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Michael P. Malloy

BOOK REVIEW

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*MICHAEL P. MALLOY**

The House of Morgan, By R. Chernow. Atlantic Monthly Press, 1990. Pp. 812. $14.95.

On page one of the business section of a recent issue of *The New York Times*, we are told that J. P. Morgan & Company, holding company of (among others) the Morgan Guaranty Trust Co., has reported a record quarterly profit, at a time when many other money center banks are suffering substantial losses.[1] In the same issue, lower and to the right on the same page, we are told that war-ravaged Kuwait[2] has announced a plan to borrow $5 billion, as the first phase in a loan program intended to fund the rebuilding of the country.[3] The Kuwaiti Ministry of Finance appointed J. P. Morgan & Company to "coordinate" formation of a multinational group of lead managing banks for a syndicate expected ultimately to number hundreds of participating banks.[4] A London-based Morgan spokesman is quoted in the article, referring to encouraging responses "from banks in Japan, Europe and North America."[5] For commentary on the likely success of this announced syndicate, in light of competing demands on capital from such places as Eastern Europe and Latin America, the article consults an analyst at Morgan Stanley & Company, the investment bank.[6]

These news items, in a nutshell, probably characterize with fair accuracy longstanding public perceptions of the Morgan dynasty: profitable, impervious to adverse financial conditions, imperious with respect to other banks, transnational in scope, well-connected, banker to governments. Mr. Ron Chernow's *The House of Morgan*[7] does much to confirm this popular view, and also does a thorough job of illustrating the historical and hard-won roots of that view.

* Professor of Law and Director of Graduate Studies, Fordham University School of Law.

1. *See* Quint, *J. P. Morgan Posts Record Earnings*, N.Y. Times, Oct. 11, 1991, at D1, col. 6.
2. On the background surrounding the invasion of Kuwait by Iraqi forces in August 1990, see Malloy, *The Iraqi Sanctions: Something Old, Something New*, 15 S. Ill. U.L.J. 413, 414-17 (1991).
3. *See* Prokesch, *Kuwait Seeks $5 Billion To Repair War Damage*, N.Y. Times, Oct. 11, 1991, at D1, col. 4.
4. *Id.*
5. *Id.* (quoting John T. Hompe, Morgan spokesman).
6. *See id.* at D1, col. 5 (quoting Keith Brown, Morgan analyst).
7. R. Chernow, The House of Morgan: An American Banking Dynasty and the Rise of Modern Finance (1990) [hereinafter *House of Morgan*].

Mr. Chernow structures his study as an examination of the rise, fall and resurrection of the "House of Morgan," yet his painstaking examination of the history of this institution does, to some extent, undermine this literary architecture. For one thing, the reader will quickly discover that it is only in the most general (and least interesting) sense that we can speak of a "house" of Morgan at all. Rather, what we find are a series of interrelated houses or, perhaps, condominia. These were eventually separated by the strictures of post-crash federal legislation,[8] and it is only in relatively recent times that the commercial banking firm has begun to reemerge into the securities business again.[9]

Even at its height, virtually unrestricted in its activities by federal law, the "house" was actually a family of houses, spanning the globe. The family originated with expatriate American banker George Peabody's London banking house, founded in 1838,[10] inherited by the Morgans[11] and eventually to become Morgan Grenfell. The enterprise expanded into the United States with the founding of the Morgan partnership in 1861[12] in New York City, and flowered into a set of "interlocking partnerships" including Morgan Grenfell, Morgan et Compagnie in Paris and Drexel and Company in Philadelphia.[13]

Despite the intricacies of the interlocking (and continually changing) partnership structure of the houses of Morgan, in popular understanding—as well as in the view of government investigators[14]—the enterprise was most frequently conceived of as a monolithic "Morgan," and to a considerable extent was personified in the figure of J. P. Morgan. Ironically enough, this J. P. Morgan, a sort of living caricature of the figure of the prosperous, influential banker, was itself an amalgam of two individuals: J. P. Morgan, Sr. (1837-1913), "Pierpont," and J. P. Morgan, Jr. (1867-1943), "Jack." It is this almost mythic personification of the Mor-

8. *See* 12 U.S.C. §§ 377, 378 (1988). This legislation, known collectively as the Glass-Steagall Act, prohibited affiliation between commercial and investment banking enterprises and prohibited commercial and investment banking activities within one enterprise. On these restrictions, see generally 2 M. Malloy, The Corporate Law of Banks §§ 7.2-7.2.5, at 551-93 (1988 & 1991 Cum. Supp. No. 1).

