How the House of Morgan Cooperated to Develop the Large-Cap US Multinational Corporation, 1895-1913

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A Thesis in the Field of International Relations

for the Degree of Master of Liberal Arts in Extension Studies

Harvard University

November 2015

Abstract

The following investigation is intended to determine how the large-cap US multinational corporation was further advanced during the pivotal years of 1895-1913 by a leading private unincorporated institution—House of Morgan. Historical review and assessment focused on the broader US society, government, monetary landscape, the House of Morgan, leading large cap US multinationals; looking at both the key organizations and underlying people in power. The report framework focuses upon the development of the US super structure within which all major companies work down to the way actual institutions organize economic assets in the form of a multinational corporation. Questions that have been considered include: how was business conducted globally with so little formal mechanisms in place, the importance of the various forms of capital for business, and the various roles politics played in business development. Other areas include how owners and managers were effectively separated, how these same companies were able to branch out its product offering and the importance of providing corporate incentives.

The House of Morgan cooperated with leading merchant banks, governments, foundations in developing an over-arching environment that was better adapted to the realities of the recent agricultural, industrial, and transportation revolutions that had brought about an integrated world. To organize economic assets in a more efficient and stable manner, large-cap multinationals were the preferred alternative, with a wave of consolidation across industries, underpinned by the pristine Morgan name. Strong board

presence, interlocking corporate representation, active role in strategic planning, and management selection ensured that not only were new corporations molded in the design of the House of Morgan but also that they would stay committed to the far-reaching objectives.

The House of Morgan took on more than just a focus of increasing shareholder value. They were driven by lofty ambitions of providing comprehensive stability within society at large in a rapidly changing world. The partners of the House of Morgan families had for generations been at the vanguard for providing the highest level of leadership throughout society in areas including business, politics, finance, and religion. These leading families were instrumental in providing the backbone of American society including founding the US Republic, developing the most venerable education institutions, and providing a moral compass through religious revival movements. The House of Morgan would help bring about generally larger and more institutionalized solutions from preceding generations that were conducive for multinational corporations to operate within. This ranges from a US central bank, developing modern non-profits structure, and funding the transportation network making the world more integrated. In helping organize broader US society, the House of Morgan would interlock different subsystems, including finance, charity, and politics with business in promotion of a more harmonious, predictable and productive society. The House of Morgan development of leading US large-cap multinationals, including General Electric, International Harvester, International Mercantile Marine and US Steel illustrates how it not only provided for the macro landscape to operate within, but also developed the leading companies of the era.

Acknowledgements

My experience at Harvard has been truly transformational over the past few years. I have been challenged as never before by dedicated teaching staff, and thought-provoking classes and stimulated by the commitment to excellence of the student body. The Harvard tradition that I experienced of empowering the next generation of students and instilling a commitment of service has been inspirational and has raised my personal standards.

I wish to thank my outstanding thesis director, Isidor Straus Professor of Business History Dr. Geoffrey Jones. Despite his demanding schedule, Dr. Jones agreed to guide me through nearly a year's worth of research, writing, and editing. His comments kept me focused on the topic, while his questions and his ideas sparked new avenues of investigation to strengthen my case. I am indebted to Professor Jones for all his efforts. I would like to thank my research advisor Dr. Donald Ostrowski to whom I am deeply grateful. He has provided constant support at various phases throughout this process, from selecting an idea to crafting a proposal to finished work. Furthermore, I would like to express my appreciation to Dr. Susie Pak who provided invaluable advice early on in gathering research and stressing the importance of social relationships in business.

The incredibly helpful staff at Harvard University were instrumental especially at the Baker Library, Lamont Library, and Widener Library. I would like to thank my colleagues who provided an invaluable soundboard. Lastly, I would like to thank my

family for their constant support and encouragement. My family has sacrificed a lot throughout the process, and it is a shared honor in completing the program.

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Chapter I

Introduction

There have been few events during human history that have fundamentally reshaped the world and have had a generational impact to the same extent as several "Revolutions" occurring first in Great Britain during the 18th and 19th century. Starting in the mid 18th century, the Agricultural Revolution was an immense step forward in increasing the quantity of food, quality of nutrients, and reducing the amount of labor required to toil the farmlands.[1] The Industrial Revolution brought about the greatest economic change in history of the world before its time, with the sustained rapid increase in production and distribution starting in the late 18th century.[2] A Transportation Revolution starting in the early 19th century helped conquer great distances through advances in canal building, railroad construction, and steamship utilization.[3] The aforementioned trends allowed for an increase in population that was less tied to subsistence farming, having increased economic opportunities via factory work, the ability to transport goods across oceans with more centralized urban population centers—supporting a more linked world.

The integration of our world is truly one of the most powerful themes in history as it touches on all areas of our lives, from the way we think to how we earn a living.

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[1]Mark Overton, "Re-Establishing the English Agricultural Revolution," *Agricultural History Review* 44, no. 1 (1996):1.

[2]Gregory Clark, *A Farewell to Alms* (Princeton, NJ: Princeton University Press, 2000), 231.

[3]Carroll Quigley, *Tragedy and Hope: A History in Our Time* (New York: Macmillan, 1966), 17.

Globalization has had strong historical roots dating back several thousand years, with convergence trends accelerating across social, cultural, political, and business lines.[4] Internationalization hastened in the latter part of the 19th century measured by key metrics, included foreign trade and overseas investment.[5] While the world today continues to become more unified, it has been far from a linear line, with periods of deep intersection and wide disintegration in between. Many historians mark the first great wave of globalization in the modern era from 1870 to 1914.[6] In fact, some would contend that the world is less globalized today versus a hundred years ago with less unification around key areas, including human migration, capital flows, ability to invest abroad and property rights, to name a few.[7]

By the start of World War I, the United States was an economic superpower benefiting from globalization trends.[8] Buoyant international trade from manufacturing was the key contributor to the growth—manufactured goods represented 20 percent of U.S. exports in 1890, rising sharply to roughly 50 percent by 1913.[9] US large-cap multinationals were a leading driver of the manufacturing export growth, as they were

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[4]Mauro F. Guillen, "Is Globalization Civilizing, Destructive or Feeble? A Critique of Five Key Debates in the Social Science Literature," *Annual Review of Sociology* 27 (Aug., 2001): 236.

[5]Ibid., 237.

[6]Sisay Asefa, *Globalization and International Development: Critical Issues of the 21st Century* (Kalamazoo, MI: Western Michigan University, 2010), 6.

[7]Geoffrey Jones, "Globalization," in *The Oxford Handbook of Business History*, ed. Geoffrey Jones and Jonathan Zeitlin (Oxford: Oxford University Press, 2008), 152.

[8]Robert Fitzgerald, "Marketing and Distribution," in *The Oxford Handbook of Business History*, ed. Geoffrey Jones and Jonathan Zeitlin (Oxford: Oxford University Press, 2008), 401.

[9]Douglas A. Irwin, "Explaining America's Surge in Manufactured Exports, 1880-1913," *Review of Economics and Statistics* 85, no. 2 (2003): 364.

now the dominant business in organizing economic assets in the US. In fact, the largest 100 US corporations controlled 40% of US industrial capital by 1905 after increasing their average size four times in just ten years given the great consolidation movement at the turn of the century and would continue to gain share in the years to come.[10] The role of large-cap US multinationals was pivotal on multiple fronts, ranging from developing an infrastructure used for a more productive global economy such as telegraph stations and gas utilities[11] to transferring more intangible benefits such as organization capabilities in running a multiunit operation across borders.[12] These large multiunit organizations were also the principal coordinators of trade, investment, and knowledge abroad.[13] Large-cap multinational corporations remain the dominant form to organize economic assets today with their investment continuing to grow faster compared with world exports or output.[14]

One of the most powerful historical themes over the last few centuries has been the role of business in integrating economies. Leading business historians such as Alfred Chandler, Geoffrey Jones, and Mira Wilkins have been grasping with the development of the multinational, its societal impact and also tied these companies into larger themes such as globalization.[15] The significance of the US multinational corporations becoming

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[10]Jeffery Barbour and David Bunting, "Interlocking Directorates in Large American Corporations, 1896-1964," *Business History Review* 45, no. 3 (Autumn, 1971): 317.

[11]Jones, "Globalization," 156.

[12]Ibid., 145.

[13]Geoffrey Jones, *Multinationals and Global Capitalism* (New York: Oxford University Press, 2005), 285.

[14]Ibid., 150.

[15]Ibid., 142.

the dominant form of doing business at the turn of the 20th century has been looked at extensively, showcasing the evolution of the companies being the byproduct of rapidly expanding production, the great merger and acquisition wave, and effective organization in dealing with government regulation and laws, to name a few. The development of US large-cap multinationals has also been looked at with in-depth case studies discussing their singular evolution including works on Coca-Cola, Standard Oil, and US Steel.

However, what has yet to receive adequate attention has been both the advancement of the large-cap US multinational corporation internal organization and external operating environment driven by an outside group of purposeful actors. My research question centers on how a leading private institution helped further develop both the large-cap US multinational corporation extrinsic global infrastructure and internal organization, focusing primarily during the years of 1895-1913. I selected the 1895-1913 time frame, which saw the large-cap US multinational corporation further assert its role as the dominant form of business, increasingly taking on its current structure. I am attempting to fill that void left by previous scholars concentrating on a specific timeframe during which the large-cap US multinational came into greater prominence. The set of issues focuses on how a private institution helped develop the US multinational corporations internal business structure and also external operating environment.

I focused on the leading US merchant banking firm who as by nature of its business, is deeply a part of the global economy macro structure and is also pivotal in individual large-cap corporate formation. Business scholars around the turn of the 20th century have near unanimity that merchant banks were the most influential on the broader economy among the various sectors and the most powerful in shaping other industries

within the US.[16] Merchant banking was the most integrated industry with the rest of the corporate sectors as shown through various measures, including their dominant interlocking board representation.[17] The most preeminent of private merchant bankers served effectively as the US central bank, financial ambassadors to leading foreign dignitaries, and facilitators of global trade. These same unincorporated institutions were chief in US's large-scale corporate formation, from attracting necessary financial capital to placing individuals on the boards to overseeing management thereafter.

The firm on which I choose to focus for this study within the world of private merchant banking, given its leading position within the global economy and in developing US large-cap corporations during the period was the venerable House of Morgan.[18] The title of my investigation is: *How the House of Morgan Cooperated to Develop the Large-Cap US Multinational Corporation, 1895-1913*. My research intends to explore how a private organization is able to both help shape the macro framework for the large-cap corporations in which to operate and also to structure an organization to conduct business. The start of World War I was a watershed year for globalization that we still today have not yet replicated in many ways; as the preceding twenty years were instrumental in projecting one of the most integrated worlds we have ever seen. Neither the free markets nor the governments were the primary driver for booming trade and ample capital investment that was aiding in integrating the world, but multinational

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[16]Mark S. Mizruchi, "Relations Among Large American Corporations, 1904-1974," *Social Science History* 7, no. 2, The American Corporate Network, 1815-1974 (Spring, 1983): 165.

[17]Ibid., 173.

[18]Jean Strouse, *Morgan: American Financier* (New York: Random House, 1999), 4.

firms.[19] Understanding how the US large-cap multinational corporation formed, we get a considerably better grasp, all in all, of an economic framework of the world for the time. As the dominant profitable engine for the world's largest economy by 1913, the society under which we lived had much to do with corporate key objectives and was shaped by their multilayered influence in the cultural, political, and social parts of society. The world at the turn of the 20th century, which was still profoundly influenced by the British Empire, its influence in the formation of the US large-cap multinational corporation, and broader macro environment, will be illuminated. Were the strategies employed in developing the large-cap US multinational corporation done in isolation within the financial industry or did it involve the effective use of cooperation of the larger whole societal structure are points on which I will elaborate.

The progression of the US multinational corporation in the United States during the end of the nineteenth into the early twentieth century did not happen in a vacuum and can be best accessed through an interdisciplinary review within this report. This provides a simple external macro and internal corporate framework for assessing how the House of Morgan further developed the large-cap US multinational corporation. I will spend the first half of the research report elaborating on the macro infrastructure that provides the overarching framework for a functioning economy. First, fostering trust is essential as the ground floor from which to build a super structure. Governments are an important determining factor for what type of business structure will evolve as they set the rules of the land for how new organizations will be allowed to start/fail, and how they impact the flow of transactions through laws regulating trade both within and outside the nation. The

[19]Jones, *Multinationals and Global Capitalism,* 285.

monetary system is vital as it will determine how much financing will be raised, the nature of investors, and where will they invest. Lastly, I shall address the leading role London had to play in all aspects of US corporate development.

In chapter two, I shall discuss what was the foundation that allowed the early 20th-century economy to be remarkably integrated given little formal protections and information, the importance of social standing, the distinct ways an individual can enhance one's position in society and shall give a backdrop as to why merchant banking possessed such a high barrier to entry. I shall provide a backdrop as to the reason for the need to develop the US multinational corporation in further support of a broader community of interests. In chapter three, I shall go over London's importance on financial markets in the US, the major economic centers, how the House of Morgan was organized and its preceding illustrious history. I shall further seek to answer the role that cooperative finance played in developing the large-cap multinational corporation. In chapter four, I shall discuss how Washington's political decisions locally and abroad influenced the development of the corporation, such as how regulation, tariff enactment or state incorporation laws affect the economic organization by companies. Given the scale and scope of the British Empire and its tight relationship with the United States and influence it had in shaping the US multinationals will be looked at as well. Who was the lender of last resort and why was the promotion of an integrated economy on sound currency important for business development will also be discussed.

The second half of my investigation drills down to the other half of my framework: how the companies uniquely were structured to function in the global economy, discussing the ownership, operations and financing of the organizations.

Broadly, for large-cap multinationals, the shareholders are the owners of the entities with the board of directors representing their interest. From a legal perspective, a multinational corporation is a separate legal entity that limits the liability of the owners while binding the company to the various contracts it enters under different jurisdictions globally. Large-cap US multinationals at the turn of the 20th century had multiple distinct product lines with a hierarchy of paid managers who tended to have little ownership in the company. The selected management team executed the board's vision, and employees implemented management orders. Financing tended to come from external sources, such as local banks and for larger capital requirements international private merchant banks. The US large-cap multinational corporations at the turn of the 20th century increasingly conducted operations in more than one country. This can be accomplished by having production, retail or a wholly owned subsidiary, operating overseas. Organizations increasingly focused on employee relations, research and development, and their public image as well as progressively submitting financial information to internal and external decision makers.

In chapters five and six, I will answer the question of how the House of Morgan was able to advance the structure of the actual large-cap organization and with specific case studies. In chapter five, I will seek to answer how the House of Morgan helped develop and the role it played in the US multinational corporation's most enduring features. This includes how companies grow remarkably large with multiple different units, what strategy did companies use in expanding overseas, what role boards play in separation of owners and managers, why was reliable information so valuable for internal and external decision makers, what and why were new corporate incentives being

developed. In chapter six, I shall go more in-depth on focused case studies of large-cap US multinationals, illuminating the questions I asked earlier, namely, how US Steel, International Harvester, General Electric and International Mercantile Marine were organized by the House of Morgan. In chapter seven, I will tie up the key themes of the report and elaborate on my central thesis. However, first in the next three chapters I will discuss how the House of Morgan garnered the necessary social, financial, and political capital throughout the broader society, which was instrumental in laying down an overarching framework for large-cap US multinationals in which to operate.

Chapter II

House of Morgan Social and Cultural Capital

The House of Morgan partners were possessors of nearly unmatched social and cultural capital in the United States. The aggregate reputation of the House of Morgan's partners would directly correlate to the standing of the firm in the broader society, how much financial capital they could ultimately leverage for their clients and explain why industry barriers were untimely quite high in merchant banking. The typical Morgan partner family descended from wealthy origins in Great Britain centuries ago, grew up on the Eastern Seaboard, were Episcopalian, and if pursuing a college degree, did so overwhelmingly in Ivy League schools. Kinship was an important part of being a member in the firm, while being in the right social clubs greatly helped your chances to do business with one another. They organized the US Independence, governed states, ran central banks, and directed the moral compass through religious revival movements. They wanted to preserve and extend the rich tradition to the masses and were in positions of power to do so utilizing a cooperative approach. Being a benefactor of preeminent culture was normal in preserving the hierarchical structure as was providing relief for the downtrodden masses, which further extended their Anglo tradition's influence. The House of Morgan's involvement in education, from recruiting from the world's finest universities such as Harvard to financially supporting free public education to sons of slaves in the South was very consistent with its overall belief in social standing and accompanying moral responsibility. Trust was the building block for all business

opportunities as a merchant banker, which took generations to build and provided a steep entry level to budding merchant bankers.

Trust in Business

Famed political economist Francis Fukuyama has argued that nations can build organizations and social infrastructures that are trustworthy to allow for productive economic organizations to be built.[20] In high-trust societies, trust is extended beyond the family with bigger organizations being able to develop—such as the large-cap US multinational—largely efficient organizations that are more reliable to deliver on a given outcome. Trust being dependent on confidence in prior actions is a predictive force for future behavior. The United States today, based on a continuous rule of law, and institutionalized through an extensive legal system, allows for a fairly predictable large-scale capital investment environment to thrive. The trust in the United States has developed quite differently compared with that of the 19th-century British Empire. In London, confidence was underpinned largely by the person's word, whereas the trust in the US today is fostered in the confidence that the extensive legal code will be respected and not continually altered. In the US, however, at the turn of the 20th century, business was built, functioned, and depended on trust in the character of the parties given limited formal protections to enforce contracts locally let alone globally. This in turn has allowed organizations in different economic spheres to build upon that broader societal trust.

How did business get done locally, yet alone maintain a globally interconnected economy? At the turn of the 20th century, the British business model of gentlemen

[20]Francis Fukuyama, *Trust: The Social Virtues and the Creation of Prosperity* (New York: Free Press, 1996), 2.

merchant banking ruled the day and allowed for a global economy to flourish. At the core, business was personal and the better you knew someone or respected his underling community standing a corresponding increase of confidence in a given transaction occurred. To limit risk, there were high barriers of entry for merchant bankers given lack of formal protections for domestic contracts and international transactions.[21] With the economy built on trust among the partners of exclusive merchant banks, they facilitated the world-wide economy by investing their social, cultural, financial, and political capital built up over generations. Capital is commonly discussed in terms of materialistic forms such as money and labor. Still, social capital, for example, is immensely important to a functioning economy in aiding activity as it inheres in the structure of relations between the various parties within an economy.[22] The societal capital built upon trust allowed merchant banks to serve their primary role, applying cooperation to obtain their objectives. Dealing with people with whom you are related, with whom you are in the same social clubs, or with whom you share religious beliefs will allow for shared norms and comparable world views. Nevertheless, even if two opposing groups are in very different social circles such as German-Jewish and Anglo-American bankers, cooperation is still the preferred option over competition in many cases. This is because both groups are underpinned by an analogous moral obligation that they are the stewards of a broader community and need to support the community interest even if it means cooperating with people not in the same social circle.

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[21]Susie Pak, *Gentlemen Bankers: The World of J.P. Morgan* (Cambridge, MA: Harvard University Press, 2013), 14.

[22]James Coleman, "Social Capital in the Creation of Human Capital," *American Journal of Sociology* 94 (1988): S98.

The House of Morgan built up a substantial amount of cultural and social capital given preeminent standing of the partners within society, its illustrious business history, being benefactors of high culture and facilitating world-wide business transactions.[23] Merchant banks through their established name allowed budding large-cap US multinational's ability to settle their transactions given the good faith that the private bankers forged over time and with it the predictability that the intended transaction would be honored. Merchant bankers assumed a moral responsibility with the investing public, and the banker's character and reputation were a preeminent concern.[24] The amount of credit to which the merchant bank had access was in essence, a barometer for its reputation. The community trust and high esteem bestowed to the House of Morgan comes from a record of success, strong financial resources but even more importantly the high character of the partners.[25] The public at large entrusted bankers with great influence, however, if confidence for the underlying merchant bank is tainted, that community power would be quickly lost.[26]

The House of Morgan abided by a code passed down from London merchant bankers honed over centuries and governed by rules not defined by a sovereign state, but a wider interlocked community where personal responsibilities for their clients and

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[23]Ibid., S100.

[24]Jules I. Bogen and Parker H. Willis, *Investment Banking* (New York: Harper & Brothers, 1929), 31.

[25]Pak, *Gentlemen Bankers*, 14.

