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Gentlemen Bankers: The World of J. P. Morgan

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Dr Pak's important study of investment banking in New York in the first three decades of the 20th century blends financial and social history. This excellent book, which combines quantitative and qualitative approaches, is likely to appeal to some business-school academics and many social historians. The sections of the book about Congressional investigations of Wall Street and international loans will also useful to political historians. This book is written in an accessible style and could be assigned to senior undergraduates in history departments.

This book is an example of the innovative ways in which North American historians have used race, class, and gender as lenses for re-interpreting traditional topics. In the last two decades, such approaches have allowed social historians to branch out from the study of marginalized groups and to assess the impact of ideas about race, class, and gender on the behaviour of the powerful and the privileged, be they politicians, military leaders, or, as in the case of the individuals studied in Dr Pak's book, bankers.

Although this book presents some information on Junius S. Morgan (1813–90), the founder of the Morgan banking dynasty, the focus is on the period after 1890, when John Pierpont Morgan (1837–1913) inherited the operation and established J. P. Morgan and Co., the most important of the four banks that then made up the transnational House of Morgan. Pierpont was succeeded by Jack Morgan (1867–1943). Dr Pak's study ends just before the entry of the United States into the Second World War. She explains with admirable clarity the process by which merchant banks assembled the syndicates responsible for the securities issues that funded the expansion of railroads and other great industrial enterprises in the Gilded Age (pp. 13–20).

These syndicates, which relied on a high degree of trust amongst their participating firms, operated in a context that included interlocking directorships, overlapping membership in social clubs, and kinship ties. These social networks reduced transaction costs during times of normal business conditions and were indispensable during the financial crisis of 1907. Although the social networks linking the various firms in Morgan's network were doubtless functional, they also appeared incestuous and corrupt in the eyes of many Americans.

The first chapter of this book examines the social world of New York's leading bankers before 1914. In 1912–13, the Pujo Committee of the House of Representatives investigated the activities of New York's 'Money Trust'. J. P. Morgan was called to testify before Congress. Morgan and his associates resented this invasion of their privacy. The Pujo investigation placed a major strain on Morgan, who died in Rome in March 1913 (p. 35). Today, bankers accept a degree of government oversight as normal, but a much lower level of scrutiny was intolerable for Morgan and other private bankers because of the cultural context in which they operated. As Dr Pak shows, Americans' strong belief in privacy was connected to the ideas that informed the Supreme Court's infamous 1896 decision in the case of Plessy v. Ferguson, which upheld racial segregation (p. 44). The parallels that Pak draws between Jim Crow laws and the norms informing merchant banking reinforce her point that banking was deeply racialized and gendered.

The second chapter of the book deals with the social world of investment bankers. We learn about the gendering of space in banks and an African-American employee of Morgan who passed as white (p. 46). Pak identifies what the Morgan partners had in common in terms of social background: she includes a useful table describing the background of the partners in the London branch, who were typically alumni of Eton and Oxbridge (table 6, pages 51–2). The American partners were disproportionately Harvard men. Throughout the period studied by Pak, the partners remained monolithically white and Christian. However, she shows that in the early 20th century the Morgan partners became less socially homogenous and included more men from relatively humble backgrounds. For instance, Thomas W. Lamont (1870–1948), an important partner, was the son of a Protestant minister (p. 55).

The third chapter of the book, Pak's focus shifts to the topic of anti-Semitism's impact on relations between Jewish and non-Jewish bankers. Other historians who have looked at this period have argued that discrimination against Jews had little or no impact on the actual business operations of New York's German-Jewish banks.(1) Dr Pak challenges this view. The third chapter of the book clearly shows that conditions got worse, not better, for American Jews in the late 19th century, as many social clubs, universities, and resorts began excluding Jews. J. P. Morgan made anti-Semitic comments in his private correspondence. He even made the hyperbolic claim that his bank and Barings were the only 'white' (that is, non-Jewish) banks in New York (p. 91). In effect, he was questioning the whiteness of the Jews at a time when non-white immigrants could not even become citizens. Pak suggests that rising anti-Semitism led to the marginalization of Kuhn, Loeb and Co. and the entrenchment of Morgan's privileged position in the financial world.

The fourth chapter of the book is most likely to interest historians in Europe as it deals with the impact of the First World War on the New York banks in the period of United States neutrality. The partners of Kuhn, Loeb and Co. were initially sympathetic to Germany. This sentiment stemmed from nostalgia for the ancestral homeland and visceral hatred of Tsarist Russia, a nation in which Jews were persecuted. During the Russo-Japanese War, Kuhn, Loeb and Co. helped the Japanese government to finance the war. For them, this transaction was more than an ordinary commercial transaction, since the Japanese were fighting the hated Tsar. When Japan entered the First World War on the side of the Western allies, Kuhn, Loeb & Co. broke off relations with that country, which created an opportunity for Morgan (p. 114, 162). The entry of the United States into the war and the withdrawal of Russia prompted the Jewish bank to re-evaluate its position. Although Kuhn, Loeb's partners enthusiastically supported the American war effort in 1917 and 1918, their earlier pro-German leanings appear to have permanently damaged the bank's reputation (p. 131). In sharp contrast, Jack Morgan, who had lived in London, was pro-Allies from the start of the war. In 1915, a German-American shot Jack Morgan (p. 112).

The fifth chapter examines the relationship between the Morgan partners and Harvard. Pak shows that while the ranks of the Morgan partners were transformed in the early 20th century by an influx of new blood represented by Harvard graduates who lacked kinship ties to the old partners. In the early 1920s, Harvard debated whether blacks should live in segregated dormitories, as well as various measures to reduce the number of Jewish students (p. 142–59). Thomas Lamont, who served as a member of the college's Board of Overseers, appears to have harboured prejudice against African-Americans (p. 151–4).

