow, of course, wrote the “Wonderful Hamilton biography, that started the great big musical.” Looking for a Chernow book, I noticed that he wrote this early work on the banking dynasty. Having never read anything about American banking, I chose this book. Chernow’s 1990 book is lengthy and dense, but well worth the read. Because I’m not a banker, I was constantly aware that I couldn’t grasp many of the concepts and events in the way that, or as easily as, a banker could. However, I gained several perspectives that made the work well worth my effort.

Chernow follows the banking dynasty through 4 generations: Junius, Pierpont, Jack, and Henry.

Somewhere in school, I had learned that the Clayton Antitrust Act of 1914 outlawed interlocking directorates. I had no idea how extensive these interlocks had been. In 1912, J. P. Morgan officers sat on the boards of 112 corporations. Wow. That’s influence and control on steroids. They sat on boards of railroads, steel, oil, and eventually automobile corporations.

Chernow rehearses the well-known stories of J. P. Morgan’s bailing out the federal government and saving Wall Street from collapse in 1895 and 1907 respectively.

The author emphasizes the secrecy and ethics endemic to the “House of Morgan.” The Morgan banking standards: trust, loyalty, and stability. “Morgan” was synonymous with these values.

J P Morgan had “all the money.” Clients came to them. As an honorable suitor asks his prospective bride’s father for his blessing, so corporations came to The House of Morgan for loans and services. Banks were truly “the sun” of the economic solar system. This relationship would gradually, but steadily, change over the span of a century.

It is this transformation in banking that I found most illuminating in Chernow’s telling. In the “early years,” (lifetimes of Junius and J.P.), only banks had money. As America became wealthier, corporations could find sources of finance other than banks. E.g., by the 1960s, massive pension funds could buy corporate bonds. These sources dwarfed bank capital. Consequently, banks became less relevant as a source of money. Chernow wrote in 1990. Were he to publish an addendum today, he would update the ever changing sources of money. The world is now “afloat in money.” Today,

“all the rage” is private equity buying public corporations and taking them private.

Of considerable interest to me was the change in culture and ethics in this “transformation of banking.” Banks went from a sedate, secretive, respectable, stable culture (The House of Morgan) to a rough and tumble world of trading, corporate raiding, mergers, buyouts, junk bonds, and marginal ethics. Chernow emphasizes that the “older Morgans” constantly had trouble adapting (as grandpa struggles to relate to his grandkids’ era) to this emerging world. So J. P. Morgan, Grenfell Morgan, and Guaranty Morgan found themselves outdated and losing in a modern “dog eat dog” world. But the House of Morgan eventually adapted. And, oh did they ever adapt. Chernow narrates that by the 1980s, the Morgans had become as tenacious and scrappy (and occasionally scandalous), as any other banks. The Morgans had “made it” into the modern world of finance.

Chernow emphasizes the greed of this modern era: (1) unconcern for the wreckage of human lives dependent on the corporations that raiders take over, rifle, and load with debt, as well as (2) the economic instability that the financiers’ greed and consequent speculation (as a group) unleash on the economic system. Chernow describes examples of Burlington Textiles and Nabisco Foods.

Another theme that Chernow traces is the transition of the “center” of banking from London to New York City (England to America). America was now the “nexus of economic power.”

JP Morgan and the other barons (Vanderbilt, Carnegie, Rockefeller, Ford) were far more powerful relative to the economy than are the wealthiest today (Musk, Jobs, Gates, etc.). It has been vogue for some time to “heap damnation” on Morgan and his fellow magnates. A more nuanced rendering would include the reality that, in enriching themselves, Morgan (and his contemporary titans) leapfrogged the American economy into the most powerful on earth, and in so doing launched the American century with its cornucopia of wealth and security in which we luxuriate today.