[26]J. Bradford DeLong, "J.P. Morgan and His Money Trust," in *Inside the Business Enterprise: Historical Perspectives on the Use of Information,* ed. by Peter Temin (Chicago: University of Chicago Press, 1991), 216.

partner reputation outside the business community were paramount.[27] Business was not just measured in dollars and cents, but honor and responsibility as well directed future transactions. Central to this belief was that the House of Morgan's partners' financial capital was not the most important asset but was instead an impeccable reputation of the partners and their related high social standing, which was reflected in accumulated social capital. The House of Morgan was aware of the importance of trust in their investment dealings, which was shown in three consecutive generations of Morgans leadership. John Pierpont (J.P.) Morgan expressed that integrity was the central glue that held the world of private banking together and allowed for effective global operations.[28] This belief was passed down from J.P. Morgan's father who highlighted that being of high character made good long-term business sense.[29] And J.P. Morgan passed down the same belief to his son Jack Morgan, who believed that strong character was more important than ample financial collateral for private bankers success.[30] The reason why the leaders of the House of Morgan's stress on eminent character and reputation as a trusted broker is incredibly sensitive. Having built-up years of esteemed dealings and sufficient market share can be lost in an unusually short time if the perception of the trustworthy organization is lost.[31] Social capital is not just based on a formidable business reputation, but the genesis comes

[27]Pak, *Gentlemen Bankers*, 20.

[28]Carosso, *The Morgans*, 11.

[29]Strouse, *Morgan*, 77.

[30]Carosso, *The Morgans*, 2.

[31]DeLong, "J.P. Morgan and His Money Trust," 209.

from several factors. Family heritage is one of the most relevant, the longer your blood line goes back to people in distinguished social standing the higher your position.

Family Heritage

The fact that companies were arranged along family lines in most of the 19th century is not surprising when one considers the few formal structures in place for doing business.[32] Merchant banks even more so were comprised of family members given the built-in basis for trust to build a foundation to draw capital and talent in future generations.[33] This was clear not only with Anglo-American bankers, but even more so with German-Jewish. For Kuhn Loeb & Co., 100% of the partners were related to one another until 1912, the partners of Goldman Sachs & Co. were until 1915, and those of Lehman Brothers until 1924.[34] Family connection was important for the House of Morgan as well with roughly 50% of partners having kinship ties from 1895 to 1900.[35]

The Morgan partners' families held leading places in society for many generations with distinguished American families who were well represented in the partnership ranks, including Astor, Hamilton, Morgan, Winthrop and Whitney to name a few. The typical Morgan partner family descended from wealthy origins in Great Britain during the early 17th or 18th century to America and predominately successful farmers, merchants or those who took up leading religious vocations. They grew up on the Eastern

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[32]Youssef Cassis, "Big Business" in *The Oxford Handbook of Business History,* ed. by Geoffrey Jones and Jonathan Zeitlin (Oxford: Oxford University Press, 2008), 180.

[33]Pak, *Gentlemen Bankers*, 48.

[34]Ibid., 81.

[35]Ibid., 49.

Seaboard, were high Episcopalian religiously, attended the most elite boarding schools in the Northeast, and pursued college degrees overwhelmingly in Ivy League schools. Culturally, they were cosmopolitan with staunchly anglophile sentiment.

As I am about to detail within the thesis, the family history of the House of Morgan's partners was both illustrious in their countries of origin but critical to the formation of the United States. In the British Empire, they possessed distinguished titles, were in the most mandarin of political circles, leading merchants, religious heads and central bankers. Their work in the Americas preceded, oversaw, and managed the creation of the United States. This can be shown from founding several colonies turned states to leading a war for Independence. They guided the moral compass for the US's leading religious movements and founding of formidable religious organizations. Economically, they were the key architects behind the first and second US central banks to being the leading merchants of the era. Many of the US finest Ivy League schools' histories tie directly with the preceding relatives from the House of Morgan.

The House of Morgan's families were the early pioneers to America, which was clearly evident from the leading family of the venerable merchant bank. The first Morgan to arrive in America was less than a generation removed from the initial European settlers at Plymouth and the family held leading positions within civic society on the maternal side and within business on the fraternal side.[36] J.P. Morgan's relatives on his maternal side included religious revival movement Great Awakening champion Jonathan

[36]Ron Chernow, *The House of Morgan: An American Banking Dynasty and the Rise of Modern Finance* (New York: Atlantic Monthly Press, 1990), 19.

Edwards,[37] James Pierpont who founded Yale University,[38] Thomas Hooker, who today is also known as the "Father of Connecticut,"[39] women's rights activist Emma Willard, who founded the first school for women's higher education[40] and former US Vice President Aaron Burr.[41] While J.P. Morgan's fraternal side of the family had a strong track record in business as farmers in New England.[42] The grandfather of J.P. Morgan, Joseph Morgan, built on the previous success, launching other winning companies including the Aetna Insurance Company[43] and had an estate valued over $1 million dollars by the time of his passing in 1847.[44]

Eugene Winthrop who was a partner in Morgan's Paris operation for more than twenty years until his death in 1893 descended from one of the leading families.[45] The Winthrop's influential family includes John Winthrop (1588-1649), who founded the

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[37]George M. Marsden, "Jonathan Edwards, the Missionary," *Journal of Presbyterian History* 81, no. 1 (Spring, 2003): 8.

[38]Ann Marie Gormely, "Reverend James Pierpont: New Haven and the Founding of Yale, 1659-1714" (Masters diss., Southern Connecticut State University, 2006), 50.

[39]Andrew Thomas Denholm, "Thomas Hooker: Puritan Teacher, 1586-1647" (PhD diss., Hartford Seminary, 1961), 25.

[40]Diane Claire Wood, "The Cultural and Intellectual Origins of Emma Willard's Educational Philosophy" (PhD diss., San Jose State University, 1991), 14.

[41]Suzanne Burr Geissler, "The Burr Family, 1716-1836" (PhD diss., Syracuse University, 1976), 55.

[42]Carosso, *The Morgans,* 15.

[43]Ibid., 18.

[44]Ibid., 26.

[45]Dan Rottenberg, *The Man Who Made Wall Street: Anthony J. Drexel and the Rise of Modern Finance* (Philadelphia: University of Pennsylvania Press, 2001), 191.

Massachusetts Bay Colony in 1630,[46] John Winthrop, the Younger (1606-1676), who was one of the founders of the Connecticut Colony and a founding member of England's Royal Society,[47] and had many leading politicians through the following generations who bore the Winthrop name. Robert Bacon's family, a leading New York partner, was among the beginning settlers of Massachusetts;[48] in fact, his family history stretches back to leading followers of William the Conqueror in 1066 and included generations of noblemen holding prominent positions, including chief commanders in war in London and equivalent to Lord Chancellor's role.[49] Robert Bacon's wife Martha was a leader in the nonprofit sector, especially shining during World War I, given her leading work with ambulance corps and hospitals, having been awarded the French Legion of Honor.[50]

George S. Bowdoin's family came to Boston in 1690. The Bowdoin family was among the wealthiest in Massachusetts, including a governor, president of Massachusetts Constitutional Convention, first president of the American Academy of Arts and Sciences, benefactor of the Bowdoin College and international delegates with France and Spain. George Bowdoin's wife, Julia, was the daughter of Moses H. Grinnell, Congressman, Collector of the Port of New York and a Commissioner of New York

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[46]Walter William Woodward, "Prospero's America: John Winthrop, Jr., Alchemy, and the Creation of New England Culture (1606-1676)" (PhD diss., The University of Connecticut, 2001), 1.

[47]Ibid., 2.

[48]Pak, *Gentlemen Bankers*, 49.

[49]Sallie Jouett James, "History of the Bacons," *Register of Kentucky State Historical Society* 2, no. 6 (Sept., 1904): 32.

[50]"Mrs. Robert Bacon 80 is Dead," *New York Herald Tribune*, Nov 13, 1940, http://search.proquest.com.ezp-prod1.hul.harvard.edu/docview/1263706411?accountid=11311.

City's Central Park.[51] George W. Perkins' family was among the first settlers of Massachusetts in 1631 and his father was a pioneer in the life insurance industry.[52] The original head of the House of Morgan, George Peabody, common ancestor from Hertfordshire, England, came to the United States in 1635, while from the poorer side of the family was still a part of a long-established family line.[53] Thomas W. Lamont's family arrived in America in 1750, fought in the Revolutionary War, and had been leading local religious leaders such as his father Reverend Thomas Lamont.[54] New York partner William Pierson Hamilton was the grandson of Alexander Hamilton and married Juliet Pierpont Morgan, J.P. Morgan's daughter.[55] Henry P. Davison's wife, Mrs. Kate Trubee, was a leading supporter of the Red Cross, a patroness of music education, and started an education scholarship program.[56]

London partners also equaled historic families and preeminent married ties. Edward Charles Grenfell had solid family banking, political, merchant, and aristocratic connections.[57] This included leading developers in Latin American railroads, British

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[51]"George S. Bowdoin Dead at 80 Years," *New York Tribune,* Dec 17,1913*,* http://search.proquest.com.ezp-prod1.hul.harvard.edu/docview/575190166?accountid=11311.

[52]"Career: of Perkins Closed. Financier Succumbs to Nervous Breakdown," *Cincinnati Enquirer*, Jun 19,1920, http://search.proquest.com.ezp-prod1.hul.harvard.edu/docview/866669838?accountid=11311.

[53]Kathleen Burk, *Morgan Grenfell 1838-1988: The Biography of a Merchant Bank (*New York: Oxford University Press, 1989), 1.

[54]Edward Lamont, *The Ambassador from Wall Street: The Story of Thomas W. Lamont J.P Morgan's Chief Executive* (Lanham, MD: Madison Books, 1994), 5.

[55]"W. Pierson Hamilton Retires," *Wall Street Journal*, Jan 2, 1922, http://search.proquest.com.ezp-prod1.hul.harvard.edu/docview/130075631?accountid=11311.

[56]"Mrs. Henry P. Davison Dies," *New York Herald Tribune*, Feb 1, 1962, http://search.proquest.com.ezp-prod1.hul.harvard.edu/docview/1325835604?accountid=11311.

[57]Marquise De. Fontenoy, "House of Grenfell Long Prominent," *Washington Post*, Aug 23, 1913. http://search.proquest.com.ezp-prod1.hul.harvard.edu/docview/145250880?accountid=11311.

bankers, directors of the Bank of England, parliament members, governor of the Royal Exchange Assurance company, President of Thames Conservancy Board for over thirty years, and family who are connected via marriage with London's most prestigious blood lines, including Marlborough, Portland, and St. Albans.[58] Vivian Hugh Smith had leading political relatives in parliament and the Bank of England and also a strong business line. The son of Hugh Colin Smith owner of Hay's Wharf, the largest wharfage enterprise in London and grandfather who was John Able Smith was founding partner of Jardine, Matteson and Co., the largest of the foreign trading companies in China.[59] Charles Frederick Whigham, older brother of Sir Robert Whigham, was a general in the British Army.[60] Another brother, George Whignam, was a chairman of the board of the Celanese Corporation and another sibling, Walter Kennedy Whigham, was director of the Bank of England.[61]

The Philadelphia arm of the House of Morgan was dominated by the Drexel family before its merger, one of the most preeminent family lines in the US. They were related to the Astors, Biddles, Dukes, Ingersolls, Mellons, Roosevelts, Vanderbilts, Whartons, Whitneys, Wyeths, and British nobility to name a few.[62] Arthur Newbold's wife, Harriet Dixon, was the granddaughter of George Mifflin Dallas, erstwhile U.S. vice president under President James Polk, US Senator, private secretary Albert Gallatin,

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[58]Ibid.

[59]"Lord Bichester Dies at 88," *New York Herald Tribune*, Feb 18, 1956, http://search.proquest.com.ezp-prod1.hul.harvard.edu/docview/1328102616?accountid=11311.

[60]"British Banker Dies in Hunting Accident," *New York Times*, Feb 13, 1938, http://search.proquest.com.ezp-prod1.hul.harvard.edu/docview/102700403?accountid=11311.

[61]Ibid.

[62]Rottenberg, *The Man Who Made Wall Street*, 177.

counsel to Second Bank of the United States and former US ambassador to Great Britain under Franklin Pierce.[63] Her great grandfather Alexander James Dallas was Secretary of Treasury and War under James Madison.[64] James W. Paul Jr.'s sister was Mrs. William Waldorf Astor and also a member of the Biddle family.[65] Edward T. Stotesbury's wife, Mrs. Eva Roberts, received the Medal of Honor from France during World War I. She along with her husband were social leaders in Palm Beach, holding exclusive parties regularly.[66] In general, no matter where the location, the firm had been the leading supporters financially for the Episcopalian Church, which tended to be the faith of the wealthy and powerful. The House of Morgan would serve their clients and business interests with a high degree of moral responsibility, which can be partly traced to the role of religion in their lives.

Religion

The House of Morgan saw itself as the moral conscience for business. It is not surprising that sons of preachers would be attracted to the firm.[67] Morgan's partners were leading members of the Episcopalian Church nationally—US-based member of the Anglican community—which dominated its partnership ranks with thirteen out of

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[63]"Death of Hon. George Mifflin Dallas," *Sun,* Jan 2, 1865, http://search.proquest.com.ezp-prod1.hul.harvard.edu/docview/533784619?accountid=11311.

[64]Pak, *Gentlemen Bankers*, 49.

[65]"James W. Paul Dead," *Washington Post,* Sep 26, 1908, http://search.proquest.com.ezp-prod1.hul.harvard.edu/docview/144813480?accountid=11311.

[66]"Mrs. Edward T. Stotesbury Dies At Her Palm Beach Home at 81," *New York Herald Tribune,* May 24, 1946, http://search.proquest.com.ezp-prod1.hul.harvard.edu/docview/1284525474?accountid=11311.

[67]Chernow, *House of Morgan,* 19.

eighteen American partners from 1895 to 1913 being Episcopalian.[68] Morgan's ancestors' role in many of the US leading religious movements is quite remarkable. Morgan's great-grandfather Jonathan Edwards was the leader of the First Great Awakening in US evangelical religious revival back in the mid-18th century.[69] Reverend Pierpont also on his maternal side led radical causes for the time ranging from the abolition of slavery to the education of girls.[70] Anthony J. Drexel, whose family in Philadelphia was leading pillars of the Church of the Savior, an Episcopalian Church, was the uncle of Katharine Drexel, who became a Saint in the Roman Catholic faith given her work in promoting quality education and social equality for minorities.[71] Thomas Lamont's father was a prominent Methodist minister, while George C. Thomas' nephew was rector of the largest Sunday school in Philadelphia, Church of the Apostles.[72]

As one of America's most influential Episcopal laymen, J.P. Morgan in his own way as would many of his partners would continue to have a moral responsibility and sense of duty from religious tradition applied to the business world.[73] J.P. Morgan would be the largest benefactor to the venerable Episcopalian Church in New York, bringing on Reverend William Rainsford's intent to focus on social justice such as fighting poverty in

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[68]Pak, *Gentlemen Bankers*, 58.

[69]Joseph Conforti, "The Invention of the Great Awakening, 1795-1842,"*Early American Literature* 26, no. 2 (1991): 100.

[70]Strouse, *Morgan*, 18.

[71]Rottenberg, *The Man Who Made Wall Street*, 117.

[72]"George C. Thomas Dead," *Sun*, Apr 22, 1909, http://search.proquest.com.ezp-prod1.hul.harvard.edu/docview/537679364?accountid=11311.

[73]Chernow, *House of Morgan*, 51.

city slums, promoting public health issues, and supporting workers' rights.[74] Morgan's lead was followed by many other partners. George S. Bowdoin was a leading donor of St. John the Divine;[75] Arthur Newbold was on the Commission of Episcopal Church, Charles Steele was a senior warden and supporter of St Thomas Church and Protestant Episcopal Church,[76] and George W. Perkins was a chief supporter of the Young Men's Christian Association.[77] Anthony J. Drexel was a leading benefactor of Episcopal bishop Henry C. Potter, the founder of the eventual US's largest Church, St John the Divine.[78]

While kinship and religion were an important part of being a member in the firm, being in the right social clubs greatly helped your chances of getting recruited by the House of Morgan. Social norms, etiquette, ethics, and world view are remarkably impacted by one's upbringing and coming from a shared background fostered closer relations. All the partners but one in New York lived within only a four-block radius of each other and raised their families together, enhancing the tight bonds.[79] Social ties in exclusive clubs is a decisive factor of one's standing given the difficulty of getting into these clubs and the personal time spent with other folks of illustrious standing. Business was very personal in merchant banking and the elite social clubs promoted tighter bonds.

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[74]Strouse, *Morgan*, 219.

[75]"George S. Bowdoin Dead at 80 Years," *New York Tribune,* Dec 17,1913, http://search.proquest.com.ezp-prod1.hul.harvard.edu/docview/575190166?accountid=11311.

[76]Pak, *Gentlemen Bankers*, 49.

[77]"Career: of Perkins Closed. Financier Succumbs to Nervous Breakdown," *Cincinnati Enquirer*, Jun 19,1920, http://search.proquest.com.ezp-prod1.hul.harvard.edu/docview/866669838?accountid=11311.

[78]Rottenberg, *The Man Who Made Wall Street*, XII.

[79]Pak, *Gentlemen Bankers*, 67.

Social Clubs

Social clubs were a mainstay in England and an integral part of merchant banking—shown by preeminent bankers' involvement, including Sir Ernest Cassel, Lord Rothschild or Lord Revelstoke.[80] The leading businessmen in the US also belonged to the elite social clubs. George F. Baker, James Stillman, and William K. Vanderbilt had more than eight social clubs in common with J.P. Morgan.[81] Similar to leading London bankers, all the partners in the House of Morgan had generally significant representation in most prestigious social clubs, which further ascribed high social status to its members.[82] Ties between the leading partners of the most mandarin merchant banks went back several generations in the small world of banking.[83] After kinship, having strong social circles to recruit new partners or conduct business in far-off lands was pivotal for the time. Having shared values within social norms, religion with similar friends was prime grounds for recruitment within a merchant banking firm.[84]

Being a leading partner at the House of Morgan and the number of social ties were very much correlated, and high social capital was valued to the firms overall identity.[85] Club membership was an important part of the merchant bank's operations as

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[80]Herbert Feis, *Europe The World's Banker1870-1914* (New York: Augustus M. Kelley, 1964), 87.

[81]Ibid., 69.

[82]Pak, *Gentlemen Bankers*, 68.

[83]Carosso, *The Morgans*, 11.

[84]Ibid., 10.

[85]Pak, *Gentlemen Bankers*, 75.

it helped to cultivate clients and to keep strong ties within its broader community.[86] Social clubs were also of vital importance as it signified that a member was a part of a select community with high social standing. It was a good gauge so without even knowing a person you could be fairly certain they had similar values and world views.[87] Morgan partners belonged to these most privileged clubs, including J.P. Morgan's membership to nineteen private clubs, which included co-founding the Metropolitan Club.[88] Even the Morgan partner wives and daughters were a part of posh social clubs. The Colony Club for women had all of Morgan's female relatives. Daughter Anne was one of the founders and a treasurer.[89]

The importance of the social clubs from a business standpoint can be seen in its preeminent role in business history for the time. The most influential private partnership creation, the largest public corporation organization, the handling of a financial panic, and the construction of the US central reserve were all partly conceived at a social club. House of Morgan announced its formal partnership in a social club when Morgan had all of his American partners for dinner at the Metropolitan Club and reorganized under a new partnership agreement at the start of 1895.[90] The conception of US Steel also happened at a social club when Carnegie Steel's president Charles Schwab gave a

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[86]Ibid., 75.

[87]Ibid., 71.

[88]Chernow, *House of Morgan*, 47.

[89]Pak, *Gentlemen Bankers*, 71.

[90]Strouse, *Morgan,* 334.

compelling speech to many senior bankers, including J.P. Morgan in December 1900.[91] Full-blown financial panic in 1907 was averted due to the work conducted in social clubs. J.P. Morgan and other key partners would meet regularly every night at the Union League Club to come up with a solution.[92] J.P. Morgan and other leaders in New York started a social club off the coast of Georgia, the Jekyl Island Club. In November 1910, five of the leading private bankers, Senator Nelson Aldrich and a US Treasury official met to discuss plans for central banking and laid the framework of what would become the Federal Reserve System.[93]

The House of Morgan, supporting and developing leading social clubs in the leading commercial city in the US extended naturally to culture as seen in ancient Athens, Renaissance Florence and London of the 19th century. It was not just some of the era's most important deals that happened at social clubs, given that financial syndicate members were still a part of the same clubs. Regular deals were in addition to being discussed with key external partners, with roughly 80% on average of syndicate partners belonging to the prestigious Social Register from 1900 to 1925.[94] While social clubs were an instrumental part of building up social capital and conducting business, Morgan took the strategy to the sea by being one of the leading yachtsmen worldwide. In 1882, J.P. Morgan joined the New York Yacht Club and purchased the first of several gigantic yachts, which served as a meeting place for business transactions and for settling

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[91]Carosso, *The Morgans*, 468.

[92]Pak, *Gentlemen Bankers*, 72.

[93]Strouse, *Morgan*, 362.