9. So, for example, in January 1989, the Board of Governors of the Federal Reserve System ("the Fed") authorized a securities subsidiary of J. P. Morgan & Company to engage, to a limited extent as specified in the Fed's order, in underwriting and dealing in corporate debt securities. *See J. P. Morgan & Co., Inc.*, [1988-1989 Transfer Binder] Fed. Banking L. Rep. (CCH) 87,554 (Jan. 19, 1989), *modified, Order Approving Modifications to Section 20 Orders*, [1989-1990 Transfer Binder] Fed. Banking L. Rep. (CCH) 87,803 (Sept. 21, 1989). In November 1989, the Fed authorized the securities subsidiary to engage in private placements of all types of securities, including corporate equity. *See J. P. Morgan & Co., Inc.*, [1989-1990 Transfer Binder] Fed. Banking L. Rep. (CCH) 87,848 (Nov. 22, 1989). For a discussion of these and related orders issued by the Fed, see 2 M. Malloy, *supra* note 8, § 7.3.1, at 336-39 (1991 Cum. Supp. No. 1).

10. *See House of Morgan*, *supra* note 7, at 4-5.

11. *See id.* at 9-15.

12. *See id.*

13. *See id.* at 33, 286.

14. For a discussion of the Pujo hearings into the "Money Trust," see *House of Morgan*, *supra* note 7, at 149-56.

gan banking combine that has probably caused the firm, and large money center banks in general, so much trouble in the twentieth century history of bank regulatory policy in the United States. Like the public at large, U.S. policy makers (and especially Senators and Representatives) are most comfortable with easily identified targets, rather than broader market forces. "Morgan" has provided a convenient, simple-minded, straightforward target.

Mr. Chernow's book is particularly useful in this regard, since it unpacks, in great detail, the intricacies of the structure of the houses of Morgan, discusses the power and limitations of this great financial combine, and—despite a fascination with the individual personalities involved, Morgan and non-Morgan—separates out the "personality" of the enterprise from that of its key historical figures. This collective personality has its own interest for the reader, and Mr. Chernow is canny enough to allow that to be exhibited.

Nevertheless, as with any popular history, the story is anchored around a series of individual personalities, and Mr. Chernow shapes the structure of his book around the succession of Morgan leaders. This structure is evident from the overall, formal division of the book into three parts. Part One, "The Baronial Age," covers the years 1838 through 1913, and focuses for the most part, as it must, on the career of Pierpont Morgan.[15] This was the great unbounded period of development for the Morgan enterprise, but it culminated with the public outcry against the trusts, and the tragedy of the Titanic, owned by a Morgan-controlled trust, the International Mercantile Marine, in April 1912.[16] (Pierpont, as well as Vivian Smith of Morgan Grenfell, both had booked passage on the Titanic's fateful maiden voyage, but both cancelled.[17]) Pierpont died the following year.

Part Two, "The Diplomatic Age," covers the years 1913 through 1948, more or less coincident with the years of Jack Morgan at the helm of Morgan. Here the emphasis is upon the great international undertakings of the enterprise: organizing the financing of two world wars, renegotiating inter-war debt,[18] and the increasing role of the Morgan enterprise as an intermediary between governments.[19] In the midst of this age, of course, was to come the stock market crash of 1929, and the subsequent depression. Here, the Morgan touch could not set things right, as it apparently had during the earlier Panic of 1907,[20] and an almost biblical expulsion of commercial banks from investment banking was to occur with the passage of the Glass-Steagall Act in 1933.[21]

15. *See id.* at 1-161.
16. *See id.* at 145-61.
17. *See id.* at 146.
18. *See id.* at 183-204.
19. *See id.* at 205-29.
20. For a discussion of the Panic and the subsequent establishment of the Federal Reserve System, see *id.* at 121-30.
21. *See supra* note 8.

