

THE HOUSE OF MORGAN

An American banking dynasty
and the rise of modern finance



Summary of “The House of Morgan” by Ron Chernow

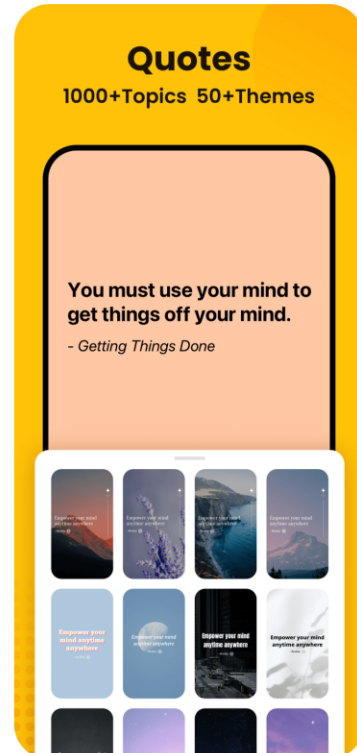
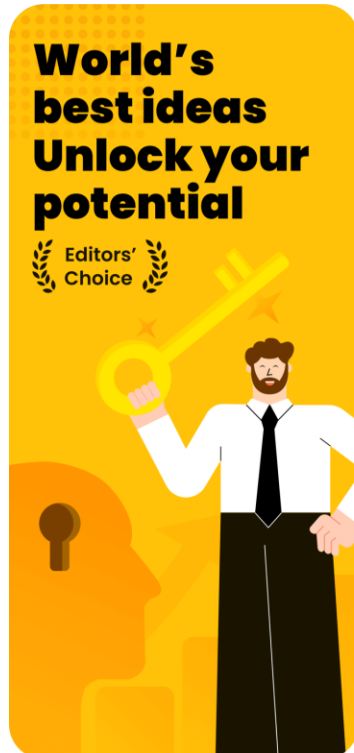
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About the book

This book won the U.S. National Book Award. It is a classic business literature whose subject stretches across finance, history, politics, diplomacy, and economics. Using the Morgans as the main characters in the storyline, it describes the 150 years of the rise and fall of Wall Street. It provides detailed accounts from the dusty historical records of the mediation that House of Morgan has executed between political and financial figures, and unveils the mysterious financial empire built by four generations of the Morgan family.

About the author

The author of this book, Ron Chernow, is the President of the Board of Trustees of the PEN American Center. He has written books such as *Washington: A Life*, *Alexander Hamilton*, and *Titan: The Life of John D. Rockefeller, Sr.* He has won numerous awards, such as the National Book Award, Pulitzer Prize, and American History Book Prize. Chernow is especially adept at writing biographies of financial, commercial, and political figures. *Fortune* magazine called him "America's best business biographer."

Chapter 1: Overview

Hi, welcome to Bookey. Today we will unlock the book, *The House of Morgan: An American Banking Dynasty and the Rise of Modern Finance*. “London was the sun in the financial solar system. Bankers of the City, London’s financial district, were self-styled potentates. Firms such as Barings and Rothschilds maintained an imperial reserve; to be asked for lunch was like being received in audience by a king.” This is how the author describes the financial circle of London in the 30s and 40s. One day in 1835, an American named George Peabody set foot in London. Peabody was born into a poor family in Massachusetts. His father died when he was just a teenager, and Peabody started working in his brother's shop in order to feed his mother and six siblings. His early years of poverty shaped him into a frugal and diligent man. He kept working and devoted himself to accumulating wealth. In 1838, George Peabody opened his business at 31 Moorgate Street, London. At that time, his humble office had only a

counter, a safe, and a few desks. But can you imagine that years later this shabby business would grow into a wealthy financial empire? How many legendary stories happened during this time? How was the financial empire built? This is the story of The House of Morgan. This book is a classic business literature whose subject stretches across finance, history, politics, diplomacy, and economics. With the Morgans as the main characters in the storyline, it describes the 150-years of the rise and fall of Wall Street. It provides detailed accounts from the dusty historical records of the mediation that House of Morgan has executed between political and financial figures, and unveils the mysterious financial empire built by four generations of the Morgan family. The author of this book, Ron Chernow, is the President of the Board of Trustees of the PEN American Center. He has written highly acclaimed books such as Washington: A Life, Alexander Hamilton, and Titan: The Life of John D. Rockefeller. He has won numerous awards such as the National Book Award,

Pulitzer Prize, and American History Book Prize. Chernow is especially adept at writing biographies of financial, commercial, and political figures. Fortune magazine called him "America's best business biographer. Now, we will tell you the essence of this book in three parts: Part one, the Morgans of the Baronial Age (1838-1913;) Part two, the Morgans of the Diplomatic Age (1913-1948;) Part three, the Morgans of the Casino Age (1948-1990.)