[94]Pak, *Gentlemen Bankers*, 76.

disputes.[95] This included settling a major railroad dispute of the Pennsylvania Railroad and New York Central known as the "Corsair Compact" in 1885.[96] Whether, it was on land or by sea, the elite social circles were predominantly filled with individuals from the finest Ivy League colleges. Supporting and attending the Ivy League schools was very much a part of the House of Morgan's tradition in building up its social status.

Education

When it comes to being benefactors to education, the Morgan family and partners have a long legacy few could match. On J.P. Morgan's maternal side of the family, at the start of the 18th century, minister James Pierpont after attending Harvard College founded Yale College.[97] Also on the maternal side, the Reverend Aaron Burr Sr. soon after founded the College of New Jersey (Princeton University), while his forefathers were among the earliest of pioneers in promoting public education in the American colonies.[98] Also on J.P. Morgan's maternal side, women's rights activist Emma Willard founded the first US school for women's higher education, the Troy Female Seminary. Other universities of higher learning were founded by Morgan's partners families. Tony Drexel founded Drexel University and a medical school.[99] The George S. Bowdoin

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[95]Chernow, *House of Morgan*, 53.

[96]Carosso, *The Morgans*, 256.

[97]Benjamin Woodbridge Dwight, *The History of the Descendants of John Dwight, of Dedham, Mass* (New York: John F. Trow & Son, Printers and Bookbinders, 1874), 1056.

[98]Suzanne Burr Geissler, "The Burr Family, 1716-1836" (PhD diss., Syracuse University, 1976), 55.

[99]Rottenberg, *The Man Who Made Wall Street*, 153.

family originally endowed Bowdoin College in Maine.[100] Columbia University, the University of Pennsylvania, and Yale were also well endowed by the House of Morgan financially.[101] Arthur Newbold's was a trustee of the University of Pennsylvania.[102]

Of all the Ivy League schools, Harvard received the strongest support from the House of Morgan, which had a social hierarchy similar to the one on display in Gilded Age New York.[103] House of Morgan's partners Robert Bacon, Thomas Lamont, and Jack Morgan had served as members of Harvard University Board of Overseers.[104] George Peabody would continue the generosity towards higher education by endowing an archaeology museum at Harvard and also a natural history museum at Yale University.[105] Thomas Lamont, likewise, financed the main undergraduate library at Harvard.[106] Lamont also played the leading role in convincing Morgan's closest ally George Baker of First National to fund the Harvard Business School campus.[107]

While many of the elder Morgan partners did not attend any college, Harvard University would have an especially increasing role in the firm's makeup and prestige

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[100]David P. Becker, "James Bowdoin's Drawing Collection," *Master Drawings* 38, no. 3, Drawings in American Museums (Autumn, 2000): 223.

[101]Quigley, *Tragedy and Hope*, 937.

[102]"Arthur E. Newbold, Noted Financier, Dies Unexpectedly," *New York Tribune*, June 11, 1920, http://search.proquest.com.ezp-prod1.hul.harvard.edu/docview/576236673?accountid=11311.

[103]Strouse, *Morgan*, 266.

[104]"J. P. Morgan Selected to Head Alumni Association for Year as Successor to Allston Burr," *The Harvard Crimson*, October 17, 1929, http://www.thecrimson.com/article/1929/10/17/j-p-morgan-selected-to-head/.

[105]Chernow, *House of Morgan,* 14.

[106]"Thomas Lamont '21 Dies, was Corporation Fellow," *Harvard Crimson*, April 11, 1967, http://www.thecrimson.com/article/1967/4/11/thomas-lamont-21-dies-was-corporation/.

[107]Chernow, *House of Morgan*, 151.

with leading Morgan partners from 1895 to 1913 attending, including Robert Bacon, Edward Whitney, William P. Hamilton, George S. Bowdoin, Jack Morgan, George Perkins, Arthur Newbold, James Paul Jr., and Thomas Lamont.[108] This was similarly seen at other elite Anglo-American merchant banks, including Lee, Higginson & Co., having 78% of its partners attend Harvard by 1910.[109] Henry P. Davison and William P. Hamilton went to Yale, while Charles Steele, Dwight Morrow, and Temple Bowdoin went to Columbia.[110] Leading Morgan partners such as Sir Clinton Dawkins attending Oxford and "Teddy" Grenfell going to Cambridge would at separate times run the London office. Attendees of the finest Ivy League did not just attain a strong education but were also instilled with a sense of service to their community consummate with their social standing. This was common throughout the firm's partners and consistent with its immense social standing to be a benefactor to society and to extending their plush tradition forward.

Benefactors of High Culture

The affluent tradition made famous by the House of Medici family during the Renaissance in the 15th century, was continued on by financiers at the turn of the 20th century, including the House of Morgan as the leading supporters of grand culture in the US. The partners, as in business matters, took their cues from J.P. Morgan, who was a

[108]Pak, *Gentlemen Bankers*, 144.

[109]Ibid., 302.

[110]Pak, *Gentlemen Bankers*, 140-141.

legendary art collector boasting the biggest private art collection of the day globally.[111] J.P. Morgan was an original patron of the Metropolitan Museum of Art in 1870, trustee (1888-1904), president (1904-1913) and not only consistently its largest donor, but was the driving force for the Museum's meteoric rise—by early the 20th century it became the largest art museum in the United States.[112] Additional Morgan partners supporting the Metropolitan Museum of Art included Thomas Lamont as a trustee, Robert Gordon as one of the original 28 trustees,[113] and Jack Morgan who carried on the rich tradition by donating much of his father's extensive collection to the Museum. Philadelphia partners, such as Edward T. Stotesbury as President of Philadelphia's Art Jury,[114] and George C. Thomas as a noted art collector[115] were also leading supporters of the arts.

Natural sciences were another area of keen interest for the House of Morgan's partners' benevolence. From its inception in 1869, J.P. Morgan was a board member and typically the greatest donor to the largest public facing organization, the American Museum of Natural History, until his death in 1913, while Henry P. Davison was a treasure of the National Institute of Social Sciences.[116] Edward T. Stotesbury was a

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[111]Chernow, *House of Morgan*, 117.

[112]"John Pierpont Morgan and His Service to the Museum," *Metropolitan Museum of Art Bulletin* 13, no. 5 (May, 1918): 102.

[113]"Robert Gordon's Retirement," *New York Tribune*, Jul 8, 1900, http://search.proquest.com.ezp-prod1.hul.harvard.edu/docview/570863404?accountid=11311.

[114]"E.T. Stotesbury, Financier, Dies," *Washington Post*, May 16, 1938, http://search.proquest.com.ezp-prod1.hul.harvard.edu/docview/151080629?accountid=11311.

[115]"George C. Thomas Dead," *Sun*, Apr 22, 1909, http://search.proquest.com.ezp-prod1.hul.harvard.edu/docview/537679364?accountid=11311.

[116]Strouse, *Morgan*, 141.

director of the Philadelphia Grand Opera Company,[117] while J.P. Morgan was an original patron of the Metropolitan Opera and continually maintained a box within Metropolitan Opera's Golden Horseshoe.[118] Eminent sports clubs were increasingly popular with younger partners, including Temple Bowdoin, Charles Steele, Henry P. Davison, and Thomas Lamont, who were all members of golf clubs. Tennis club members from the Morgan partnership included Temple Bowdoin, Henry P. Davison, and Horatio G. Lloyd. The House of Morgan's partners were not just having good times at posh clubs and serving the upper class interest by endowing the arts but were also deeply involved in supporting charities for the poor and were the vanguard in modern-day philanthropy development.

Philanthropy

George Peabody set the standard for future partners through his extensive charitable work, including supporting Lord Shaftesbury's Ragged Schools for underprivileged children and helping to build model homes for the working class in London.[119] Peabody was honored by the eventual King Edward VII in 1862 as a Freeman of the City of London, the first American to receive the honor and with a statue, of himself behind the Royal Exchange for his trust fund for housing for poor of London.[120]

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[117]"E.T. Stotesbury, Financier, Dies," *Washington Post*, May 16, 1938, http://search.proquest.com.ezp-prod1.hul.harvard.edu/docview/151080629?accountid=11311.

[118]Chernow, *House of Morgan*, 50.

[119]Burk, *Morgan Grenfell,* 24.

[120]Chernow, *House of Morgan*, 14.

Being benefactors to the poor's education system and extending the rich tradition the partners had received were very much a part of their overall social standing. In fact, the rise of corporate philanthropy in the United States began with the House of Morgan and the Peabody Education Fund. The Peabody Education Fund was the first such foundation whose scope was recognized as national rather than local, to select trustees from professional and financial circles, and to leverage their grants through community involvement.[121] Its founding by George Peabody with a staggering $2 million in 1869 was an attempt to help heal relations with the war-torn South by directing the funds to Southern primary schools and also promoting a standardize curriculum.[122] The organization leadership would include several US presidents such as Ulysses S. Grant and General Robert E. Lee who had given their full support.[123] Key Morgan partners as leaders, including J.P. Morgan and Tony Drexel would serve on the board. The organization would be pivotal in helping to merge small schools into larger multi-classroom organizations and promote a standardized curriculum. Similar to how corporations under the Morgan gambit would cooperate; the same would be seen with the largest foundations, as shown in education with actual amendments passed to coordinate with Rockefeller's General Education Board in 1903 by the Peabody Education Fund.[124] The following years up till the Great War, it was difficult to tell apart the programs and

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[121]Franklin Parker, "George Peabody's Influence on Southern Educational Philanthropy," *Tennessee Historical Quarterly* 20, no. 1 (Mar., 1961): 71.

[122]Ibid., 70.

[123]Ibid., 70.

[124]"Peabody Fund Trustees Meet to Work in Harmony with the General Education Board," *New York Times*, Jan 30, 1903, http://search.proquest.com.ezp-prod1.hul.harvard.edu/docview/571328872?accountid=11311.

work of the major education charities such as Peabody Education Fund, the General-Education Board, and the John F. Slater Fund given the very close cooperation among the organizations.[125]

One organization, in particular, that had many Morgan partners deeply involved in the US was one of the world's largest charities, the Red Cross, including George W. Perkins, Horatio G. Lloyd, Dwight Morrow, and Henry Herman Harjes as board members. However, no Morgan partner was as involved with the Red Cross than Henry P. Davison, who headed all Red Cross activities in World War I.[126] While the Red Cross was founded much earlier, it was chartered by an Act of Congress in 1905; its president would be the same as the president of the United States and would be a quasi-public-private organization with unmatched power and impact in the non-profit space. Being a transnational organization was an ideal solution to extending the rich tradition down to the downtrodden in a charitable setting. Henry P. Davison would help turn the Red Cross into the most powerful charity in the US. Raising over $113 million during his First Liberty Loan Drive's first week alone in 1917, its membership swelled to over 5 million members.[127] Eventually, he helped raise over $400 million by 1919, which was used in areas such as improvement of health and disease prevention in war-torn Europe. In total

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[125]Parker, "George Peabody's Influence," 70.

[126]"Henry P. Davison Died on Saturday," *Atlanta Constitution*, May 6, 1922, http://search.proquest.com.ezp-prod1.hul.harvard.edu/docview/498491004?accountid=11311.

[127]Thomas W. Lamont, *Henry P. Davidson: The Record of A Useful Life* (New York: Harper and Brothers, 1933), 10.

by 1919, a staggering 31 million total members was a part of the Red Cross volunteer force.[128]

As discussed in previous sections, the House of Morgan through its family's illustrious history and partners, preeminent standing had leading social and cultural capital in the US. Being a benefactor to high culture and taking care of those in need are both critical factors as they convey a sense of moral responsibility and obligation for the community. In order to understand why the House of Morgan helped develop the US large cap multinational corporation around the turn of the 20th century one must also understand how it viewed its role in relation to the world's most powerful empire and moral obligations it took on given its positions within society.

Moral Obligation to Society

At the turn of the 20th century Great Britain was the largest empire the world had ever seen, spanning 12 million square miles and incorporating roughly a quarter of the world's population.[129] Its unmatched navy—39% of world's ocean-going vessels—provided for safe passage and an interconnected global market.[130] The British Empire steered trade, primarily importing raw materials/food and exporting higher margin manufactured goods comprising nearly a third of the world's total.[131] London was the world's chief business center boasting the largest financial infrastructure, including

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[128]Ibid., 320.

[129]Paul Kennedy, *The Rise and Fall of The Great Powers* (New York: Vintage Books, 1987), 224.

[130]Quigley, *Tragedy and Hope*, 67.

[131]Leslie Hannah, "J.P. Morgan in London and New York before 1914," *Business History Review* 85, no. 1 (Spring, 2011): 138.

London's money market, largest commercial market for setting commodity prices, and by 1910, of all total tradable securities, 25% were owned by Great Britain's citizens.[132] While few could argue the enormous size and scope of the British Empire, there were some who expressed concern about its benefits. "Little Englanders," best typified by William Gladstone and Sir William Harcourt, was not only opposed to further colonial expansion but saw the Empire as a burden causing potentially needless wars. Empire seemed illogical to them given the fact that nations like America could more than absorb British products and the fruitless endeavors that in the long run would not be able to hold the empire together with colonies eventually pulling away.[133]

Ultimately, the British Empire's policy around the late 19th and early 20th centuries was driven by a "New Imperialism." The arguments were best personified by a professor at Oxford who would be the first holder of the Slade professorship for Fine Art in 1869, John Ruskin.[134] Professor Ruskin's audience were members of a privileged ruling class at Oxford whom he fervently believed had the most magnificent tradition and culture the world had ever seen in areas of education, law, beauty, and personal freedom, underpinned by a Christian calling for social justice about which he lectured passionately.[135] This wonderful tradition would cease to exist, and deservedly so, unless it could be extended to the downtrodden masses and also move away from its increasingly hedonistic tendencies that ultimately brought down other powers like Venice

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[132]Ibid., 128.

[133]John Procter, *Boers and Little Englanders: The Story of the Conventions* (London: George Allen, 1897), 165.

[134]George W. Kitchin, *Ruskin at Oxford: and Other Studies* (London: J. Murray, 1903), 35.

[135]Ibid., 43.

during the Renaissance.[136] Industrialization, free trade, and globalization were powerful trends building increasingly urban cities that were interconnected globally through trade and strong migration, which brought not only greater economic opportunity but took previously diverse cultures and beliefs together that were increasingly becoming unified. The question would be which culture and tradition would be the underpinnings of the modern globalized world in the generations to come. If the British tradition were not spread to the majority of people around the world, the fine English tradition of the upper class could be totally submerged and ultimately lost. The old way of the British Empire being fostered for primarily material advantage was now discredited for the increasingly globally interconnected times. A new call to action, charged by a moral duty guided through social service, was to be the rallying cry for not only the continuation of the Empire but also for an aggressive expansion of the underlying culture and traditions globally to the masses in other nations.[137]

It was men like Alfred Lord Milner, Arnold Toynbee, Alfred Beit, Cecil Rhodes, and Lord Rothschild, to name a few, who heard the moral command for action and took up the cause with a great fervor.[138] Cecil Rhodes, a former Oxford student who was deeply impacted by Ruskin lectures, provides a splendid illustration of what he believed as a righteous crusade in action, ranging from trying to federate Africa under British Empire control to promoting the culture of the rich traditions Ruskin discussed abroad by

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[136]Daryl Ogden, "The Architecture of Empire: Oriental Gothic and the Problem of British Identity in Ruskin's Venice," *Victorian Literature and Culture* 25, no. 1 (1997): 113.

[137]Peter Falkner, "Ruskin and the British Empire," *Journal of the William Morris Society* 14, no. 1 (Autumn, 2000): 54.

[138]Ibid., 60.

creating the Rhodes Scholarships at Oxford.[139] Alfred Lord Milner would play an enormous role in shaping foreign policy for the British Empire through his recruitment from Oxford with "Milner Kindergarten" and the formation of the round table movement starting in Chatham House that would increasingly promote British traditions on a global basis.[140]

It is important to note that the Morgan partners were cosmopolitan in upbringing, had an internationalist mindset, were British culture conscious, and were staunch anglophiles. The three heads of the House of Morgan until World War I—George Peabody, Junius Morgan, and J.P. Morgan—lived in London for a significant amount of time, especially during their careers as merchant bankers. George Peabody lived exclusively in London once his career as a merchant banker began to his death, serving as both America's foremost businessman and philanthropist in England.[141] Junius as well spent the majority of his merchant banking career based in London.[142] J.P. Morgan was even more cosmopolitan; spending time each year in London and felt equally at home in New York City, Boston, London, Paris, Cairo, and Rome.[143] His son Jack Morgan spent

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[139]Sarah G. Millin, *Rhodes* (New York: Harper & Brothers, 1933), 30.

[140]John Wrench, *Alfred Lord Milner: The Man of No Illusions: 1854-1925* (London: Eyre and Spottiswood, 1958), 40.

[141]Esme Howard, "George Peabody in England," *Peabody Journal of Education* 2, no. 5 (Mar, 1925): 251.

[142]Vincent P. Carosso, *The Morgans: The Private International Bankers, 1854-1913* (Cambridge, MA: Harvard University Press, 1987), 106.

[143]Strouse, *Morgan,* 217.

the formative years of his career in London and would remain an anglophile until his death.[144]

As I elaborated, the House of Morgan was not just a group of dominant merchant bankers who used their financial capital to develop the US large-cap multinational corporation, but were also leading benefactors of high culture, political decision makers, protectors of the downtrodden and led by those possessing the highest degree of social status. The partners operated on a high-principled duty to society as a whole, while making vital profitable decisions, as also was cooperation among the various elements of the broader community in promoting a stabilized society. The House of Morgan operated on a truly global scale. Their actions were guided by what they believed would best serve the international community long-term for the preservation of the fine British tradition, order, morals—contrary to just one company, a sector, or a nation of interests for that matter.

One of the biggest concerns the House of Morgan had in regard to the economy in the 1880s and 1890s was that the specter of overproduction could not only reduce profits within a respective sector, but also was more broadly a serious threat to undermine the financial system and creating greater instability for society in general.[145] On paper, expanded production looked good for an individual company giving more sales, rising profits, gains in market share, and potentially higher stock returns. However, for the Morgan partners with such a long-term view encompassing a broader society worth of interests, overproduction had many other negative side effects. Long-term profit

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[144]Carosso, *The Morgans*, 445.

[145]Strouse, *Morgan*, 320.

prospects were more uncertain about an industry level, as profit margins would be squeezed when price wars would begin, but also that other industries that were interconnected would be greatly impacted by these price wars and new instability fostered. An example would be the rails in the late 19th century. While no question over building of rail lines and too much debt were major issues, consistently lowering rail rates to serve other industries during price wars created great instability in an industry that needed stability, given all its fixed long-term costs and heavy reliance on outside capital. This was seen first with Rockefeller's interests having a stranglehold on the rail industry and later with the US Steel merger partially protecting the rails from an impending price war. If longer-term profits could not be reasonably guaranteed, the massive financial capital requirements needed to maintain and grow industry would be in doubt.

Competition had been a hallmark of success for many of the budding capitalists such as Vanderbilt, Rockefeller, and Carnegie when they built their respective industrial empires. However, the overly competitive environment pushed the rest of the industry into increased production to maintain its position and competition was now not desirable for these same business titans given their respective leading market share. Also importantly, similar to key leaders within the British Empire, the members of the House of Morgan believed they had a unique obligation and moral calling, applying their enormous energies towards dealing with overproduction and rapid competition that threatened to undermine the global framework.[146] The House of Morgan would help to organize the broader US society by interlocking different subsystems, including finance,

[146]Ibid., 321.

charity, and politics with business segment under the leadership of the large multinational corporation in promotion of a more harmonious society, predictable financial landscape, and productive economy.

Morgan's partners had a clear goal of helping to create a large, global operation that would belong in an oligopoly industry structure with high barriers to compete, ultimately manifesting in the contemporary multinational.[147] Competition that had no central planning was ruinous in their eyes, wasting capital and promoting potential financial panics. It prevented the development of sustainable long-term planning for a stable economy. The large-cap multinational corporation in the US was formed largely through cooperation not competition among business interests and other key stakeholders in society around the turn of the 20th century. As I shall further discuss in upcoming chapters, as middlemen from the various parts of the economy, the House of Morgan was entrusted with not just influence of an advisor but one with leading control to develop the new corporate structure and underlying environmental structure. Besides the organization of the multinational corporation as a means to stabilize the economy and society, Morgan partners promoted their tradition through national and transnational organizations. This included creating the Federal Reserve for monetary stability, leading the Red Cross as the largest US nonprofit, and the promotion of a more standardized educational curriculum through its leadership of the Peabody Education Funds. Its leading impact upon other areas of society was greatly aided by the fact it was the leading US merchant bank of the era and controlled an enormous amount of financial capital.

[147]Ibid., 8.