The sixth chapter shows how the partners' racial attitudes influenced relations with Japan. After the First World War, Morgan had been able to obtain the Japanese government's account previously held by Kuhn, Loeb and Co.. Their relationship with Japan forced the Morgan partners to confront the issue of racial equality. At the Versailles Peace Conference in 1919, Japanese diplomats had pushed for international recognition of the principle of racial equality (p. 165). This proposal was famously blocked by the British Empire delegation and by President Woodrow Wilson. Japan was also offended by the Immigration Act passed by the United States in 1924, which was even more racist than earlier US immigration laws. Lamont patiently explained to officials in Washington that this law was likely to alienate Japan from the United States (p. 168). Despite the deterioration in relations between the two countries, Lamont continued to work with the Japanese government and banks to fund projects in Japan's colonial empire such as the South Manchurian Railway. The invasion of China proper by Japan in 1937 led to the end of relations between Japan and J. P. Morgan (p. 189).

Chapter seven is essentially about the impact of regulatory changes on New York banks during the Great Depression, when Wall Street was massively unpopular with the American public and legislators. The famous Banking Act of 1933, commonly known as the Glass-Steagall Act, mandated the separation of commercial and investment banking. J. P. Morgan opted to remain a commercial bank and gave up its investment banking activities, which were taken over by Morgan, Stanley. During the 1930s, grandstanding politicians accused Morgan and other bankers of having masterminded American involvement in the First World War. The political conditions were even worse for Jewish banks, as anti-Semitism was peaking in the United States at that time.

The book is based on an impressive range of primary sources in a variety of archives, including the Pierpont Morgan library, the Baker Library at Harvard Business School, the American Jewish Archives, and the New York Public Library. One of the strengths of this book is that it includes maps of Manhattan showing how the residences of the partners of J. P. Morgan and Kuhn, Loeb and Co. clustered in two distinct areas. Pak also shows that while Morgan partners were typically members of the same social clubs, their club memberships rarely overlapped with those of the Kuhn, Loeb & Co. partners.

This reviewer has one substantive criticism of the book. Chapter seven seems like a missed opportunity to investigate the claims that have been made about the role of various Wall Street banking interests in the making of the Glass-Steagall Act. Since the 1930s, academics have debated whether Glass-Steagall's requirement that investment and commercial banking be kept separate was beneficial. These scholarly debates attracted the attention of non-specialists in 1999, when key provisions of Glass-Steagall were repealed, and then more recently, when the 1999 repeal was blamed for the 2008 financial crisis. Until fairly recently, most academics have assumed that the legislators who voted for and against Glass-Steagall were motivated by some conception of the public interest rather than the desire to please companies with deep pockets. In 1998, the economist Alex Tabarrok presented a decidedly less romantic view of the making of Glass-Steagall. He argued that the requirement that investment and commercial banks be separated was inserted into the law to further the interests of the Rockefeller banks, which were rivals of the House of Morgan. According to Tabarrok, the Banking Act of 1933 represented the culmination of more than a generation of political conflict between the Rockefellers and the Morgans. Tabarrok claims that the Rockefellers' bankers knew that the forced separation of investment and commercial banking would harm the Morgan interests far more than it would harm them and supported the move as a way of raising their rival's costs. He claims that the lobbying campaign by the Rockefeller interests that resulted in the Glass-Steagall Act was supported by Kuhn, Loeb and Lehman Brothers, two Jewish firms, and was coordinated by Winthrop Aldrich of Chase National Bank, who was a Protestant. The Rockefellers, it should be noted, were Protestant, not Jewish, as were the legislators who advanced their interests. Tabarrok's narrative, which undermined the academic legitimacy of Glass-Steagall in the period immediately before the 1999 vote to repeal of the legislation, was based mainly on circumstantial evidence, such as the close social ties between the Rockefeller interests and key members of Congress.(2) In effect, Tabarrok left the task of finding an evidentiary 'smoking gun' to historians willing to invest time in exploring the archives. Given that Dr Pak has done extensive research into the relations between J. P. Morgan and its Jewish and non-Jewish rivals, it is unfortunate that she did not try to determine the accuracy of Tabarrok's claim, which was recently was repeated by an influential financial journalist in the course of a discussion of the current debate about the financial reform.(3) If true, Tabarrok's claim that the Rockefellers and Jewish bankers were united in an anti-Morgan coalition has implications for Dr Pak's thesis that the division between Jews and non-Jews was the most important cleavage within the New York banking community in this period. If Tabarrok's claim is not supported by any archival evidence, this fact deserves to be pointed out to all concerned. There is obviously room for additional research by Dr Pak or another social historian who wishes to contribute to our understanding of the making of Glass-Steagall.

To conclude, Dr Pak's work in an important contribution, despite the limitation identified in the previous paragraph. She should be commended for blending social and financial history in an innovative book.

Notes

1. Barry E. Supple, 'A business elite: German-Jewish financiers in nineteenth-century New York', *Business History Review*, 31, 2 (1957), 170; Vincent P. Carosso and Rose C. Carosso, *The Morgans: Private International Bankers, 1854–1913* (Cambridge, MA, 1987), p. 452.Back to (1)
2. Alexander Tabarrok, 'The Separation of Commercial and Investment Banking: the Morgans vs. the Rockefellers', *Quarterly Journal of Austrian Economics*, 1, 1 (1998), 5–6.Back to (2)
3. Matt Yglesias, 'The shocking true story of Glass-Steagall and how it made me a believer', *Slate*, 14 August 2013 < http://www.slate.com/blogs/moneybox/2013/08/14/glass_steagall_secret_history_i_m_a_believer.html > [accessed 2 October 2013].Back to (3)

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