Chapter 2: The Morgans of the Baronial Age (1838-1913)

The Morgans' Baronial Age is a term used in the book to refer to a time period between 1838, the year George Peabody started his business in London, and 1912, the year of Pierpont Morgan's death. Within this 70-year period, the Morgans grew prosperous under the leadership of its two founders and Pierpont Morgan, its second leader. Let's find out how the two founders of the House of Morgan came together. In 1835, a debt crisis swept through the United States. This happened due to the construction of public transportation facilities in the States, which led to the failure of some state governments to timely repay their loans to the British creditors. Against this backdrop, American George Peabody was assigned by the federal government to go to London and find a solution. Not only did he succeed in resolving the crisis, he also secured an additional loan of \$8 million. This earned him a commission of \$60,000

from the state of Maryland, which he gave up in order not to be seen as corrupt by his new British acquaintances. This assignment also earned him a good reputation in the British financial circle.

Three years later, George Peabody established his business in London to fund overseas trade, issue stocks and bonds, and provide high-value financing.

This business was named George Peabody and Company, which was the predecessor of the House of Morgan. At the time, American bonds were not popular in Britain. In their eyes, no American business could develop successfully in London. So it was hard for Peabody to make money selling American bonds. However, his humble family background and difficult early life made him develop a persistent character and a habit of working hard. He worked ten hours a day on average, and never rested for two consecutive weeks. Ten years later, his hard work and unrelenting efforts finally paid off. As the 1848 European revolutions swept across the continent, the bond market was significantly affected. The

bonds of the relatively peaceful United States were now favored. As a result, Peabody made a lot of money from his previously undervalued government bonds. Soon, Peabody took the opportunity to develop his banking industry. By 1854, George Peabody and Company's total amount of capital reached 450,000 pounds, a figure which was only behind the houses of Baring and Rothschild. Back then, they were important banking families in Europe, playing a key role in the City of London. The other founder of the House of Morgan was Junius Spencer Morgan, who was born into a wealthy family in the United States, and inherited more than \$1 million. After moving to Boston, Junius helped reorganize J.M. Beebe, Morgan and Company and started conducting foreign trade and financial business. It was here that Junius Morgan's outstanding business performance caught George Peabody's attention. After being in contact for a while, in October 1854, Junius Morgan officially joined George Peabody and Company as a partner, working in stock

exchange, foreign exchange, bank credit, and other businesses. This was how the two forefathers of the House of Morgan, George Peabody and Junius Morgan, came together. Compared to when George Peabody first started his company, the business ran much more smoothly when Junius Morgan joined. The company soon made some great achievements. In 1853, Turkey, Britain, France, and some other countries declared war on the Russian Empire one after the other in order to compete for control over the Balkans. The Crimean War had broken out. During the war, food prices in the United States rose rapidly. The western railways that transported food also quickly developed. As a result, American stocks price rose. As the main distributor of American rail bonds in London, George Peabody and Company made a fortune from this rise. In 1857, these two men's company placed a 100,000-pound venture investment into Transatlantic Cable. Then, in August 1858, the business of Transatlantic Cable officially started as the first wired call between America and Britain

was made. Although one month later the wire broke and the company's stock dropped rapidly, this was the men's most far-sighted investment. This wire connected America's Wall Street and Britain's City financial center, creating highly favorable conditions for the development of the House of Morgan and other financial businesses in America. When George Peabody retired, he pulled out all of his capital from his firm, and didn't allow Junius to continue using the old firm name. Bitter with disappointment, Junius changed the company's name to J. S. Morgan and Company. Let's now look at how the House of Morgan gradually grew into a giant under the leadership of the Morgans. First, there was the expansion of the organization. As J. S. Morgan and Company was shining in the City of London, the son of Junius Morgan, Pierpont, established J. P. Morgan and Company with his cousin in 1861 in New York. J. S. Morgan and J. P. Morgan both formed the early stage of the House of Morgan. If Junius was the founder of the Morgan financial empire, his son Pierpont would

be the engineer and builder of the empire. In 1895, Pierpont reorganized the company and adjusted the personnel of J.S. Morgan and Company in London. At the time, he was already fully in control of the House of Morgan in New York, Philadelphia, London, and Paris. Since then, the center of power for the House of Morgan shifted from London to New York, and J. P. Morgan and Company became the House's headquarters. The House of Morgan reached its peak development during Pierpont's leadership. The second manifestation of the House of Morgan's growth was its rise in status. In 1870, upon its defeat in the Franco-Prussian War, France was urgently seeking financing. This financing had huge risks, as it was predicted that France might refuse to pay in the end. No banker in London, including the Rothschild family, dared to lend France their money. But Junius seized the opportunity to finance the French government. After studying a large amount of French documents, he decided to provide a \$50 million loan to the French government. His decision was proven right;