Chapter III

House of Morgan Financial Capital

The House of Morgan securely entrenched itself as the preeminent merchant bank for the US markets during the 19th and early 20th centuries. Being a dominant dealer of US Government securities to the largest corporate sector provider with the railroads, the House of Morgan boasted an unparalleled rolodex of clients, building up substantial financial capital in the process. Its access to global economic centers was unparalleled, leveraging commercial banks, insurance, trusts and merchant banks through board representation and being top shareholders. The House of Morgan would apply a cooperative approach both internally in dealing with supposed competing merchant banks and externally when servicing clients. Consistently over multiple decades the Morgan partners could organize and oversee the largest financial syndicates the world had ever seen in supporting their corporate clients. Its high return for investors and clients alike over the decades spoke volumes on why the House of Morgan was the preferred merchant bankers of choice.

Morgan Business History

The House of Morgan derived its name from the fact that the leading partner in terms of capital for seven decades was a Morgan. However, the founder was a successful merchant from Baltimore turned banker George Peabody. In 1837, after years of transatlantic voyage, Mr. Peabody moved to London permanently to run his now

merchant bank, George Peabody & Co., which started in 1838.[148] While the preeminent private banks in London set up agents in the US, such as Thomas Ward for Barings Brothers & Co. or August Belmont for the Rothschild's, George Peabody & Co. became a leading wholesaler of investment securities for the United States but based instead in London. While the United States offered ample investment rewards in the mid-19th century, risks were still high even in the quality asset classes such as state securities. This was illustrated following the Panic of 1837 when several states defaulted on their interest payments.[149] One of the trademarks of merchant bankers is vouching for securities from those who are seeking capital and representing investment community interests. George Peabody & Co. demonstrated its commitment to its clients following the Panic of 1837, leveraging its powerful Washington connections. George Peabody partnered with the Barings in creating a political fund to spread positive news stories for debt resumption and also to elect legislators who favored honoring interest payments. The strategy in both Maryland and Pennsylvania was successful.[150] Actions like this not only increased investor trust in George Peabody & Co., it was more often than not quite profitable.[151]

George Peabody & Co. was involved early on in corporate trade and in promoting American business interest overseas by regularly hosting US citizens in London for dinners and evenings out enjoying the arts.[152] George Peabody & Co.'s support to US

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[148]Chernow, *House of Morgan*, 4.

[149]Ibid., 5.

[150]Ibid., 6-7.

[151]Ibid., 7.

[152]Ibid., 7.

business interests was amply illustrated in 1851 when the U.S. government failed to finance participation in Great Britain's Prince Albert's major international exhibition of industrial products held at the Crystal Palace and Peabody & Co. picked up the $15,000 bill. Between May and October 1851 six million people saw the various exhibitions where Cyrus McCormick's reaper won a Gold Medal at the World's Fair and Samuel Colt's revolvers garnered enough support to set up new operations in London.[153]

By the 1850's George Peabody & Co. was only a notch below the most mandarin of London merchant bankers of Barings Brothers and Rothschild, benefiting from a strong European appetite once again for American securities—Europeans held about 20% of outstanding US securities, London comprising the lion share.[154] Normally increased activity for merchant banks would rely on kin to deal with additional work and adding a partner. However, Peabody had no legitimate children to be heirs and thus would look externally. The ideal candidate was found in another American with strong European ties, Junius Spencer Morgan, given in part his strong business acumen, demonstrated by tripling sales in a previous dry goods business.[155] Importantly, Junius Spencer Morgan possessed a long stoic family history and an impeccable name within the most aristocratic of circles.[156]

From 1854 to 1864 George Peabody & Co. was organized as a private unincorporated partnership with Junius as a partner. The firm did not have to submit to

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[153]Strouse, *Morgan*, 50.

[154]Ibid., 71.

[155]Burk, *Morgan Grenfell,* 17.

[156]Chernow, *House of Morgan*, 18.

federal or state authorities and was beneficial when dealing with international governments as ideal channels for diplomacy, given its naturally discreet manner.[157] However, unlike a corporation, they had unlimited liability in their business structure, which nearly cost them everything during the Panic of 1857 and were saved by an emergency credit line from Bank of England.[158] George Peabody & Co. would quickly recover and make a leading name in American government and corporate securities, particularly the rapidly expanding rails.

By 1864, George Peabody was ready to focus full-time on his considerable philanthropic ventures and George Peabody & Co. would cease to exist, with J.S. Morgan & Co. its replacement, building upon its previous success focusing on American railroads and manufacturing requiring overseas credit facilities.[159] Government transactions would remain at the core of the business, and the firm increased its prestige immensely in 1870 with a massive loan to France.[160] Having a world power as a client was beneficial in several respects, including the increased status of the bank's prestige with other high end relationships that could be long lasting.[161] J.S. Morgan & Co., the most important government account during the 1870s, would be leading the massive $1.4 billion refunding of US Treasury Civil War debt, which was the largest financial undertaking

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[157]Ibid., 25.

[158]Ibid., 11.

[159]Carosso, *The Morgans*, 288.

[160]Chernow, *House of Morgan*, 25.

[161]Carosso, *The Morgans*, 201.

globally during the decade.[162] J.S. Morgan & Co. gained an aire of mystery and prestige given its leading role in serving leading governments, leveraged in serving corporate accounts as well.[163] Backed by trust in J.S. Morgan & Co. operations, investors were also attracted by the higher return proposition in US corporate bonds which in the late 19th century were roughly earning 10 percent on railroad bonds on average, compared with 5 percent for London's comparable securities.[164]

Dating back to George Peabody's reign, Morgan's would retain a preeminent position in promoting the leading corporate sector—US railroad securities—until the early 20th century.[165] The rails required significant amounts of capital, which would facilitate the widespread use of a corporation's status and increase dependency on powerful merchant bankers, and in particular, J.S. Morgan & Co.[166] J.S. Morgan & Co. would outshine its rail clients in terms of name recognition and trustfulness with investors going forward as ownership became increasingly public.[167] The firm handled the top railroad deal of its time in 1879, New York Central, which was important in the trend of companies going from a private family to public ownership, and was the largest block of stock to ever be offered to the public.[168]

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[162]Ibid., 175.

[163]Chernow, *House of Morgan*, 23.

[164]Strouse, *Morgan*, 71.

[165]Carosso, *The Morgans*, 246.

[166]Quigley, *Tragedy and Hope, 50.*

[167]Chernow, *House of Morgan*, 24.

[168]Ibid., 42.

The most prolific railroad investment banker of the late 19th and into the 20th century would be Junius's son, J.P. Morgan. From his cosmopolitan upbringing, being schooled in Geneva, Germany, and the United States, to having worked with leading merchant banks at an early age in New York, J.P. Morgan was nurtured to be a merchant banker. However, in the 1870s J.P. Morgan was still early in his career and in July 1871 the young J.P. Morgan would set up a partnership with the leading American banker of the time, Anthony J. Drexel.[169] Drexel, Morgan & Co. would bring the leading Philadelphia financial firm headed by Anthony J. Drexel with J.P. Morgan who would be the leading partner in New York, plus Drexel's partners who had established Drexel, Harjes & Co. in Paris that would be the French affiliate. The Drexel family had made a name for itself earlier by funding the US in the Mexican War in 1847, [170] serving as the largest depository during the California gold rush in the early 1850s,[171] financing leading railroads including Philadelphia's first railroad,[172] and partnering with Jay Cooke in funding the Union army during the American Civil War.[173] Anthony J. Drexel and J.P. Morgan would be the dominant bankers in the US partnership and the country at large for the coming decades. By the time of Junius's passing in 1890 and Anthony J. Drexel's death in 1893, J.P. Morgan would become the unquestioned head of the partnership and American finance at large.

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[169]Rottenberg, *The Man Who Made Wall Street*, 46.

[170]Ibid., 41.

[171]Ibid., 46.

[172]Ibid., 47.

[173]Ibid., 65.

Organization of House of Morgan

The structure of the new J.P. Morgan lead organization would resemble the leading global financial houses comprised of not just one firm but several unincorporated private firms in the major financial centers of Europe and the U.S. that were interlocked through capital. In total, there were four firms and in the aggregate represented the House of Morgan. The center of the Morgan House was without question London prior to the 1890s with New York dominating thereafter. J.S. Morgan & Co. stayed on as the London arm until reorganized as Morgan Grenfell & Co. in 1910.

The Philadelphia firm was known as Drexel & Co. given the leading history of the Drexel family, while the Paris branch was called Morgan, Harjes & Co. and the firm's overall capital would be J.P. Morgan & Co. in New York on 23 Wall Street. The New York office fittingly was at the crossroads between corporate, government and Wall Street headquarters, facing both the New York Stock Exchange and Sub Treasury building. The House of Morgan continued to be organized as a private unlimited liability partnership with J.P. Morgan the unquestioned head—his ownership averaged 38 percent between 1895 and 1913.[174] He would head both New York and Philadelphia, while being senior partner in Paris and co-presiding over the London house. The firm was informally run with none of the many formalities that would be implemented in the Morgan developed corporations—with the panic of 1907 being the first time formal meetings were held.[175] Given how large its role in the economy, the overall number of workers was

[174]Pak, *Gentlemen Bankers*, 75.

[175]Chernow, *House of Morgan*, 66.

quite small in New York, with roughly the other three locations equal in the aggregate for a total of 300 workers throughout the House of Morgan.[176] In each of the sectors on which the House of Morgan focused, they had the leading experts employed, as illustrated by the rails, such as Samuel Spencer, known to be on top of every detail of railroads and Charles Coster who sat on the boards of fifty-nine corporations he helped organize.[177]

In terms of pursuing clients, it was considered bad form to compete with other merchant banks through price or formal advertising; instead, the most exclusive clients sought to work with the House of Morgan as if obtaining membership to a private club. Serving the leading global powers, Popes and Royalty in Europe, to the most venerable families worldwide such as the Astors and Vanderbilts would give the House of Morgan an unmatched rolodex.[178] The House of Morgan could be mistakenly identified often as another arm of the US government given its central role in dollar diplomacy and a quasi-central bank lender of last resort. It would continue to cater to the most exclusive US corporations such as General Electric, International Harvester, and US Steel.[179]

Typically, high sustainable profits attract competitors into the market. However, in the world of private banking reputation proved a barrier that took many years to ascend in order to obtain meaningful market share. The House of Morgan's competitive edge was its reputation based on its outstanding business track record, but even more

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[176]Vincent P. Carosso, *Investment Banking in America: A History* (Cambridge, MA: Harvard University Press, 1970), 87.

[177]Chernow, *House of Morgan*, 69.

[178]Ibid., 30.

[179]Carosso, *The Morgans*, 498.

importantly, the impeccable character its partners had forged. Thus, choosing a partner was of the highest importance, given the typical low rate of attrition and long-term relationships for which the firm was quite successful in selecting partners.[180] The number-one pool for merchant banks from which to choose its partners was relatives.[181] Besides family, having done business before with another firm attracted top talent who more likely than not was in the same social circle.[182]

The ability to trust and have confidence is one of the most important factors underpinning the economy at the turn of the 20th century and in developing the large-cap US multinational corporation, which the House of Morgan possessed in the highest order and in which it invested its social capital in its corporate concerns to develop the US multinational. The House of Morgan could leverage its social standing further through use of syndicates, which rested on its partners broader reputation within society.[183] Morgan and his partners promoted a community of interest contrary to the cutthroat survival of the fittest mentality espoused from Herbert Spencer.[184] Financial cooperation was served best through global syndicates.

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[180]Pak, *Gentlemen Bankers*, 60.

[181]Ibid., 49.

[182]Carosso, *Investment Banking*, 146.

[183]Barry Supple, "Business Elite: German-Jewish Financiers in Nineteenth Century New York," *Business History Review* 31, no. 2 (1957): 170.

[184]Carosso, *The Morgans*, 288.

Cooperative Finance

Syndicates were essentially a temporary corporation and allowed bankers' ability to limit and diversify risk.[185] Similar to merchant banking, being involved in a syndicate was a delicate situation based on trust; companies that fulfilled their promises were often invited back for future deals.[186] At the turn of the 20th century, capital needs of multinationals required a further expansion of syndicate operation to cover the issuance of securities to join resources for new issuances.[187] It's important to note that bankers had a much more respected reputation in society and with potential investors compared with their multinational clients.[188] At the turn of 20th century, merchant bankers abiding by a cooperative industry business model of respecting other banks' established clients and territory developed a very profitable industry.[189] Morgan considered unrestricted competition in both the exclusive world of merchant banking and other publicly traded industries not only wasteful of resources but destructive to the underlying economy.[190] Power rested with the few at the center of the syndicates, as they were the ones putting deals together, and assessing risk and opportunities of the transaction.[191]

At the center of the system globally was the House of Morgan who by the start of the Great War was at the nexus of roughly forty percent of all US capital when including

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[185]Ibid., 55.

[186]Ibid., 59.

[187]Ibid., 50.

[188]Ibid., 53.

[189]Ibid., 288.

[190]Ibid., 288.

[191]Pak, *Gentlemen Bankers*, 19.

its partnering organizations.[192] In total the House of Morgan's syndicate work was unmatched, with approximately $4.3 billion directly managed and over $3.5 billion given to the New York firm from syndicate partners between 1894 and 1914 alone.[193]

Morgan and the select few conducted the syndicates under the gentlemen banker's code honed from years in operation in the London world markets. The syndicates were monitored and maintained by a broader community of shared interests and values; given lack of legal contracts it was informal and not overly regulated by the state.[194] Similar to what the merchant bankers preached to their clients, these same bankers were cooperating in their industry for years between competitors. The system worked as the participants respected and followed the gentlemen banker's code.[195] Ultimately, the syndicate system was instrumental in the pooling of resources and diversifying risk for the multinationals capital needs and would dominate the issuance of corporate securities.[196]

In a community of shared interest, what would seem like partners who never work together added the most value for a syndicate. Despite radically different social circles, the global captains of industry, including the Rothschilds in Europe, Rockefeller interests in Ohio, Carnegie in Pittsburg, or German-Jewish immigrants at Kuhn, Loeb & Co. in New York, all were not members of the same social circle, yet still frequently did business with the House of Morgan. The power and ability of the House of Morgan to

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[192]DeLong, "J.P. Morgan and His Money Trust," 206-207.

[193]Pak, *Gentlemen Bankers*, 17-18.

[194]Ibid., 17.

[195]Ibid., 20.

[196]Strouse, *Morgan*, 187.

coordinate across society came not from a homogenous social circle in dealing with business but from the diversity of its business network.[197] Kuhn, Loeb & Co. whose members were, by and large, German-Jewish immigrants and not members of the same social circle still frequently did business with the House of Morgan, and in fact was leading syndicate partner to deals offered to Morgan's partners.[198] The conducting of business utilizing powerful syndicates allowed the House of Morgan to take on larger deals, foster new relationships and gather market leading information from its largest competitors, like Kuhn, Loeb & Co.[199] The House of Morgan was also frequently involved with the venerable House of Rothschild in Europe who commanded the largest capital pool in Europe.[200] A way to promote the cooperative environment that the Morgan's preferred, was being interlocked within the dominant financial centers as a key strategy.

Financial Centers

The House of Morgan would be leveraging its unmatched syndicates in the major economic hubs to meet the needs of its government and business clients. New York emerged as the large-cap US multinational corporate headquarters, not surprising given its status as commercial, social and financial capital by the turn of the 20th century. The House of Morgan was deeply involved in all major aspects of New York. However, the

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[197]Pak, *Gentlemen Bankers*, 224.

[198]Ibid., 101.

[199]Ibid., 102-103.

[200]Carosso, *The Morgans*, 516.

greatest contribution was running a successful global merchant bank boosting New York to second largest international economic center.[201] The House of Morgan interlocked with the leading financial firms within New York as shareholders and on their corporate boards.[202]

The House of Morgan's capital resources were greatly amplified by interlocking boards in largest institutions.[203] National City and First National Bank were the two most important commercial banks in terms of capital and leading syndicate partners for the House of Morgan.[204] They worked frequently together on behalf of US multinationals locally and in developing economies.[205] National City also known as Rockefeller's Bank given that it supported Standard Oil operations and had extensive relationships with Kuhn, Loeb Co. (the oil baron preferred US merchant bank), had the largest deposit base of any commercial bank and was first to go overseas once it was allowed by the Federal Reserve Act of 1913. The House of Morgan was very much connected with National City. The Morgan family was one of the largest shareholders and Morgan partners such as Robert Bacon and George Perkins served on the board of National City.[206]

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[201]Ibid., 509.

[202]Carosso, *Investment Banking*, 48.

[203]U.S. Congress, U.S. House of Representatives, Subcommittee of the Committee on Banking and Currency, *Money Trust Investigation of Financial and Monetary Conditions in the United States under House Resolutions No. 429 and 504,* 62nd Cong., 3rd sess., December 19, 1912, 1084.

[204]Harold Cleveland and Thomas Huertas, *Citibank 1812-1970* (Cambridge MA: Harvard University Press, 1985), 56.

[205]Chernow, *House of Morgan*, 137.

[206]Ibid., 153.

An even closer bond was held between Morgan's firm and First National Bank, especially between the firm's two leaders—George Baker and J.P. Morgan—dating back to the 1870s until J.P. Morgan's death.[207] J.P. Morgan was a director of First National Bank and its largest outside shareholder.[208] In fact, upon Morgan's passing in 1913 instructions were left to have George Baker, an outsider to the House of Morgan's partnership, to help settle potential disputes within the firm's partners, which highlights the close bond and trust between the two.[209] First National Bank was deeply interconnected with large corporations, exemplified by George Baker, who sat on over forty boards, including railroads, steel, and utilities.[210]

Another key industry that commanded a significant pool of assets with which Morgan's partners was interlocked was insurance. The life insurance industry needed private bankers in order to purchase considerable securities essential to their core business.[211] The three main insurance companies were all interlocked with the House of Morgan.[212] A Morgan partner, George Perkins, illustrates the close relationship while also serving as chairman of New York Life Insurance Company's finance committee.[213] Morgan's relationship was even stronger with Equitable Life Assurance Company,

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[207]DeLong, "J.P. Morgan and His Money Trust," 211.

[208]Chernow, *House of Morgan*, 153.

[209]Carosso, *The Morgans*, 641.

[210]Logan A. Sheridan, *George F. Baker and His Bank 1840-1955: A Double Biography* (Lunenburg, VT: Stinehour Press, 1994), 6.

[211]Carosso, *Investment Banking*, 533.

[212]Chernow, *House of Morgan*, 152.

[213]Carosso, *Investment Banking*, 48.

owning a controlling stake and Mutual Life Insurance, which included Morgan's partner William H. Porter among its board members.[214]

The Trust companies also had great pools of assets and were equally within the Morgan gambit. Morgan partners such as George Perkins,[215] Henry P. Davison,[216] Thomas W. Lamont,[217] and William H. Porter[218] served on the boards of each of the other great trust companies, including Astor Trust, Bankers Trust and New York Trust. The largest trust, Guaranty Trust, which boasted 160 separate directorships,[219] was effectively controlled by the House of Morgan having two partners as members of its voting trust.[220] The firm's close relationships with other private banks in Boston were invaluable, especially those with Lee, Higginson & Co., who ranked among the leaders in active syndicates with the House of Morgan.[221] Lee, Higginson & Co. had deep and long relationship with prominent executives and financial institutions in New England.[222]

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[214]"William H. Porter Dies," *Wall Street Journal*, Dec 1, 1926, http://search.proquest.com.ezp-prod1.hul.harvard.edu/docview/130308997?accountid=11311.

[215]"Career: of Perkins Closed. Financier Succumbs to Nervous Breakdown," *Cincinnati Enquirer*, Jun 19,1920, http://search.proquest.com.ezp-prod1.hul.harvard.edu/docview/866669838?accountid=11311.

[216]"Henry P. Davison Died on Saturday," *Atlanta Constitution*, May 6, 1922, http://search.proquest.com.ezp-prod1.hul.harvard.edu/docview/498491004?accountid=11311.

[217]"Thomas W. Lamont Dies at 77 in Florida," *New York Times*, Feb 3, 1948, http://search.proquest.com.ezp-prod1.hul.harvard.edu/docview/108332697?accountid=11311

[218]"William H. Porter Dies,"

[219]U.S. Congress, U.S. House of Representatives, Subcommittee of the Committee on Banking and Currency, *Money Trust Investigation of Financial and Monetary Conditions in the United States under House Resolutions No. 429 and 504,* 62nd Cong., 3rd sess., December 19, 1912, 1084.

[220]Carosso, *The Morgans,* 620.

[221]Pak, *Gentlemen Bankers*, 18.

[222]Carosso, *Investment Banking*, 26.