In terms of the personality of the Morgan enterprise, the Glass-Steagall Act was perhaps singularly important. Among other things, the act prohibited most banks from engaging directly in almost all types of securities activities.[22] In addition, the act prohibited the affiliation between commercial and investment banking firms.[23] This legislative development furthered the gradual disarticulation that was occurring in the transnational Morgan enterprise,[24] but the most wrenching change wrought by the act was undoubtedly the separation of J. P. Morgan & Company's U.S. commercial and investment banking operations. In 1935, the company decided to retain its commercial banking business, and to spin off its investment banking activities into Morgan Stanley & Company.[25]

Mr. Chernow tells this part of the Morgan story particularly well; having imparted to the reader the personal relationship that Morgan partners had with their enterprise, their forced divestiture of part of the business was evidently an agonizing decision for those concerned. He also suggests later in his book that the partners may have been mistaken, in the long run, to stick with the commercial banking side of the business, rather than partake of the financial glories of investment banking in the 1980s.[26] (The 1990s, with the attendant reversals of fortune among investment banking firms, could alter that judgment.) He also suggests that Morgan's perception of this mistake may in part explain the aggressive stance of J. P. Morgan & Company in the fight to repeal Glass-Steagall.[27]

The entire book is replete with vivid personalities, rendered to life in character studies by the author. But Parts One and Two are anchored, and organized, around the personalities of the two J. P. Morgans, father and son. Part Three, "The Casino Age," covering the years 1948

22. *See, e.g.*, 12 U.S.C. § 24 (Seventh) (1988) (prohibiting national banks from engaging in most securities activities); 12 U.S.C. § 335 (1988) (imposing prohibitions of 12 U.S.C. § 24 (Seventh) (1988) on Fed-member banks); 12 U.S.C. § 378 (1988) (prohibiting all financial institutions from engaging directly in securities activities, except as permitted by 12 U.S.C. § 24 (Seventh) (1988)). For a general review of these restrictions, see 2 M. Malloy, *supra* note 8, § 7.2.1, at 572-75. *See also* Fischer, Gram, Kaufman & Mote, *The Securities Activities of Commercial Banks: A Legal and Economic Analysis*, 51 Tenn. L. Rev. 467 (1984) (discussing need for congressional action to develop uniform policy regarding interpretation of Glass-Steagall Act); Perkins, *The Divorce of Commercial and Investment Banking: A History*, 88 Banking L.J. 483 (1971) (discussing relationship of investment and commercial banking from turn of the century to passage of Glass-Steagall Act in 1933).

23. *See* 12 U.S.C. § 377 (1988).

24. For example, the J. P. Morgan & Company stake in Morgan Grenfell & Company Ltd. was reduced to one-third in 1934. *See House of Morgan*, *supra* note 7, at 385. This stake was eventually sold in 1981-1982, *see id.* at 653-54, while Morgan Grenfell Incorporated, an investment banking subsidiary, would invade New York in 1981, *see id.* at 654. Morgan Grenfell & Company Ltd. was eventually purchased by Deutsche Bank in 1989. *See id.* at 715.

25. *See id.* at 384-88.

26. *See id.* at 715-16.

27. *See id.* at 716.

through 1989, is relatively more diffuse, and no individual player held this reader's attention as well as the two Morgans. It is as if events, both significant and otherwise, now seize the initiative in the story of the houses of Morgan. While this may be the freewheeling age of casino players that Mr. Chernow seeks to convey, it lacks the vitality of those two personalities. Yet this portion of the story is of considerable importance in its own right.

Among other things, the Morgan bank was institutionally displaced in the post-World War II era. The "mysterious *troika* of the Bank of England, the New York Fed, and Morgans"[28] was eventually to be replaced in the supervision of the international monetary system by the newly created International Monetary Fund and the International Bank for Reconstruction and Development.[29] The U.S. Government renewed its interest in trust-busting with a monumental antitrust suit in 1947 against seventeen investment banks (including Morgan Stanley) and their trade group, the Investment Bankers Association, for allegedly conspiring to monopolize underwriting.[30] In 1959, the Morgan bank merged with the Guaranty Trust Company to become the Morgan Guaranty Trust Company,[31] with a one-bank holding company known as J. P. Morgan & Company, Inc., being created for the merged bank ten years later.[32] In the 1960s, with the rise of negotiable certificates of deposit and other trading devices, the bank moved from its traditional wholesale and deposit bank orientation to the money-purchase business and trading.[33]

The bank was also enmeshed in the celebrated *Texas Gulf Sulphur* controversy,[34] the dramatic enforcement push by the Securities and Exchange Commission into insider trading, that has had significant consequences for banks with trust departments.[35] It also weathered the emerging, aggressive takeover market of the 1960s and the economic

28. *Id.* at 485.