France repaid the bonds in advance just three years later. As a result, J.S. Morgan & Co. earned a profit of \$7.5 million, propelling the firm's status into the upper ranks of government financing. Junius himself went from a successful man to a powerful man of the City. In 1871, Pierpont partnered up with Anthony Drexel and together they established Drexel, Morgan and Company, specializing in railway financing. The Drexel family was renowned in France, and members of the family were married to many prominent families in Philadelphia. As such, the alliance of Morgan and Drexel not only gave the Morgans an upper class image, but also a firm stand in New York, Philadelphia, London, and Paris, thus creating space for the international development. The third manifestation of the House of Morgan's growth was the increase of its financial power. After the outbreak of the American Civil War, Pierpont sold outdated carbines and speculated in gold. He secretly purchased \$5 million in gold, and then sold it when the North won and the price of

gold soared. He earned a lot of money from this investment. Although some people argued that Pierpont used the American Civil War to make his blood money, it cannot be denied that Pierpont's commercial talent and boldness was the drive behind the rise of the Morgan family to the peak of its success. Afterwards, the Morgans helped Washington issue new bonds at low interest rates to repay the \$300 million debt left by the civil war. Subsequently, the House of Morgan paid off the bill of the soldiers' payroll during the Civil War with a commission of one percent and underwrote the last debt on the Civil War loan. This led them to successfully enter the highest circle of the American financial world. The strength and reputation of the firm continued to rise and finally surpassed both the Rothschild and the Baring families. The fourth manifestation of the House of Morgan's rise was the establishment of its monopoly. With the rise of entrepreneurs, people began to use price wars to put pressure on their competitors in America. This was most obvious in

the railway industry. However, excessive market competition did not bring a positive benefit, but instead overwhelmed the enterprises. Banks and companies started to get caught in a bankruptcy crisis. This presented another opportunity for the Morgans, as they began to help these businesses develop and execute reorganization plans to save them from bankruptcy. This was how the Morgans gradually entered the center of power. The well-known General Electric Company was also acquired by the Morgans during this period of desperation. The Morgans thus formed an inextricable relationship with General Electric. In addition to this, Pierpont also helped the reorganization of bankrupt railway companies, including Erie, Northern Pacific, New York Central, and Southern Railway. After controlling the railway industry, Pierpont, relying on his strong financial strength, merged with Andrew Carnegie's steel company. Later, after careful planning, Pierpont merged more than ten large and medium-sized steel companies, and established U.

S. Steel, thus creating a monopoly in the steel industry. At the same time, the Morgan family also merged and established the largest agricultural machinery company at that time, as well as American Shipping Company, and some large public utility companies, such as the American Telephone and Telegraph Company, and Niagara Falls Electric Company. By 1912, the Morgans was controlling 53 companies in America, including the transportation networks, which covered the railways and the sea transport. Even the renowned Titanic was a product of this monopoly. However, as the Morgan family was holding onto their monopoly, their misfortune was also quietly approaching. As you know, the Titanic, designed by the Morgans, sank in 1912, and this event shocked the world. Not only was this a disaster in human history, but also a twist of fate that overturned the Morgans' fortune. Following this, the anger of the American public, who had just experienced the financial crisis of 1907, erupted towards the Morgans. The American public

believed that the economic crisis was caused by “money trust,” a concept suggesting that the bulk of the world’s political power and financial wealth could be controlled by a powerful few. They demanded that the government punish the giants in banking; among which were the Morgans ,who bore the brunt of the criticism. Pierpont, 75 years old at that time, was forced to attend hearings and be interrogated. Pierpont, who was always full of pride, was very upset by this. He suffered a mental breakdown and died on March 31, 1913. And that concludes the first part, the Morgans of the Baronial Age. Let’s quickly review what we discussed. In 1838, George Peabody established a small business in London and named it George Peabody and Company. In 1854, Junius Morgan joined the firm as a partner. After Peabody retired, Junius Morgan took on the leadership and changed the company’s name to “J.S. Morgan and Company.” Junius and Pierpont, his son, further expanded the business, rising the status and financial power of the conglomerate. Pierpont

himself established J.P. Morgan and Company and set up offices in major cities in Europe and America, which later became the House's headquarters. By 1912, the Morgans was controlling 53 companies in America and had established a monopoly over a number of industries. The Baronial Age of the Morgans ended in 1913 when Pierpont died. This marked the start of the Diplomatic Age of the House of Morgan.

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