Kidder, Peabody was also a leading syndicate partner for the House of Morgan who was invaluable for its London connections as Baring Brothers' agent in the US.[223]

Internationally the House of Morgan boasted the strongest connections among US merchant bankers, including the leading US agent for the world's financial capital. The British Empire dwarfed all others in terms of global investing; by the start of World War I exports of capital of roughly $20 billion were greater compared with foreign investments of the rest of the world combined, with nearly one third of London's investment being direct.[224] Since the founding of US, British investors would play a leading role in the development of business operations and this trend continued with the development of the US multinational. Between the years of 1870 and 1914, Great Britain provided about 55-60% of total foreign capital invested in the United States.[225] There were many other reasons why London would play such a leading role in developing the US multinational besides financial. Great Britain had the greatest migration from United Kingdom to the United States from between the Napoleonic War and start of World War I.[226] This would make London a natural business partner for many US companies given their shared culture and heritage and would promote an increase in trade. Not only was British foreign investment high, but it was also the leading host for foreign multinationals

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[223]Ibid., 26.

[224]Feis, *Europe The World's Banker*, 67.

[225]Arthur Bloomfield, *Patterns of Fluctuations in International Investment before 1914* (Princeton, NJ: Princeton University Press, 1968), 3.

[226]Majory Harper, "British Migration and the People of the Empire," in *The Oxford History of The British Empire: The Nineteenth Century*, ed. Andrew Porter (Oxford: Oxford University Press, 1999), 75.

among all other world powers.[227] Increasingly, American companies would establish factories in Great Britain in a wide range of sectors, including telecom and electricity equipment aided by the House of Morgan.[228]

The House of Morgan's close ties to London would prove to be one of its largest advantages throughout the century.[229] What was unique was that the Morgan banking origins were British but run by Americans overseas, and prior to the 1890s, the London arm was the principal driver of the House of Morgan, not New York. The firm was the largest financial agent for British investors in the United States and would in turn service the large-cap US multinationals that conducted operations there.[230] The original founders of leading US concerns such as General Electric (Thomas Edison), International Harvester (Cyrus McCormick), and US Steel (Andrew Carnegie) all worked with London's branch first during the 19th century, not New York. The House of Morgan would bridge wealthy British investors with the rapidly expanding but higher-risk U.S. markets, focusing mostly on U.S. municipalities and government securities first before corporate securities. The House of Morgan was the largest seller of American securities in London from the US by the start of World War I. Britain was one of the leading and first stop locations to set up overseas for US multinationals given shared culture, which

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[227]Geoffrey Jones, "British Multinational Enterprise and British Business History since the Nineteenth Century," *Journal of Business History* 38, no. 4 (1993): 236.

[228]Geoffrey Jones, "Foreign Multinationals and British Industry before 1945," *Economic History Review, New Series* 41, no. 3 (Aug., 1988): 431.

[229]Carlos Ramirez, "Did J. P. Morgan's Men Add Liquidity? Corporate Investment Cash Flow, and Financial Structure at the Turn of the 20th Century," *Journal of Finance*, no. 2 (June, 1995): 664.

[230]Carosso, *The Morgans*, 12.

lowered information costs and for those who were seeking established markets contrary to exploiting natural resources as in Mexico.[231]

The House of Morgan had one of its four unincorporated and also the smallest based in France—only behind the British Empire with international investment.[232] However, French investment in general was more an extension of its politics directly in European nations, such as Russia, contrary to any meaningful investment in US multinationals.[233] After Great Britain, no other nation overseas had as much influence on the development of the large-cap US multinational than Germany. A major factor was that Germany already had a large population in the US who served as intermediaries for German investors.[234] Morgan's ties with Germany came more from its syndicate work with the venerable Kuhn, Loeb & Co. who would be principal competitor and syndicate partner with the House of Morgan. Among syndicate partners dividing up work, Kuhn, Loeb & Co. was the leader outside of Morgan, and they had frequently partnered together.[235] Led by Jacob Schiff, the firm would be investment bankers for Standard Oil and leading syndicate partner for German private and commercial banks. One of the key reasons why the House of Morgan was at the center of the global financial syndicate network and high demand among budding large-cap multinational companies to work with them generally made economic sense given its strong historical results.

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[231]Geoffrey Jones, "U.S. Multinationals in British Manufacturing, before 1962," *Business History Review* 70, no.2 (1996): 207.

[232]Bloomfield, *Patterns of Fluctuations in International Investment*, 2-3.

[233]Feis, *Europe The World's Banker,* XXII.

[234]Mira Wilkins, *The Emergence of Multinational Enterprise: American Business Abroad from Colonial Era to 1914* (Cambridge, MA: Harvard University Press, 1970), 169-170.

[235]Pak, *Gentlemen Bankers,* 100.

Morgan Results

The venerable House of Morgan uniquely served as a confidante and merchant bank for the wealthiest families, the largest US companies, and the most powerful nations. The House of Morgan generally brought down the cost of financing, increased liquidity, improved profit measures, traded at higher valuation multiples and led to stronger stock returns versus commensurate companies.[236] Morgan-backed companies were more liquid and less sensitive to cash flow concerns versus proportionate companies not affiliated with Morgan.[237] When capital markets were tight following financial panics, large multinationals increased their demands on the most venerable of merchant banks such as the House of Morgan.

The House of Morgan did not just help with liquidity and financing costs—Morgan companies had nearly twice as much gross earnings compared with non-Morgan affiliated organizations.[238] The Morgan-led reorganizations showed strong results that were evident with the railroads, whose total returns from 1901 to 1910 for rails was 121% and following the panic of 1907 less than 5% rails was in receivership, dramatically less than the roughly 25% following the panic of 1893.[239] Morgan-backed companies with a partner on a board in turn traded at higher valuation multiples.[240] The strong results for

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[236]DeLong, "J.P. Morgan and His Money Trust," 224.

[237]Ramirez, "Did J.P. Morgan's Men Add Liquidity," 676.

[238]Ibid., 669.

[239]Hannah, "J.P. Morgan in London," 123.

[240]DeLong, "J.P. Morgan and His Money Trust," 221.

the company aided in solid stock returns. House of Morgan added 30% to common stock equity having at least one board member who was a partner in client firms from 1910 to 1912, owing to stellar fundamental improvements.[241] Strong results only enhanced the firm's ability to attract capital and raised its partners overall social standing. The House of Morgan's partners leading social capital and immense financial pool were leveraged in supporting the broader governance of the United States.

[241]Ibid., 205.

Chapter IV

House of Morgan Political Capital

At the turn of the 20th century, the House of Morgan was the leading supplier of funds to the US Government, the ambassadors from Wall Street, chief promoters of a gold standard, lender of last resorts, and leading supplier of international intelligence. The House of Morgan built up substantial political capital by fostering a cooperative approach to supporting the US government interests and further promoted its broader community of interests leveraging the government authority. Cooperating both locally and abroad allowed the US Federal Government to expand its scope of manifest destiny and raise its status with world powers. The House of Morgan was also able to have a profound impact on shaping policy and laws, including crafting leading regulation with the ICC in 1887, a series of laws in New Jersey for state incorporation, and the Federal Reserve Act of 1913. These laws fostered with political capital built up over years would provide for a home base for the large multinational corporations, a more stable operating environment, and increased opportunities to raise funding and greater protection during future financial panics. Working with the Nation States has been a staple of merchant banking for centuries and obtaining political capital has been a natural byproduct of its services.

Wall Street and Politics

Legislative capital is unique in that it is embedded in ongoing social relationships with governmental institutions.[242] However, political capital does share common aspects with other forms of capital's being productive in that it makes possible realization of interests otherwise impossible.[243] Politics is of vital importance for multinational corporations given the significance of the Nation State on the economy via regulations, tariffs, and law enactment impacting competition.[244] Powerful business interests being involved in politics were seen by leading capitalist interests throughout US history. A long-time chairman of the Democratic National Committee was August Belmont a former US representative for the House of Rothschild.[245] The Republican Party at the turn of the 20th century was led by the long-time friend of John D. Rockefeller, Mark Hanna.[246]

Morgan partners were very much involved in politics, similar to that of the Rothschilds who were well-connected in both major British parties of the time.[247] The House of Morgan had strong family ties with politics. On J.P. Morgan's maternal side of the family helped found the future states of Connecticut and Massachusetts. The Morgans

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[242]Victor Nee and Sonja Opper, "Political Capital in a Market Economy," *Social Forces* 88, no. 5 (July, 2010): 2108.

[243]Ibid., 2107.

[244]Ibid., 2105.

[245]Irving Katz, *August Belmont: A Political Biography* (New York: Columbia University Press, 1968), 276.

[246]Fred Chester Shoemaker, "Mark Hanna and the Transformation of the Republican Party" (PhD diss., Ohio State University, 1992), 20.

[247]Murray N. Rothbard, *Wall Street, Banks, and American Foreign Policy,* 2nd ed. (Auburn, AL: Ludwig von Mises Institute, 1995), 3.

on their maternal side were also related to previous Vice President Aaron Burr. Arthur Newbold's family included a former vice president and ambassador to Great Britain.[248] William Pierson Hamilton was the grandson of US founding father Alexander Hamilton,[249] Charles Steele's family included several ambassadors and an attorney general of the United States.[250] George S. Bowdoin's grandfather James was a governor of Massachusetts.[251] The families of London partners, Walter Spencer Morgan Burns, Edward Charles Grenfell, Vivian Hugh Smith, and Charles Frederick Whigham were all prominent in British politics.

The Morgan partners' political connection was very much evident with their close historical relationships with US presidents. Ulysses S. Grant, Republican president (1869-1877), was close friends of Tony Drexel, head of the Philadelphia partnership for a number of years. Tony Drexel was offered the role of Secretary of Treasury first by President Grant, was consulted regularly on financial matters throughout his two terms, including Tony Drexel's giving the sound currency argument used by Grant for veto in April 1874 against potential inflation.[252] Tony Drexel helped raise funds for Grant's family on several occasions, including throwing extensive galas on his behalf. Drexel on a personal level oversaw some Grant family private investments and was a pallbearer at

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[248]"Arthur E. Newbold, Noted Financier, Dies Unexpectedly," *New York Tribune*, June 11, 1920, http://search.proquest.com.ezp-prod1.hul.harvard.edu/docview/576236673?accountid=11311.

[249]"W. Pierson Hamilton Retires," *Wall Street Journal,* Jan 2, 1922, http://search.proquest.com.ezp-prod1.hul.harvard.edu/docview/130075631?accountid=11311.

[250]"Charles Steele Dies," *New York Herald Tribune*, Aug 6, 1939, http://search.proquest.com.ezp-prod1.hul.harvard.edu/docview/1243141004?accountid=11311.

[251]"George S. Bowdoin Dead at 80 Years," *New York Tribune,* Dec 17,1913*,* http://search.proquest.com.ezp-prod1.hul.harvard.edu/docview/575190166?accountid=11311.

[252]Rottenberg, *The Man Who Made Wall Street*, 117.

his funeral.[253] Grover Cleveland, Democratic president (1885-1889, 1893-1897), a staunch advocate of the gold standard and a railroad lawyer, spent virtually his whole career in the Morgan circles. This included serving as a partner at the House of Morgan's personal law firm— Bangs, Stetson, Tracey, and MacVeagh— between his two presidential terms, which housed Charles B. Tracey (J. P. Morgan's brother-in-law) and the Morgan's "attorney general" Francis Lynde Stetson.[254] The Morgan backed syndicate would lead a vital gold rescue during his second term and was pivotal in preventing the panic of 1893 from becoming a deep depression.

Theodore Roosevelt, Republican president (1901-1909), and the Morgan family the relationship of the families went back many years; Theodore Roosevelt's father and J.P. Morgan helped found the Museum of Natural History together.[255] The House of Morgan would lend its support to Roosevelt for his reelection bid by being one of his leading financial donors.[256] Roosevelt's administration further highlights his close ties with the House of Morgan further with Elihu Root, an attorney for J.P. Morgan and Robert Bacon, a Morgan partner, and being one of his Secretaries of State while in office.[257] Morgan's partners were deeply involved during Roosevelt's administration, including driving the gold standard internationally, promoting dollar diplomacy and playing a pivotal role in preventing the Panic of 1907 from becoming more severe.

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[253]Ibid., 117.

[254]Rothbard, *Wall Street,* 3.

[255]Strouse, *Morgan: American Financier,* 141.

[256]Chernow, *House of Morgan*, 112.

[257]Rothbard, *Wall Street*, 13.

Woodrow Wilson, Democratic president (1913-1921), obtained his main financial support from George Harvey and Cyrus H. McCormick, heads of Harper & Brothers and International Harvester respectively, both Morgan controlled operations.[258] Morgan's partners years beforehand spearheaded the creation of the Federal Reserve which Wilson signed into law in 1913. Wilson would rely heavily on the House of Morgan during World War I as fiscal agent for the Allies and as leaders of the Red Cross, which was the largest humanitarian effort in Europe during World War I.

Key Morgan-backed personnel would increasingly attain positions of power within the government itself, which would strengthen the bond with the Federal Government, was consistent with service to the community, gave the firm a distinction of being a quasi-government institution, and allowed the firm to better support both its clients and government interests. Morgan's partners who had leading political influence directly went across party lines. Robert Bacon was Secretary of State, Ambassador to France, and was deeply involved in military affairs.[259] Edward T. Stotesbury was Treasurer of the Republican National Committee in Theodore Roosevelt's campaign in 1904 and the Taft campaign in 1908.[260] Dwight Morrow became an ambassador to Mexico.[261] George W. Perkins organized Theodore Roosevelt's Progressive Party and

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[258]Ibid., 25.

[259]"Col. Robert Bacon Dies in Hospital," *New York Times*, May 30,1919, http://search.proquest.com.ezp-prod1.hul.harvard.edu/docview/100433408?accountid=11311.

[260]"E.T. Stotesbury, Financier, Dies," *Washington Post*, May 16, 1938, http://search.proquest.com.ezp-prod1.hul.harvard.edu/docview/151080629?accountid=11311.

[261]Richard Melzer, "Dwight Morrow's Role in the Mexican Revolution: Good Neighbor or Meddling Yankee?" (PhD diss., The University of New Mexico, 1979), 3.

remained leading progressive voice until his death.[262] In London, Sir Clinton Dawkins was private secretary to Chancellor of the Exchequer, financial member of the council of the Governor General for India and Undersecretary for Finance in Egypt.[263] Edward Charles Grenfell was a member in Parliament.[264] Vivian Hugh Smith was a member of the House of Lords.[265] The rise of big business did not just coincide with growth of the US federal government and but also vastly larger military with consummate increase in defense spending.

Military Connections

Increasingly, the US was taking on a large military operation consummate with its economic size, allowing for range of benefits for multinationals such as new military advancements to be applied to commercial uses to opening up new avenues of trade. The House of Morgan's banks, like other private elites, had a long history with government military funding and rose to power thanks greatly to preparations for war, the fighting of wars, and the reconstruction after war.[266] Drexel & Co. was the leader in financing the Mexican War in 1847, raising roughly 49 million dollars.[267] The House of Morgan's biggest opportunity came as the leader in the massive $1.4 billion US Civil War

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[262]"Career: of Perkins Closed. Financier Succumbs to Nervous Breakdown," *Cincinnati Enquirer*, Jun 19,1920, http://search.proquest.com.ezp-prod1.hul.harvard.edu/docview/866669838?accountid=11311.

[263]"Sir Clinton E. Dawkins Dead," *New York Tribune*, Dec 3, 1905, http://search.proquest.com.ezp-prod1.hul.harvard.edu/docview/571646816?accountid=11311.

[264]Chernow, *The House of Morgan*, 104.

[265]"Lord Bichester, 88, Financier Dead," *New York Times*, Feb 18, 1956.

[266]Burk, *Morgan Grenfell,* 103.

[267]Rottenberg, *The Man Who Made Wall Street*, 40.

refunding in the 1870s and would remain a leading private bank in government funding for the US Federal Government until World War I.[268] The House of Morgan would support the military not only financially but in other ways as well, including in 1877, Drexel Morgan's paying the army's salary until Congress came around to do so.[269] The US was not the only superpower whose war efforts depended on the House of Morgan. Great Britain came to rely on the House of Morgan to raise funds during the Boer War in South Africa at the turn of the 20th century.[270] Morgan's partner Edward Charles Grenfell would lead the Anglo-French Loan in 1916 and sold British owned American securities in the US during World War I as well.[271] These operations were not only very profitable but increased prestige for the House of Morgan, which gained further business clients and also increased its selling syndicates for future corporate dealings.[272]

The House of Morgan built up a significant amount of political capital from its close role with powerful defense leaders.[273] George S. Bowdoin's grandfather was American Revolution General Phillip Schuyler.[274] William P. Hamilton's grandfather was Major General Alexander Hamilton.[275] Confederate Army General Robert E. Lee

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[268]Carosso, *The Morgans*, 175.

[269]Rottenberg, *The Man Who Made Wall Street*, 127.

[270]Burk, *Morgan Grenfell,* 111.

[271]Ibid., 130.

[272]Ibid., 218.

[273]Nee and Opper, "Political Capital," 2108.

[274]"George S. Bowdoin Dead at 80 Years," *New York Tribune,* Dec 17,1913, http://search.proquest.com.ezp-prod1.hul.harvard.edu/docview/575190166?accountid=11311.

[275]"W. Pierson Hamilton Retires," *Wall Street Journal*, Jan 2, 1922, http://search.proquest.com.ezp-prod1.hul.harvard.edu/docview/130075631?accountid=11311.

and Union Army General Ulysses S. Grant would both join Morgan's partner George Peabody in supporting education revitalization in the war-torn South led by the Peabody Education Fund.[276] General John J. Pershing led the American forces during World War I with his chief civilian aide of staff Morgan's partner Dwight Morrow.[277] Morgan's partner Robert Bacon would serve as the President of the National-Security League, early advocate of US entering the Great War, and as a colonel to General Pershing's staff.[278] Edward T. Stotesbury received the Medal of Honor for his active support of several projects in France during World War I.[279] Henry P. Davison became honorary commander of the French Legion of Honor for his leadership of Red Cross during World War I.[280] Thomas Lamont was integral in helping set up the future Council on Foreign Relations. Within London, Sir Clinton E. Dawkins chaired the Committee on War Office Reorganization and received his Knighthood in 1904.[281] French partner John Henry Harjes was made an officer of the Legion of Honor in 1902. Henry Herman Harjes

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[276]"Peabody Foundation Led Way 60 Years Ago," *New York Times*, Feb 6, 1927. http://search.proquest.com.ezp-prod1.hul.harvard.edu/docview/104244753?accountid=11311.

[277]Mary Margaret McBride, "The Story of Dwight W. Morrow," *Los Angeles Times*, October 13, 1931, http://search.proquest.com.ezp-prod1.hul.harvard.edu/docview/162560063?accountid=11311.

[278]"Col. Robert Bacon Dies in Hospital," *New York Times*, May 30,1919, http://search.proquest.com.ezp-prod1.hul.harvard.edu/docview/100433408?accountid=11311.

[279]"E.T. Stotesbury, Financier, Dies," *Washington Post*, May 16, 1938, http://search.proquest.com.ezp-prod1.hul.harvard.edu/docview/151080629?accountid=11311.

[280]"Henry P. Davison Died on Saturday," *Atlanta Constitution*, May 6, 1922, http://search.proquest.com.ezp-prod1.hul.harvard.edu/docview/498491004?accountid=11311.

[281]"Sir Clinton E. Dawkins Dead," *New York Tribune*, Dec 3, 1905, http://search.proquest.com.ezp-prod1.hul.harvard.edu/docview/571646816?accountid=11311.

organized a liaison service between the French Army and the A.E.F. and would perform as a Lieutenant Colonel.[282]

The House of Morgan was counted on to raise capital during times of war, best illustrated during World War I. The firm would finance and supply leading European powers during World War I as their chief American fiscal and purchasing agent for Great Britain, France, Russia, and Italy.[283] During World War I, a staggering 40% of British war expenditures were spent in North America, totaling $18 billion by Great Britain and another $6 billion by France that Morgan made on their behalf.[284] It is important to note that in an effort to reign in cost and increase overall efficiency, the House of Morgan was the sole purchasing agent in the US. Morgan's partners Thomas Lamont, Edward Sttinius, and Charles Whinham took charge of purchasing goods for the British government during World War I.[285] The US State Department made a shift starting in the 1890s that would continue until World War I, with the goal of pushing goods produced by Americans around the world and the House of Morgan was the leading organization in promoting these objectives as well.[286]

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[282]"H.H. Harjes Dies From Polo Injury," *New York Times*, Aug 22,1926, http://search.proquest.com.ezp-prod1.hul.harvard.edu/docview/103840703?accountid=11311.

[283]Burk, *Morgan Grenfell,* 126.

[284]Ibid., 130.

[285]Ibid., 129.

[286]Fred V. Carstensen, and Richard Hume Werking, "International Harvester in Russia: The Washington—St. Petersburg Connection?" *Business History Review* 57, no. 3 (Autumn, 1983): 351.