29. *See id.* at 485-88.

30. *See* United States v. Morgan, 118 F. Supp. 621 (S.D.N.Y. 1953).

31. *See House of Morgan*, *supra* note 7, at 531-34.

32. *See id.* at 591-92.

33. *See id.* at 539-40; *see also id.* at 653-70 (discussing Morgan's trading activity during the 1980s).

34. *See* SEC v. Texas Gulf Sulphur Co., 401 F.2d 833 (2d Cir. 1968), *remanded to* 312 F. Supp. 77 (S.D.N.Y. 1970), *aff'd in part, rev'd in part*, 446 F.2d 1301 (2d Cir.), *remanded to* 331 F. Supp. 671 (S.D.N.Y.), *cert. denied*, 404 U.S. 1005 (1971); *see also House of Morgan*, *supra* note 7, at 562-67 (describing *Texas Gulf Sulphur* controversy).

35. *See, e.g.*, 2 M. Malloy, *supra* note 8, § 7.3.3, at 614-15 (analyzing segregation of trust activities and general banking activities as way of avoiding leakage of inside information); Arnold, *Guidelines for the Banker "Insider" or "Tippee": The* Texas Gulf *and* Merrill Lynch *Decisions*, 86 Banking L.J. 319 (1969) (offering provisional guidelines for bank officials who are exposed to confidential corporate information); Bruzda & Seidel, *Bank Trust Departments and the 10b-5 Dilemma*, 21 Vill. L. Rev. 367, 368 (1976) (discussing conflicting duties faced by bank's commercial and trust activites under Rule 10b-5); Harfield, Texas Gulf Sulphur *and Bank Internal Procedures Between the Trust and Commercial Departments*, 86 Banking L.J. 869 (1969) (arguing that *Texas Gulf Sulphur* decision did not contemplate full-service banks, which must exchange information between trust and commercial departments to fulfill fiduciary and legal duties).

downturn and internationalization of oil-dependent economies in the 1970s.

The transformation of the houses of Morgan in the later part of the twentieth century would appear to reflect a transformation of public institutions as well. As Mr. Chernow points out in the concluding passages of his book, "The old House of Morgan's power stemmed from the immature state of government treasuries, companies, and capital markets."[36] That is to say, Morgan performed quasi-institutional or quasi-governmental functions that could not or were not performed by public entities, including monetary policy supervision and intervention, public finance and development, and the like. As those functions have become the province of national and international institutions, the older Morgan legacy has necessarily been sloughed off in favor of a more aggressive approach to the functions of financial intermediation that take place in a radically more competitive and globalized environment. One merit of Mr. Chernow's historical study is that it gives the reader a clear perspective on the ways in which the long historical legacy of the houses of Morgan both aided and impeded the present day Morgan in meeting the challenges of the contemporary business environment.

If there is any fault to be found in Mr. Chernow's book, it is primarily the hazard of a popular history. In personalizing much of the history of and surrounding the houses of Morgan, the author renders many of the events into anecdotal evidence, seen typically from the particular perspective of the Morgan enterprise and its participants. The emergence of the Glass-Steagall Act restrictions, for example, become a matter of personal discomfort and agonizing for the Morgan partners, but the reader may lose some sense of the broader public policy purposes and perspectives at work in the enactment of these restrictions. Similarly, the Securities and Exchange Commission's dramatic assault on insider trading becomes almost no more than a painful tale of personal embarassment for Morgan partners.

These are, however, not significant drawbacks in what is, primarily, intended as a popular history of a remarkable banking enterprise. It succeeds in giving the reader a sense of the scope and risks of the ambitions of the major participants involved in the history of this enterprise. It conveys in straightforward and compelling terms the challenges and achievements of this longstanding undertaking. Finally, it gives—dare one say it?—a sense of romance and adventure to a peculiarly human enterprise, the "augmentation of the active or productive capital of a country," to use Hamilton's phrase.[37] For this alone it is worth a thorough reading.

36. *House of Morgan*, *supra* note 7, at 720.

37. 1 Am. St. Papers 67 (Treasury Report on a National Bank, Dec. 13, 1790).