Dollar Diplomacy

With "Manifest Destiny" being largely accomplished with the taming of the West, America was quickly looking overseas to exploit new opportunities and assert its economic muscle at the turn of the 20th century. This can be seen with America's annexation of Hawaii, its intervention in the Boxer rebellion, the seizure of Panama, the occupation of Nicaragua, the World Tour of the Navy Fleet, and military intervention in Mexico. This was in a large measure due to the aiding of American business interests, such as in Hawaii as a new channel for trade and the Philippines as the foothold for expansion into the Orient.[287]

Wall Street, led by Morgan with its close political ties and financial connections, would play a pivotal role in US foreign policy and aid in the growth of large-cap multinationals, using cooperation to reach a common objective with the government of expanding trade and influence. The firm sponsored some of the first external government loans to be sold in the United States and thus had strong foreign connections. The French Loan of 1870 puts J.S. Morgan on the map when it came to large international loans.[288] Latin America would be a place for increasing importance, with Morgan's partners the key US merchant banker.[289] Morgan's partners further handled loans for Mexico and Canada, two of the leading destinations for US multinationals to set up operations.[290]

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[287]Wilkins, *The Emergence of Multinational Enterprise*, 74.

[288]Carosso, *The Morgans*, 131.

[289]Ibid., 522.

[290]Ibid., 522.

The Department of State Dollar Diplomacy was intended to bring prosperity, sound government, and pro-American politics to developing countries and reduce the chances of other world powers from intervening. From the 1890s through Woodrow Wilson's terms, presidential cabinets viewed such policies as a preferable option to outright imperialism and worked closely with the House of Morgan, which acted as a foreign lending arm for the US government.[291] The Morgan's unrivaled international political connections would both serve in expanding global trade and in ultimately helping to shape the borders in which companies were working.[292] The House of Morgan was called upon to support American interests in China under US Open-Door Policy.[293] In 1909, $30 million in a loan was made to China in order to build Hukuang Railway, organized by a powerful syndicate with the House of Morgan at the center.[294] The House of Morgan was also deeply involved in the Panama Canal transaction, both with its French and NY operations carrying out the $40 million financing for the then largest real estate deal ever made.[295] Overseas the House of Morgan was also influential in London's politics as well.

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[291]Lamont, *The Ambassador from Wall Street*, 223.

[292]Carosso, *The Morgans*, 509.

[293]Wilkins, *The Emergence of Multinational Enterprise*, 74.

[294]Lamont, *The Ambassador from Wall Street*, 153.

[295]Chernow, *House of Morgan*, 111.

Morgan Partners and London

Merchant Bankers' ties with the British Empire's government were around for generations. This was the case with Europe's largest financial house, the Rothschilds, who had strong relationships with both Liberal and Tory officials.[296] British partner, Sir Clinton E. Dawkins was exclusive secretary to Chancellor of the Exchequer George Foschen, Undersecretary for Finance in Egypt and private secretary in India to Lord Cross, Secretary of State in India.[297] While another of London's key partners such as Edward Charles Grenfell was a Member of Parliament,[298] Vivian Hugh Smith the chairman of City Conservative party,[299] and Charles Frederick Whigham negotiated the purchase of millions of dollars of materials for Allies during World War I.[300]

The House of Morgan was deeply interconnected with the Bank of England. Members of the Bank of England who were, likewise, Morgan partners, included Edward Grenfell,[301] while the families of Vivian Hugh Smith[302] and Charles Frederick Whigham[303] further had directors on the Bank of England. The Morgan promotion of the

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[296]Niall Ferguson, *The House of Rothschild: The World's Bankers 1849-1999* (London: Penguin Books, 1998), 114.

[297]"Sir Clinton E. Dawkins Dead," *New York Tribune*, Dec 3, 1905, http://search.proquest.com.ezp-prod1.hul.harvard.edu/docview/571646816?accountid=11311.

[298]Chernow, *House of Morgan*, 104.

[299]Ibid., 272.

[300]"British Banker Dies in Hunting Accident," *New York Times*, Feb 13, 1938, http://search.proquest.com.ezp-prod1.hul.harvard.edu/docview/102700403?accountid=11311.

[301]Chernow, *House of Morgan*, 104.

[302]Ibid., 272.

[303]"British Banker Dies in Hunting Accident," *New York Times*, Feb 13, 1938, http://search.proquest.com.ezp-prod1.hul.harvard.edu/docview/102700403?accountid=11311.

gold standard was also in turn supporting pound sterling stability and broader security for the world economy.[304] Later after the Federal Reserve was created, Morgan's men would stay very much involved with the Bank of England, increasingly discussing policy with the Bank of England's dominant Governor Norman.[305] The House of Morgan would increase its prestige by servicing the British Empire for loans needed for the Boer War by dealing with senior government officials and increasing its chance for future business opportunities.[306] Working with London further increased Morgan's prestige with outside corporations and brought in new business from other sovereigns in Africa and Australasia.[307]

The extent of Morgan's relationships with London could be seen at the outbreak of World War I. Given perceived windfall profits for some of the previous US middlemen, the Allied powers concentrated its purchases—roughly half of all American sales during the war— in a single agency through the venerable House of Morgan.[308] Following the Great War, Morgan partners' influence was seen strongly in shaping the post-war world at the Paris Peace Conference in dominating many of the most important committees whose recommendation reports were nearly universally adopted by the Supreme Council.[309] Furthermore, after World War I "Round Table Groups" started

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[304]Chernow, *House of Morgan*, 78.

[305]Quigley, *Tragedy and Hope*, 62.

[306]Carosso, *The Morgans*, 513.

[307]Ibid., 513-514.

[308]Chernow, *House of Morgan*, 187-188.

[309]Quigley, *Tragedy and Hope,* 271.

forming in British dependencies, London with the Royal Institute of International Affairs, and the United States with the Council on Foreign Relations, which generally promoted a forum for learning about global issues and experts supporting a more integrated world; with Morgan's partners deeply immersed in the process.[310] While policy was linking the world together, another form in promoting an interconnected society was provided by the rapid advances in technology, illustrated by the rails development.

Rails

The transportation revolution was driven by rapidly expanding technologies such as steam with ships but none more important than the rails. The US Government viewed the development of the rails as a public good, and would provide over 100 million acres of public land in the 19th century available for the rails in their desire to shrink the US landscape and enhance commercial business opportunities.[311] The railroad was not only effective in shrinking the world but also in expanding the economy. Overland transportation had always been expensive and burdensome for businessmen; they would instead turn to the sea to exploit trading opportunities—for example, three thousand miles from Europe cost a shipper the same for a ton of goods compared with inland travel in the US east coast of just thirty miles as late as 1816.[312] However, the railroads would change all of that given their speed, all season usage, and the fact that rail tracks could go where

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[310]Laurence H. Shoup and William Minter, *Imperial Brain Trust* (New York: Monthly Review Press, 1977), 104.

[311]Paul W. Gates, *History of Public Land Law Development* (Washington, DC: US Government Printing Office, 1968), 385.

[312]Mansel G. Blackford and Austin K. Kerr, *Business Enterprise in American History*, 3rd ed. (Belmont: Wadsworth Publishing, 1993), 67.

streams and canals could not.[313] Making overland transportation a viable, cheap option opened up for companies throughout the nation that would be able to sell their products not only locally but also across great distances. Rails were also instrumental in promoting large-scale migration to the U.S. as cost to travel dropped dramatically. Railroads in particular, were very labor-intensive and would require a sizeable workforce, a quality that would become common later for other substantial corporations.[314] The transportation revolutions additionally allowed for far greater ability to control assets and deal with partners for the newly forming large US multinational corporations given the narrowing of distances from a company's headquarters to its various operations.[315]

The rails would further become the model in many ways for the modern corporation by moving toward a multiunit manager lead model. Given the size and scope of the rail's operations, with thousands of employees, greater specialization was encouraged for the workers with a new corporate style led by layers of management who were not the owners of the company but were, in theory, there to execute the owner's vision.[316] The rails also effectively opened up hundreds of millions of acres of farm land, which lowered cost for food products and developed an interconnected national sales market.

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[313]Ibid., 73.

[314]Ian Morris, *Why The West Rules—For Now* (New York: Farrar, Strauss, and Giroux, 2010), 509.

[315]Niall Ferguson, *Empire* (New York: Basic Books, 2002), 141.

[316]Alfred Chandler, *The Visible Hand: The Managerial Revolution in American Business* (Cambridge, MA: Harvard University Press, 1977), 485.

The rails required significant amounts of capital given rapid expansion and ongoing maintenance—with 72 thousand miles of railroad track in 1875, expanding to 387 thousand miles by the start of World War 1.[317] The railroads would play an instrumental role in the development of the capital markets in the U.S. that later were necessary for broader funding of future U.S. multinationals.[318] Indeed, toward the end of the nineteenth century, it is hard to exaggerate the size of the rails, being by far the largest US sector in terms of bonds outstanding and common stock traded.[319] While the rails were the largest publicly traded sector, they were in turn controlled by the financial industry, given how dependent they were on capital. The bankers would be increasingly be seen on boards and in time be the leading voice on the corporate boards.[320]

The largest of these firms was the House of Morgan, which controlled more railroad track versus any other financial firm, reaching 1/3 of railroad track by the turn of the 20th century.[321] The House of Morgan was the consistent leaders in railroad finance from the 1850s through the turn of the 20th century. This started first with the development of unconnected lines in various states to an integrated regional and continental network.[322] The House of Morgan was not just involved in new security issuances; it was also called in to help with the frequent economic struggles of the highly

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[317]Mira Wilkins, *The History of Foreign Investment in the United States to 1914* (Cambridge MA: Harvard University Press, 1989), 190.

[318]Charles Geisst, *Wall Street: A History* (New York: Oxford University Press, 1997), 99.

[319]Ron Chernow, *The Death of the Banker* (New York: Random House, 1997), 5.

[320]Carosso, *Investment Banking in America*, 32.

[321]Chernow, *The Death of the Banker*, 5.

[322]Carosso, *The Morgans*, 246.

leveraged rails through reorganizations.[323] During the 1890s, the insolvent rails operated almost 41,000 miles of track with a total capitalization of some $2.5 billion and represented about one-fourth of the country's entire rail system.[324] The House of Morgan would take the reins of a troubled company by first significantly scaling back costs, refinancing its debt, often merging it with a fiscally sounder company and taking a board seat to have ongoing oversight.[325] The Morgan's partners overriding goal when reorganizing the rails was to protect the interest of security holders, but more importantly to promote stability within the industry through greater cooperation and adherence to community interest principles.[326] Morgan's approach to the rails, cooperative industry's approach to curtailing price wars and adding more stability, was in direct contrast to more speculative investors, including Jay Gould whose goal was maximizing shareholder value.[327] The Morgan's partners leading status in London was of great aid in developing the railroads, which were very tied to the British Empire—starting with leading bankers facilitating iron imports to being the largest financial house international investor in the rails by the turn of the 20th century.[328] The House of Morgan took representation of its investors seriously as it also tied into the broader honor of the firm.[329] The rails initial

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[323]Chernow, *The Death of the Banker*, 5.

[324]Carosso, *The Morgans*, 363.

[325]Ramirez, "Did J. P. Morgan's Men Add Liquidity," 664.

[326]Carosso, *The Morgans*, 364.

[327]Ibid., 121.

[328]Carosso, *The Morgans*, 52.

[329]Carosso, *Investment Banking,* 38.

development in both London and the US came about partially from the search for more natural resources, especially coal.[330]

Natural Resources

The Industrial Revolution in the U.S. marked a sea change in the use of power, from a self-sustaining organic economy that utilized humans or animals for energy production to one that was dependent on minerals released through a nonliving machine such as the steam engine.[331] Coal, oil, iron ore would not only fuel needed transportation for rapidly expanding production, but would also provide the materials to build production plants to manufacturing facilities. Financing global trade by nature keeps an investment bank constantly updated on commodity prices and deeply immersed within their markets.

Morgan's interest was very active in commodities since the 1850s with British iron traded for US rail creation. The House of Morgan financed trade in a large variety of commodities, including used for consumption such as spices, coffee, wheat, sugar, to those used in energy production and a whole range of petroleum products.[332] The House of Morgan also had corporate interest in the natural resources' space given its interest in US Steel's—world's largest public company at the time—massive demand for range of commodities, including coal, iron ore, steel scrap in order to produce steel.[333] The firm

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[330]Morris, *Why the West Rules*, 28.

[331]Quigley, *Tragedy and Hope*, 537.

[332]Carosso, *The Morgans*, 74.

[333]Thomas K. McCraw and Forest Reinhardt, "Losing to Win: U.S. Steel's Pricing, Investment Decisions, and Market Share, 1901-1938," *Journal of Economic History* 49, no. 3 (Sep., 1989): 597.

was earlier on the promoter of the Caucasus Copper Company, which developed copper mining properties.[334] A far larger interest was the House of Morgan's work with the Guggenheim family to exploit the Alaskan territory with a $15 million-dollar syndicate, which came to own the majority of stakes in the region ranging from copper mines to coal lands.[335] Consummate with the development of the rails and the world-wide search for commodities, were the implementation of faster ways to communicate which further deepen the interconnectivity of the world.

Communications

The House of Morgan was also instrumental in the development of broader communication technology. American Telephone & Telegraph, which relied on Boston private bankers during its formation, increasingly shifted to depending on the House of Morgan and principally under its modern formation in 1906.[336] More instrumental, the House of Morgan was the principal US financial backer of Cyrus W. Field's laying the first transatlantic cable starting in the 1850s and ultimately completed in 1866 under the Atlantic Telegraph Company.[337] The House of Morgan had the power of attorney for Cyrus W. Field, served as American proxy, and roughly 75% of the company's funding came from London which benefited from the Morgan partners' overseas relationships.[338]

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[334]Carosso, *The Morgans*, 462.

[335]Ibid., 463.

[336]Ibid., 493.

[337]Ibid., 82.

[338]Ibid., 82.

Communication from the US and London, which had taken weeks beforehand, now was being made instantaneously via the telegraph messages.

The House of Morgan was not only involved with the speed of communications but with the content of communications through mass media. Newspapers, books, magazines were reaching larger more centralized audiences now increasingly based in cities. This allowed a strong forum for companies to get their messages out to the public in regards to the company to editorials shaping how companies would be perceived. The head of the Philadelphia partnership, Anthony J. Drexel owned the *Philadelphia Public Ledger* newspaper along with friend George William Childs towards the end of the Civil War. Childs, through Drexel financial backing was one of the nation's most venerable book publishers, with a particular focus on religious and scientific books used in schools. *Philadelphia Public Ledger* became one of the preeminent journals in the US boasting one of the largest circulations during the latter part of the 19th century.[339] The House of Morgan bailed out and took dominant control of the US's oldest book publisher following the panic of 1893, Harper & Brothers.[340] Harpers & Brothers had four of the more widely read magazines under its umbrella and remained a noted book publisher into the early 20th century.[341] Willard D. Straight from the House of Morgan financially funded the very influential *New Republic* starting in 1914.[342] In 1918 Morgan partner, Thomas W. Lamont, purchased another well-known news publisher, the *New York*

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[339]Rottenberg, *The Man Who Made Wall Street*, 76.

[340]Carosso, *The Morgans*, 296.

[341]Ibid., 296.

[342]Herbert Croly, *Willard Straight* (New York: Macmillan, 1924), 472.

Evening Post, which traced its origins to Alexander Hamilton.[343] The media was not only informative in purchasing decisions, but also creating awareness of perceived inappropriate practices of corporations, a key driver in fostering many of the new regulations.

Regulation

One view of regulation it is that is designed and operated for the best interest of the underlying industry it is intended to monitor.[344] In this case, the principal aims and uses of regulation allowed for a more balanced landscape and determined entry of new firms into the playing field.[345] The goal for companies with such large capital outlays and dominant market share was for uniform pricing and stable rate of returns to be bolstered through increased federal regulation.[346] The House of Morgan promoted domestic regulation as well that would protect large US multinational corporations and big business interest from further ruinous competition and better enactment of private agreements. The Morgan partners had always had a preference for planning over "hands off" competition. Business cooperation would be the first approach followed by government planning if needed.[347]

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[343]Lamont, *Ambassador from Wall Street*, 100.

[344]George J. Stigler, "The Theory of Economic Regulation," *Bell Journal of Economics and Management Science* 2, no. 1 (Spring, 1971): 3.

[345]Ibid., 4.

[346]Naomi R. Lamoreaux, *The Great Merger Movement in American Business, 1895-1904* (New York: Cambridge University Press, 1985), 160.

[347]Chernow, *House of Morgan*, 56.

Starting with the Interstate Commerce Act in 1887 was decisive in terms of future corporate regulation as the first regulatory commission and was requested by big business in order to bring a more stable operating environment and was orchestrated by the House of Morgan. The act was momentous as it would lead to an increasing trend of government involvement in business operations.[348] Following the passage of the legislation during the coming years, J.P. Morgan would continue to organize and host private gatherings at his home to promote cooperation and stability among the railway operators who had previously operated on their own accord.[349] The Sherman Antitrust Act of 1890 would deter cooperative arrangements, such as cartels and pools which in turn promoted a full-scale merger between competitors through the development of multinational corporations organization but would promote full-scale corporate mergers.[350] It was Morgan's lawyers who also wrote up the increasing business contractual framework during this time that would be adopted by future multinationals, led by Morgan's "attorney general" Francis Lynde Stenson.[351] It was Morgan's top lawyers, Francis Lynde Stenson's and William Nelson Cromwell's long-term work with the rails' reorganizations and merger and actions of multinationals such as US Steel and International Harvester that would be a corporate legal blue print for budding multinationals for years to come. These same legal minds and ally politicians were also instrumental in developing tariff friendly protections for US big business.

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[348]Stigler, "The Theory of Economic Regulation," 4.

[349]Chernow, *House of Morgan*, 56-57.

[350]Cassis, "Big Business," 178.

[351]Carosso, *The Morgans*, 366.

Tariffs

The established contacts and global syndicates that developed leverage for dealings were used to support its growing list of multinationals' clients, where it financed trade and dealt in foreign exchange.[352] The House of Morgan was linked to both parties at both a personal level of having men inside the office and at a business level in servicing governments, both domestically and abroad. Tariffs long were a hot-button issue in American politics split along party lines. Republicans overwhelmingly supported greater trade protection with Democrats opposed. While the turn of the 20th century was remarkably open in many respects, tariffs were customarily high and that is the way big business generally wanted it to protect their industries from overseas competition.[353] This was clear in the Dingley Act or the Tariff Act of 1897, which was both the longest lasting tariff in US history at 12 years and also had the highest rates, averaging 47%.[354]

In fact, high tariffs in the late nineteenth century in the US and sections of Europe were one of the key reasons multinationals set up operations abroad and would turn first to the leading merchant banks, most especially the House of Morgan.[355] Steep tariffs in the US encouraged greater direct investment from international concerns with overseas companies manufacturing in the US rather than dealing with high tariffs on exports.[356]

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[352]Ibid., 509.

[353]Ibid., 8.

[354]F.W. Taussig, *The Tariff History of the United States,* 8th ed. (New York: Capricoren, 1964), 306.

[355]Jones, "British Multinational Enterprise," 243.

[356]Wilkins, *The Emergence of Multinational Enterprise*, 179.

Overseas tariffs caused US multinationals to go abroad in nations close by or with long cultural ties such as found in Europe, Canada, and Latin America.[357] While companies were increasingly seeking operations and trade overseas, its underlying formation would remain a very local matter decided by the American states.

State Incorporation

The United States has a rich experience of companies developing its very being—including the US's oldest existing corporation, Harvard University chartered in 1636—to develop key infrastructure of the United States, including transportation, schools, banks and churches.[358] However, there were merely just a few hundred corporations by 1800 as states/municipalities would continually rewrite charters with corporations, creating uncertainty and making the small private partnership's business model more attractive for entrepreneurs and bankers. In the early 19th century, companies were typically single-unit, focusing on one geographic location, while few employees and owners and managers were one and the same.[359] Companies in the 1840s remained small business affairs despite a much more supportive legal framework as there was not yet an economic motive to build larger corporations.[360] As the 19th century progressed, domestic companies would have increased markets to exploit at home and abroad given a transportation revolution and accompanying burdening trade. Following the US Civil

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[357]Ibid., 87.

[358]John Micklethwait and Adrian Wooldridge, *The Company: A Short History of a Revolutionary Idea* (New York: Modern Library, 2003), 41.

[359]Chandler, *The Visible Hand*, 3.

[360]Quigley, *Tragedy and Hope*, 455.

War the demand for a corporate organization to support a larger multiunit globally operating entity was in far greater demand. However, it was the American states and not the Federal Government that were the ruling authority under incorporation law, which determined the ability to operate across state lines to the authority to merge with another company.[361]

There was no location more appealing than New Jersey for big business at the turn of the 20th century, with over 50% of US total consolidations greater than $1 million being incorporated in New Jersey representing a staggering 80% of the combination's market cap and half of Moody 318 largest industrial trusts being incorporated in the Garden state.[362] It was important to note that key Morgan lawyers were actively helping to shape the legal code of New Jersey. This includes William Nelson Cromwell who was involved in creating the legal code for devising the structures of modern large corporations and was closely involved in many Morgan back deals, which included the Panama Canal creation and helping to organize US Steel.[363] William Nelson Cromwell when advising International Harvester to choose New Jersey for its incorporation had discussed a key benefit of New Jersey is that a syndicate of lawyers had been actively shaping the legal landscape to be very supportive to big business.[364] The lawyers to

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[361]Christopher Grandy, "New Jersey Corporate Chartermongering, 1875-1929," *Journal of Economic History* 49, no. 3 (Sep., 1989): 684.

[362]Ibid., 678.

[363]"William Nelson Cromwell, 94, Corporation Lawyer, is Dead," *New York Herald Tribune*, Jul 20, 1948, http://search.proquest.com.ezpprod1.hul.harvard.edu/docview/1327414062?accountid=11311.

[364]Helen Kramer, "Harvesters and High Finance: Formation of the International Harvester Company," *Business History Review* 38, no. 3 (Autumn, 1964): 295.

whom Cromwell is referring were led by James Brooks Dill, who was most pivotal in making New Jersey the capital for large corporations.

James Brooks Dill worked with local politicians in liberalizing New Jersey statutes and by setting up The Corporation Trust Company, which had New Jersey Governor Leon Abbett and Secretary of State Henry Kelsey as directors who would act as the agent for companies wishing to acquire New Jersey charters.[365] Dill was strongly connected to the House of Morgan, with the Corporation Trust Company of New Jersey representing Morgan's clients, including Federal Steel Company in New Jersey, the formerly largest organization in the state.[366] In 1896, Dill wrote the General Corporation Act which was in simple language and showcased the many opportunities for corporations to incorporate in New Jersey.[367] Their actions led to law changes made in 1893 and earlier that allowed corporations to hold stock in other companies, both within the state and externally, allowing an increase in horizontal industry mergers.[368] Close relationships thus developed between the finance community, lawyers and the state which was now dealing with corporations operating nationally such as Morgan's clients International Harvester and US Steel locating in New Jersey. While locally a legal framework in New Jersey provided a retentively stable foundation for business to operate in, the gold standard increased stability for overseas trade for multinational organizations.

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[365]Grandy, "New Jersey Corporate Chartermongering," 681.

[366]Thomas Paton, "A Huge Incorporation," *Banking Law Journal* 15 (1898): 511-513.

[367]Elizabeth Ann Schiller, "James Brooks Dill: Father of the Trusts" (Masters diss., Seton Hall University, 2009), 22.

[368]Grandy, "New Jersey Corporate Chartermongering," 681.

Gold Standard

By the turn of the 20th century, the world's largest markets were increasingly on the gold standard. Starting after 1879, the US was essentially on the gold standard until the early 20th century.[369] The House of Morgan has had a long history of promoting gold and in fact, played a leading role in stabilizing the new gold standard in the United States by cooperating with the US government and financial syndicates. This started, in earnest, with a Morgan and Rothschild-led syndicate for $50 million in order for the US Treasury to return to the gold standard in 1879.[370] The House of Morgan would continue to lead syndicates when necessary if gold stability was uncertain, which was shown during the panic of 1893 when securing the Treasury's gold reserves with massive intervention.[371] The firm leveraged its global syndicate relationships overseas with the House of Rothschild and also with Deutsche Bank in 1895 to continue its supportive efforts for gold.[372]

Gold held a unique position as the principal as the majority of the developed world money was expressed in its terms and would be the building block for fractional reserve banking in the US.[373] Gold was increasingly being rapidly attracted to the US given in part to robust trade underpinned by surging manufacturing exports. The US

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[369]Wilkins, *The History of Foreign Investment*, 144.

[370]Strouse, *Morgan*, 179-180.

[371]Carosso, *The Morgans*, 333.

[372]Chernow, *House of Morgan*, 76.

[373]Quigley, *Tragedy and Hope*, 54.

possessed 1/8 of the world's stock of gold, 20% by 1900 and 25% in 1913.[374] To increase gold reserves in the US and enhance New York banks in foreign exchange transactions, Morgan's partners and Washington would work together on promoting a more deeply interconnected financial system.[375] US foreign policy and large business interest would increasingly support the promotion of gold for several reasons, including the stabilization of exchange rates, the improvement of export trade and the increase of foreign investment in overseas markets.[376] The House of Morgan and its peers were largely the driving force behind the gold promotion, including that to China, Mexico, the Philippines, and Puerto Rico to name a few. US multinationals largely supported these goals of gold-backed currency expansion for greater exchange rate / business stability.[377] The House of Morgan's partners leading involvement with gold extended naturally to provide the lender-of-last-resort role status needed within the US.

Lender of Last Resort

The House of Morgan's families were deeply involved in central banking, including generations of directors within the Bank of England. Previous generations of Morgan's relatives were instrumental in developing the first US central bank under the

[374]Lionel D. Edie, "The United States' Share of the World's Gold," *Journal of Business of the University of Chicago* 1, no. 3 (Jul., 1928): 372.

[375]Emily S. Rosenberg, "Foundations of United States International Financial Power: Gold Standard Diplomacy, 1900-1905," *Business History Review* 59, no. 2 (Summer, 1985): 170.

[376]Ibid., 172.

[377]Ibid., 171.

leadership of Alexander Hamilton's[378] First Bank of the United States and Nicholas Biddle, being a leader of the Second Bank of the United States.[379] The House of Morgan's partners in the US would carry on a business and moral responsibility as "lender of last resort" during several financial panics, including a panic in 1884 where Morgan asserted himself in the leading role.[380] Morgan would again come to the aid of markets following the panic of 1893, whose firm was considered more solvent and of a higher standing compared with United States Treasury by European investors.[381] Besides moral responsibility, Morgan would gain increased prestige among the business community for his successful rescue plan.[382] Further, panics tightening credit had an effect of money becoming tighter and a flight to safety and coming out of those economic downturns could get greater access to capital and help with potential corporate reorganizations.[383] The House of Morgan would play an even larger role in the panic of 1907 and helping to convince senior financial executives to muster up $25 million each to provide stability to banks in trouble.[384] Following the Panic of 1907, there was now an increased focus on creating a central bank, which is what the financiers had wanted for

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[378]David Jack Cowen, "The Origins and Economic Impact of the First Bank of the United States, 1791-1797" (PhD diss., New York University, 1999), 2.

[379]George Ernest Shortt, "The Second Bank of the United States under Two Charters" (PhD diss., University of Michigan, 1929), 308.

[380]Sobel, *Panic on Wall Street*, 225.

[381]Ibid., 265.

[382]Carosso, *The Morgans,* 351.

[383]Ramirez, "Did J.P. Morgan's Men Add Liquidity," 664.

[384]Chernow, *House of Morgan*, 125.

years, modeled after the Bank of England and German Reichsbank, which were designed to limit panics.[385]

International bankers' desire for a Central Bank in the US began, in earnest, following McKinley's victory of silver advocated by William Jennings Bryan in 1896, which was seen as a big win for the gold standard. The Indianapolis Monetary Convention of 1897 was a large gathering of businessmen from 26 states.[386] It promoted the gold standard and elastic bank credit, with several key Morgan allies organizing the gathering—meetings were presided over by C. Stuart Patterson (member of the Morgan-oriented Pennsylvania Railroad) and George Foster Peabody (Boston banker close to the Morgans).[387] Following the Panic of 1907, to aid in the process a Congressional commission was set up by Senator Aldrich, and in summer 1908 Morgan partners were asked to help set up meetings with the preeminent bankers in London, Paris and Berlin.[388] Future Morgan partner Henry P. Davison in 1908 was selected by the National Monetary Commission as the main expert.[389]

The Federal Reserve System was intended to provide stable prices, lower inflation, and become the lender of last resort. The Federal Reserve Act also allowed national banks to set up international branches to service its multinational and local

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[385]Cleveland, and Huertas, *Citibank 1812-1970*, 61.

[386]Paul Thompson Burlin, "American Monetary Reform and Expansion, 1895-1905" (PhD diss., Rutgers The State University of New Jersey, 1984), 109.

[387]Murray N. Rothbard, *The Case against the Fed* (Auburn, AL: Ludwig von Mises Institute, 2008), 101.

[388]Strouse, *Morgan*, 594.

[389]Rothbard, *Wall Street,* 26.

clients, which would also aid US multinationals in trade.[390] The passage of The Federal Reserve Act of December 23, 1913 was signed into law by President Woodrow Wilson with Benjamin Strong the preeminent Fed member in his role as Governor of the Federal Reserve Bank of New York for fourteen years. The creation of the Federal Reserve was not only in large measure thanks to the efforts of Morgan's partners, but so was its operations. Morgan's partner Henry P. Davidson was a mentor to Benjamin Strong, who came from the Morgan-controlled Bankers Trust Company.[391] Until the start of the Great Depression, the House of Morgan was deeply involved in central bank policy both with the Federal Reserve and its dealings with the Bank of England.[392] The House of Morgan's partners were also focusing on providing increased stability within the economy through development, promotion, and strategic leadership of US large-cap multinationals.

[390]Harold and Huertas, *Citibank 1812-1970*, 78.

[391]Thomas W. Lamont, *Henry P. Davison: The Record of A Useful Life* (New York: Harper Brothers Publishers, 1933), 59.

[392]Chernow, *House of Morgan*, 182.

Chapter V

House of Morgan Organizes the US Multinational Corporation

By serving a larger community need and utilizing a cooperative strategy, the House of Morgan helped develop the defining aspects of the large cap multinational corporation. It fostered global trade and international development leveraging an incremental strategy towards expansion built on their decades of trust as an honest broker for fair dealing. The shareholders and management of the new corporations were separated and in solving the principal-agent problem with the owners, had an effective board of directors representing their interest controlled often by their merchant bankers. Firms like Morgan were very active in setting, monitoring, and enforcing the strategic vision of companies representing their shareholders' interests from selecting a management team to executing the board's vision and providing an incentive structure to have employees best motivated to implement management orders. The large multiunit organizations with multiple distinct product lines were formed through acquisitions primarily during the great merger and acquisition wave during the turn of the 20th century, in which former rivals were now all under the same organization, and those once competing resources would be utilized to cooperate to move forward overseen by a hierarchy of paid managers running operations. Ongoing growth was promoted organically as well through the development of research and development centers. Public relations experts leveraged the best elements of these colossal organizations for a positive persona with consumers. However, it was trusted and reliable information that served as the focal point for internal and external decision makers.

Standardized Information

Information is essential in order for companies to make decisions, but acquiring it is costly.[393] It has been argued that the development of an organization's structure is immensely influenced by high information costs.[394] Quality trustworthy information is difficult to come by and to leverage for making business decisions. Vital information is needed before transaction costs can be taken on so as to appraise potential investments and to search for different production locations and, furthermore, to help determine the organization's overall structure.[395] Each phase in a business life cycle requires new information that will have a major impact on how that organization is structured. The multinational in the US gained wider acceptance as it allowed for a more efficient and cost-effective way to transfer information.[396]

One of the most effective means for sharing information was through social relations.[397] In an era before widespread regulation or greater corporate transparency via financial statements, the impeccable reputation of the House of Morgan facilitated information sharing built on its pristine reputation and through its powerful relationships.[398] Information, especially in the other parts of the world is vital for

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[393]Coleman, "Social Capital," S104.

[394]Mark Casson, *Information and Organization: A New Perspective on the Theory of the Firm* (New York: Oxford University Press, 1997), 23.

[395]Ibid., 78.

[396]Ibid., 119.

[397]Coleman, "Social Capital," S104.

[398]Pak, *Gentlemen Bankers*, 48.

corporations to conduct its operations overseas in order to calculate impending costs and make informed decisions on production given demand trends. Accurate and timely information was vital for budding investors and potential clients of multinationals to tap into a given lack of reliable public information.[399] The House of Morgan was in a unique role in alleviating the problem of monitoring the corporations and control from the board managers through their active broker status.[400]

Firms like Morgan's were entrusted with very sensitive information from the world's decision makers. The fact that the House of Morgan was four unincorporated partnerships allowed an all-important veil of secrecy as no financial reports needed to be filed, no shares were offered to the general public, and no real advertising for clients was done.[401] The secrecy was needed on the nature of the role, as the House of Morgan would serve as a confidante for the wealthiest families, the largest companies, and the most influential nations. Its impressive global relationships and secrecy would serve the firm well in providing leading intelligence to its clients, ranging from US multinationals to governments.[402] These informal but extensive worldwide intelligence networks of agents and correspondents of clients, lawyers, government officials were used effectively in building up the multinational. A foreign trade department supplied information to American business in overseas markets and foreign firms, which allowed firms to determine transoceanic investment and trade opportunities.

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[399]DeLong, "J.P. Morgan and His Money Trust," 209.

[400]Ibid., 209.

[401]Quigley, *Tragedy and Hope*, 52.

[402]James Srodes, *Allen Dulles: Master of Spies* (Washington DC: Regnery Publishing, 1999), 152.

As companies were now employing tens of thousands of workers, in various operations in different divisions around the world, the trend to systematize pertained to information as well allowing for greater managerial control through consistent internal communications instead of ad-hoc dependence on individuals. A good example of standardized communications was in regard to financial statements, which became increasingly valuable by both internal managements for decision making and for investors to determine a company's prospects. However, as financial reporting was far from a normal practice and even just a basic balance sheet was not common, except by clients represented by the House of Morgan—all of Morgan's clients had published financial statements versus only 43% of the largest US industrials in 1899.[403] In an era before the SEC and other regulatory bodies, the Morgan seal of approval was all the confidence investors needed, which was further enhanced with a Morgan board placement to ensure ongoing representation of operations and the Morgan partners' promoting greater transparency of companies they represented. Financial reporting was integral for external shareholders to get a window into management's information system and have reliable information that decision makers utilized.[404]

A good example of the House of Morgan's promoting more published information about their clients can be seen at their work in the accounting sector and their regular corporate audits. Morgan's clients were regularly audited by the English accounting firm Price Waterhouse before and after major transactions. Price Waterhouse

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[403]Hannah, "J.P. Morgan in London," 144-145.

[404]Trevor Boyns, "Accounting, Information, and Communication Systems," in *The Oxford Handbook of Business History*, ed. Geoffrey Jones and Jonathan Zeitlin (Oxford: Oxford University Press, 2007), 451.

had at its disposal the more-seasoned British accountants compared to US counterparts who were trained in the key areas of corporate finance such as mergers, valuations and auditing.[405] Accounting established further trust for multinationals through creating standardized rules to oversee a company, even if they were not a part of the internal management team.[406] Stockholders had imperfect information on operations of a company, the House of Morgan's regular use of company audits. In addition, releasing financial statements was groundbreaking and helped lead to major growth in the industry around the 20th century, which was essential for continued expansion of the multinationals in attracting outside investors—and in the process further separating ownership from management.

Separation of Ownership from Management

The large-scale multinationals' acquiring competitors and setting up international operations fostered another change in business, namely the separation of owners and management.[407] The trend would only accelerate into the early 20th century.[408] Morgan played a leading role in the process of separating owners from management through the sale of securities via syndicates. Doing so brought a major shift from family-owned and

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[405]Hannah, "J.P. Morgan in London," 145.

[406]Jeffrey Fear and Christopher Kobrak, "Diverging Paths: Accounting for Corporate Governance in America and Germany," *Business History Review* 80, no. 1 (Spring, 2006): 48.

[407]Quigley, *Tragedy and Hope*, 381.

[408]William Lazonick, "Business History and Economic Development," in *The Oxford Handbook of Business History,* ed. by Geoffrey Jones and Jonathan Zeitlin (Oxford: Oxford University Press, 2008), 74.

run firms that had dominated years before.[409] Instead of the founders running the operations, management would be conducted by a hierarchy of paid executives in focused segments of the company overseeing specialized workers.[410] However, new problems arose from the separation of owners and management, as corporate managers and investors had different objectives from just maximizing profits.[411]

The House of Morgan helped alleviate the principal-agent problem by being in positions of power in the firms it represented being on its board. Through board representation, Morgan's partners were in a position to achieve the most important role of a director overseeing enterprises through continuous management assessment and the business operating to serve the shareholders and bondholders.[412] Following reorganization or a merger, the extent of the financier's power was the greatest on the board as uncertainty among stockholders was higher given new direction and high debts. It is also important to note that many of the acquisitions that occurred were among former fierce rivals in a given industry, thus having a team of rivals serving as management with the bankers performing as internal arbitrators for the many disputes.[413] The Morgan partners were trusted, based on high character and decades of honorable dealing, and were well suited for their role. However, they commanded and received near total control

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[409]Carosso, *The Morgans*, 50.

[410]Lazonick, "Business History and Economic Development," 74.

[411]Naomi R. Lamoreaux, Daniel M. G. Raff and Peter Temin, "Economic Theory and Business History," in *The Oxford Handbook of Business History,* ed. by Geoffrey Jones and Jonathan Zeitlin (Oxford: Oxford University Press, 2008), 45-46.

[412]Carosso, *The Morgans*, 290.

[413]Chernow, *House of Morgan*, 82.

when involved in the first few years and were very hands-on with all aspects of operations.[414]

Having a Morgan partner on a board was not just for a show but also for giving up substantial control over major executive appointments to the ability of raising funds.[415] Having a few Morgan partners and allies on a board could give effective control of the company to their investors interests since the majority of shareholders are not present or proxy their votes to financial firms. So unlike previous family-run small business, where trust in the personal character and its ties with the merchant bank were enough, with tens of thousands of workers more oversight was demanded. Morgan and its peers desired board representation, committee positions, and being the trustee in order to safeguard its client's interest and its own representations. Trust was now being institutionalized by building hierarchies on top of layers of rules and standardized reporting in turn producing many of the largest companies.[416]

Morgan's partners were on the boards of the leading companies spread throughout the economy. Railroad expert Charles Coster was on an astonishing 59 corporate boards during his career, including leading US rails and industrials like General Electric.[417] Morgan's partners had board member representation on a range of leading organizations, including leading US rails such as New York Central, Northern Pacific and Erie Railroad. The board of the world's largest publicly traded company, US Steel, was dominated by

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[414]Carosso, *The Morgans*, 486-487.

[415]Ramirez, "Did J.P. Morgan's Men Add Liquidity," 661.

[416]Jones, "Globalization," 153.

[417]"Charles H. Coster Dead," *Hartford Courant*, Mar 14,1900, http://search.proquest.com.ezp-prod1.hul.harvard.edu/docview/554907286?accountid=11311.

Morgan partners and other leading companies such as AT&T Co., International Harvester, and General Electric. The Morgan-influenced board's helped direct the strategies of its underlying companies, including acquiring new diverse product lines.

Large Capital-Intensive Multiunit Organizations

Prices had been going down in a range of industries, and manufacturers formed consolidations to escape the severe price competition that developed during the depression in the mid-1890s in certain types of industries: capital-intensive organization with high fixed costs and loaded with debt. The Herbert Spencer's survival-of-the-fittest approach to doing business, of trying to defeat one's competition, was losing defenders it had among those who distributed capital. Cooperation for sustainable long-term profits and development became the desired approach among the bankers in control of corporate boards and leading executives.[418] Full-scale merger across the industry landscape was deemed to be the answer in contrast to temporary measures such as joint ventures or cartels for longer-run sustainability contrary to short-term fix to deal with continually falling prices, intense competition, and lackluster profits. Following the major consolidation wave at the turn of the 20th century, large corporations could more effectively control production for their industry and enforce price maintenance in a more profitable matter.[419]

Around the turn of the 20th century, a tidal wave of merger activity swept through the U.S. with 1,800 companies being consolidated into just 93 by1904 over a ten-year

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[418]Carosso, *The Morgans*, 438.

[419]Lamoreaux, *The Great Merger Movement*, 134.

period.[420] The rapid consolidation led to many new oligopolies and monopolies within these industries as 80% of these companies controlled at least 40% of their respective market share within their industry, and nearly half of those controlled over 70% market share for their industry.[421] Large multiunit institutions was the dominant force in organizing economic assets now, which was increasingly being concentrated. This may be seen by looking at the size of the largest 100 companies in the US by 1904 which comprised 40% of the industry capital and had quadrupled in size given all the consolidation over the past ten years.[422] By 1912, these colossal corporations dominated not only the American landscape but globally as well. Eight of the top ten companies in the world based on market capitalization presided in the US, with 54 of the largest 100; Britain was next in line with just 15.[423] At the center of the consolidation wave was the House of Morgan, which fostered cooperation among competitors, financial syndicates, suppliers and customers to merge into large-scale multinational corporations and accounted for over 50% of mergers based on market capitalization during the great consolidation wave.[424] The House of Morgan's central role in the first wave of consolidations would continue in years thereafter as again the leader in mergers and

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[420]Ibid., 9.

[421]David S. Landes, Joel Mokyr and William Baumol, *The Invention of Enterprise* (New Jersey: Princeton University Press, 2010), 385.

[422]Strouse, *Morgan,* 396.

[423]Cassis, "Big Business," 172.

[424]Thomas R. Navin and Marian Sears, "The Rise of a Market for Industrial Securities, 1887-1902," *Business History Review* 29 (1955): 135.

acquisition activity—between 1902 and 1912 issued $1.95 billion based on market capitalization.[425]

Following the great consolidation movement, the new dominant form of business was the large multiunit corporation.[426] Product differentiation was another way to deal with price declines and acquisition offered a quick solution to product diversification in contrast to development organically.[427] Horizontal consolidation of the industry was the preferred method of choice in merging whole industries into massive enterprises.[428] However, in certain industries a combination of acquiring not only key competitors, but also suppliers and customers was promoted via vertical integration to provide greater industry stability, reduce future competition, increase control over inputs and have a ready market to sell products into.[429] The result was that the largest companies now had multiple operations and subsidiaries as a part of their organization structure.

These new large multiunit corporations were capital-intensive, which was apparent in the overall statistics and made them very dependent on the most mandarin of private banks like the House of Morgan. By 1900, $19,200 was invested on average per manufacturing plant with a capital-output ratio for the manufacturing sector of 0.75—

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[425]U.S. Congress, U.S. House of Representatives, Subcommittee of the Committee on Banking and Currency, *Money Trust Investigation of Financial and Monetary Conditions in the United States under House Resolutions No. 429 and 504,* 62nd Cong., 3rd sess., December 19, 1912, 1084.

[426]Chandler, *The Visible Hand*, 345.

[427]W. Mark Fruin, "Business Groups and Interfirm Networks," in *The Oxford Handbook of Business History,* ed. by Geoffrey Jones and Jonathan Zeitlin (Oxford: Oxford University Press, 2008), 252.

[428]Lamoreaux, *The Great Merger Movement,* 1.

[429]Ibid., 145.

representing a 75% and 44% increase respectively compared with 1880.[430] As business increasingly became larger, a greater need for capital was required from external sources. The meeting of that need was facilitated and organized by merchant bankers like the House of Morgan, which was at the center of capital markets with unmatched resources thanks to its cooperative industry structure, interlocking boards and being major stockholders of leading corporate institutions.[431] At the turn of the 20th century, firms were highly dependent on scarce capital that was concentrated in a narrow group; if a company had a crucial undertaking without their support, the project or acquisition was not going to get started. Significant investment for corporate expansion, acquisitions, and investment was controlled by a small group of financiers whose approval was necessary for the project, industry, or company.[432] The reason for this power and control was that the interlinked nature of the financial syndicate meant that only a few private bankers were making the decisions for large-scale funding needs.[433] These same decision makers were also promoting longer term profitability through sustained innovation within the corporation.

Research and Development

Peter Drucker who was one the preeminent 20th-century authorities on management and corporate organizations, pithily states the purpose of business was all

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[430]Ibid., 29.

[431]DeLong, "J.P. Morgan and His Money Trust," 206.

[432]Ibid., 1.

[433]Ibid., 206.

about marketing and innovation.[434] Research and development, likewise, became increasingly a part of these giant organizations desires to institutionalize innovation.[435] Similar to capital expenditures and acquiring competitors, research and development required meaningful funds as a way to further offset steep costs from higher skilled workers.[436] A focus on developing leading-edge technologies has been consistently seen throughout the US business history, with the House of Morgan at the forefront. This was evident through its continued support of the United States' most prolific innovator in the 19th century, Thomas Edison, to innovation within the US rails. For example, the House of Morgan organized the largest US railroad company—Pennsylvania Railroad—and in 1876 became the first American company to hire a Ph.D. chemist,[437] with innovation seen by the company in ensuing decades such as testing locomotives at the highest speeds to developing track in difficult terrain such as under the Hudson River.

While improving existing products was important, a greater increase ultimately in production comes from new services or products for companies.[438] Following the merger and acquisition wave discussed earlier at the turn of the 20th century, companies had far more products under their corporate umbrella to worry about with expiring patents opening up potential new competition and were increasingly developing systematic ways

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[434]Peter Drucker, *Management,* rev. ed. (New York: Harper Collins, 2008), 98.

[435]Margaret B.W. Graham, "Technology and Innovation," in *The Oxford Handbook of Business History,* ed. by Geoffrey Jones and Jonathan Zeitlin (Oxford: Oxford University Press, 2008), 355.

[436]Howard Gospel, "The Management of Labor and Human Resources," in *The Oxford Handbook of Business History,* ed. by Geoffrey Jones and Jonathan Zeitlin (Oxford: Oxford University Press, 2008), 428.

[437]Mary Ellen Bowden and John Kenly Smith, *American Chemical Enterprise* (Philadelphia: Chemical Heritage Foundation, 1994), 27.

[438]Drucker, *Management,* 99.

to promote innovation.[439] Prior to 1900, science and industry were largely divorced, with the vast majority of scientists' careers as teachers in universities.[440] Developing research and development centers was one way to organize sustainable innovation. By combining scientists guided by practical applications to produce real-world products, with Morgan's organized General Electric, the first large US company to do so.[441] Strong innovation gave a formidable advantage in expanding overseas with competitors lacking in the advanced technologies.

Global Operations

Another hallmark of large companies at the turn of the 20th century was an enlarged focus on going global to diversify its markets with a new consumer base. The US manufacturing of exports surged starting around 1895, rising from a $205 million to $485 million by 1900, with a corresponding rise in its overall share of US exports from 26% to 35%—similar escalation was seen from 1908 to 1913, which boosted manufacturing's total export share in the US to nearly 50%.[442] Merchant bankers were integral to the nature of trade, which was wholly dependent on the role merchant bankers played as trusted middlemen, which lent their clients their firm's name and credit.[443]

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[439]George Wise, "A New Role for Professional Scientists in Industry: Industrial Research at General Electric, 1900-1916," *Technology and Culture* 21, no. 3 (Jul., 1980): 411.

[440]Ibid., 411.

[441]Ibid., 409.

[442]Douglas A Irwin, "Explaining America's Surge in Manufactured Exports, 1880-1913," *Review of Economics and Statistics* 85, no. 2 (2003): 367.

[443]Carosso, *The Morgans*, 8.

While overseas expansion for trade was surging and had few government hurdles to overtake, "liability of foreignness" was still high.[444] To reduce their risk, businessmen followed a policy gradually laying a stake in a different land. The process can best be described as an incremental move that progressed from least risk and commitment on upwards as the multinational became acclimated with the environment, gained increased knowledge, and developed further avenues for overseas sales. The progression typically starts with exporting, finding an agent to sell and a distribution company created to establish local manufacture for production.[445]

The House of Morgan was a leading firm in enabling the incremental strategy implemented by the multinationals given its large capital reserves, unmatched global connections and pristine name which ensured confidence for all parties involved. Utilizing bill of exchange and commercial letter of credit the House of Morgan used its outstanding reputation and financial credit in providing diverse services, including facilitating international trade to supplying credit while dealing with a wide array of laws, and different cultures as well as handling assorted currencies.[446] Going transoceanic was essential for US multinationals given the rapid production needed to find larger markets; it increasingly made economic sense to have investments overseas as well once established avenues of trade were in place.[447] Another key resource merchant bankers provided for companies was the financial capital to expand internationally and facilitate

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[444]Jones, *Multinationals and Global Capitalism*, 5.

[445]Ibid, 147.

[446]Pak, *Gentlemen Bankers*, 14.

[447]Wilkins, *The Emergence of Multinational Enterprise*, 72.

the largest form of multinational investment via acquisitions.[448] US investment overseas by the time of World War I was a significant part of large corporations' spending and overall US economy.[449]

Multinational corporations would choose locations that were geographically close by, such as Mexico and Canada, which would ease setting up costs for new operations. Companies would also choose locations where they had had significant trading already taking place, like London, with a wealthy consumer base and US largest trading partner, to set up new operations.[450] The largest fiscal agent for London in the US was the House of Morgan, which had a rich history of servicing US companies in London right back to its founding under George Peabody.[451] The trend to start overseas operations in London accelerated at the turn of the 20th century across disparate industries.[452] While expanding to service London consumers provided new outlets, best practices used in some of the organizations in the British Empire were brought back to the US including corporate welfare.

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[448]Jones, "Globalization," 150.

[449]Chandler, *The Visible Hand*, 370.

[450]P.J. Cain, "Economics and Empire: The Metropolitan Context," in *The Oxford History of the British Empire: The Nineteenth Century,* ed. Andrew Porter (Oxford: Oxford University Press, 1999), 31.

[451]Strouse, *Morgan*, 50.

[452]Howard Gospel, "The Management of Labor and Human Resources," in *The Oxford Handbook of Business History,* ed. by Geoffrey Jones and Jonathan Zeitlin (Oxford: Oxford University Press, 2008), 431.

Corporate Incentives & Welfare

The rapidly expanding large-cap multinationals had an equal surge in the number of employees a firm would have, which were increasingly concentrated in larger concerns. In 1860, there were 1.3 million employees in US manufacturing, doubling to over 2.7 million by 1900 and by 1909 nearly 2/3 of all wage earners were employed with at least 100 employees.[453] With the startling increase in size and scope of these firms, business philanthropy was used both for defensive and offensive reasons for multinationals to address employee relations. This included support for workers in order to prevent unions coming in the workplace to government involvement like in Europe and also to encourage a more loyal workforce of company men. Corporate welfare programs in the US were targeted for immediate needs.[454] There were different types of programs companies offered to support their workers who were often paternalistic to give the perception of a large family.[455] Other plans adopted included company houses, diverse types of employment plans such as insurance and more innovative offerings such as stock purchases.[456] The type of incentives a company offered was also effectively used for public relations to give off a certain image or help take the focus off negative news.

The House of Morgan was an early pioneer in 1907 adopting an advertising campaign not at direct sales but as public relations to promote American Telephone &

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[453]Andrea Tone, *The Business of Benevolence. Industrial Paternalism in Progressive America* (Ithaca, NY: Cornell University Press, 1997), 20.

[454]Nikki Mandell, The *Corporation as Family: The Gendering of Corporate Welfare 1890-1930* (Chapel Hill: University of North Carolina Press, 2002), 3.

[455]Ibid., 8.

[456]Ibid., 18.

Telegraph as a beneficial monopoly for the consumer through persuasive ads developed by an ad agency that ran for decades.[457] The firm was also ground breaking in developing a corporate stock option program at US Steel, employee training at GE and welfare for employees at International Harvester. The trends and publicity by these titans of industry spread and were becoming increasingly a part of business—by 1914, 2,500 US large-caps had some form of the benefit program.[458] As I shall go over in the case studies section of this report, the House of Morgan was instrumental in the growth of employment welfare and incentive programs, which were also used for public relations such as US Steel, International Harvester, and General Electric.

[457]Noel L. Griese, "AT&T: 1908 Origins of the Nation's Oldest Continuous Institutional Advertising Campaign," *Journal of Advertising* 6, no. 3 (Summer, 1977): 18.

[458]Tone, *The Business of Benevolence*, 2.

Chapter VI

Case Studies: Large-Cap US Multinationals

The organization and strategy on which the four companies focused in the case study review showed a clear Morgan-led preference for cooperation over competition. US Steel, International Harvester, General Electric, and International Mercantile Marine Company were all formed through large-scale mergers with its key competitors. To reduce the tension between the team of rivals and serve the shareowner base the Morgan partners were given control of the companies, which was reflected in selecting leaders who could best cooperate within a broader community of interest for sustainable profits. This was fostered by US Steel's Judge Gary's having regular dinners with the leaders in the steel industry's maintaining stability in the industry, while GE and their lead competitors both nearby and abroad set up arrangements to protect their local markets. In US Steel, International Harvester, and General Electric proposals to support the community of interests were utilized and reflected with increased corporate welfare and employee incentive programs. International Mercantile Marine highlights that not in all cases did the House of Morgan build a successful multinational. Morgan's partners' intention to get involved in the deal to support a broader community of interest to bring about a more stable and lower cost transportation for its manufacturing and rail concerns backfired on anticipated gains for shareholders. This is despite having control of the board, selecting the management team and developing the strategy post merger as in its successful acquisitions.

US Steel

At the turn of the 20th century, the United States economy was benefiting from robust trade, being a net exporter of manufactured goods driven by an upswing in production. Manufacturing goods surged from 20% of US exports in 1890 to 35% by 1900 and nearly 50% in 1913.[459] The chief driver of the manufacturing success was the steel industry, where the US had been the world's largest producer since 1890 and was the leading category of manufactured exports by 1913.[460] The dominant firm at the time was founded by a successful businessman originating from the rail industry, Andrew Carnegie. Carnegie Steel Company had the largest volume share of production driven by leading technology edge and superior organizational efficiencies.[461] J.P. Morgan and Andrew Carnegie's relationship went back many years, where they met crossing the Atlantic together in 1868. Carnegie did business with London's Morgan arm for a St. Louis bridge deal offering in 1870 and later raised money for his first steel mill.[462]

The merger movement in the steel industry had started the decade before the US Steel merger, with Morgan's partners the main orchestrators.[463] Within steel, Morgan had a desire to protect its clients, Federal Steel and National Tube, from increased competition with a more permanent industry solution.[464] The House of Morgan's

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[459]Irwin, "Explaining America's Surge in Manufactured Exports," 1.

[460]Ibid., 5.

[461]Donald O. Parsons and Edward John Ray, "The United States Steel Consolidation: The Creation of Market Control," *Journal of Law and Economics* 18, no. 1 (Apr., 1975): 181.

[462]Chernow, *The House of Morgan*, 39.

[463]Kenneth Warren, *Industrial Genius: The Working Life of Charles Michael Schwab* (Pittsburgh: University of Pittsburgh Press, 2007), 82.

[464]Carosso, *The Morgans*, 466.

involvement in promoting US Steel was to serve its steel clients' interest but also, more importantly bring order to an industry that was vitally important to the rest of the economy and sectors, including the rails—where they had the leading representation as well.

The formal start of US Steel creation began at a social club dinner event in the University Club in New York in December 1900, highlighting the importance of posh clubs in generating business. The dinner had roughly 80 of the most powerful businessmen, including August Belmont, Jacob Schiff, James Stillman, and J.P. Morgan listening to Carnegie Steel Corporation's president Charles Schwab, who started immediately discussing consolidating the industry post his speech.[465] The last key step was getting the principal owner Carnegie's approval, which also started at a private social setting, Saint Andrews Golf Club in Westchester.[466] Trust underpinned the entire process; in fact, there was no formal contract signed initially.[467] Social events would remain an important staple of US Steel business operations' going forward, as illustrated by "Gary dinners" hosted at the Waldorf Astoria, named after its chairmen, with leading steel men of over one hundred to discuss cooperation and stability within the industry.[468]

A key aspect of coming up with the valuation for US Steel, still used to this day, was based on earnings prospects, with approximately $40 million a year with price

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[465]Kenneth Warren, *Big Steel: The First Century of the United States Steel Corporation 1901-2001* (Pittsburgh: University of Pittsburgh Press, 2001), 19.

[466]Chernow, *House of Morgan*, 84.

[467]Carosso, *The Morgans*, 470.

[468]Kenneth Warren, *Triumphant Capitalism: Henry Clay Frick and the Industrial Transformation of America* (Pittsburgh: University of Pittsburgh Press, 2000), 304.

coming in at 12 times earnings.[469] The size of the newly formed US Steel at $1.4 billion simply staggering the world's largest corporation represented about 7% of total US GDP at the time.[470] To place the deal, the House of Morgan as sole manager would lead a global syndicate of 300, which given its long history of success and strong management over syndicates ensured its success.[471] Like many of Morgan's and his peers' mergers, New Jersey was chosen as the official location on April 1, 1901 for the United States Steel Corporation.[472] Its first-year running would show the extent of the operation, producing a staggering 2/3 of the entire nation's steel output.[473]

A key to understanding mergers conducted by the House of Morgan was its control throughout and post-merger process. Ranging from valuing the assets, leading the syndicate to distributing securities, naming the board, setting the objectives and approving the management was entirely a Morgan operation. Morgan selected the original board for US Steel, with more non-steel members, including three partners from Morgan's firm.[474] Years after the merger, the control would continue with the board's

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[469]Strouse, *Morgan*, 403.

[470]Carosso, *The Morgans*, 466.

[471]Ibid., 472-473.

[472]Warren, *Big Steel,* 7.

[473]Parsons and Ray, "The United States Steel Consolidation," 182.

[474]Carosso, *The Morgans*, 73.

being selected by Morgan's partners.[475] For its successful work a large payout awaited, posting net profit of $11.5 million on the US Steel deal.[476]

Following the merger, as was typical of other multinational corporations formed, the House of Morgan would continue to represent US Steel as fiscal agent and a depositary of the corporation.[477] It would continue to help bring in needed finance for steel operation's long-term capital, upgrading plants and future acquisitions.[478] Given US Steel's global operations, the House of Morgan's London arm proved very beneficial, with the company having large deposit balance and its European exports handled by Morgan's British partners.[479] There was a strong appetite for US Steel shares internationally since the merger, which continued in advance of World War I, with nearly $150 million of corporate securities held outside the US.[480] Besides serving the corporation's needs for acquisitions and internal improvements, it would also cater to its subsidiaries, with issuances in tens of millions of dollars.[481]

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[475]U.S. Congress, U.S. House of Representatives, Subcommittee of the Committee on Banking and Currency, *Money Trust Investigation of Financial and Monetary Conditions in the United States under House Resolutions No. 429 and 504,* 62nd Cong., 3rd sess., December 19, 1912, 64.

[476]Carosso, *The Morgans*, 473.

[477]U.S. Congress, U.S. House of Representatives, Subcommittee of the Committee on Banking and Currency, *Money Trust Investigation of Financial and Monetary Conditions in the United States under House Resolutions No. 429 and 504,* 62nd Cong., 3rd sess., December 19, 1912, 64.

[478]Carosso, *The Morgans*, 488.

[479]Ibid., 488.

[480]Wilkins, *The Emergence of Multinational Enterprise*, 262.

[481]U.S. Congress, U.S. House of Representatives, Subcommittee of the Committee on Banking and Currency, *Money Trust Investigation of Financial and Monetary Conditions in the United States under House Resolutions No. 429 and 504,* 62nd Cong., 3rd sess., December 19, 1912, 64.

The House of Morgan was not just influential externally to the multinational, but was deeply immersed in company operations and held key roles post-merger a decade later still dominating the board.[482] Morgan and its partners had a very different philosophy of how to run a business compared with Carnegie's original men like Charles Schwab, namely preferring to cooperate with competitors in contrast to trying to defeat them for market share. US Steel's approach named a fixed open price in a cooperative matter with competitors that while losing market share for the company stabilized conditions in the steel industry.[483] After a lackluster start over the first three years,[484] and importantly, different views on how the company should run with Morgan's men, Charles Schwab had a short tenure at the top. Replaced by Judge Gary—served as chairmen for 26 years until his death[485]—who was well-known to Morgan since his leading of Federated Steel and was very much a staunch supporter of Morgan's desire for cooperation within the industry contrary to cut throat competition.[486] The new president Judge Gary firmly advocated cooperation as the guiding policy concerning a community of shared interests of all steel producers in order to maintain reasonable and steady prices.[487] The House of Morgan's merger not only brought about stability within the industry[488] but was a success for shareholders as well. From the time of inception in 1901

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[482]Ibid., 64.

[483]Warren, *Industrial Genius,* 100.

[484]Warren, *Triumphant Capitalism,* 303.

[485]Ibid., 304.

[486]Warren, *Industrial Genius,* 108.

[487]Warren, *Triumphant Capitalism*, 304.

[488]Parsons and John, "The United States Steel Consolidation," 181.

until 1913 an initial investment in US Steel's common stock total return of 150% significantly outperformed a benchmark composite of steel firms whose return was only 50% and the broader stock market as well.[489]

One of the lasting impacts of US Steel was in regard to employee relations and promotion of a positive perception within the broader public through corporate philanthropy.[490] In regard to labor relations and employee incentives, Morgan's partner Perkins designed US Steel's plan of any employee being able to purchase preferred stock of the company using an installment plan at a special price, which was unheard of at the time.[491] Other financial incentives utilized by US Steel and designed by Morgan's men included giving managers a bonus based on the total profits of the company, vested over multiple years, designed to increase long-term loyalty to firm and lower employee turnover.[492]

A favorable public image from the start was a goal of US Steel's being the world's first billion-dollar company with increased scrutiny paid to the company. Corporate welfare programs would be a big part of US Steel's overall strategy, approaching $10 million annually on the welfare programs.[493] From the start, it was Morgan's men such as George Perkins, who pushed for employment welfare programs. A "good trust" in contrast to the typical trust perception was the viewpoint the firm strived

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[489]Ibid., 184.

[490]Warren, *Triumphant Capitalism,* 304.

[491]Carosso, *The Morgans*, 487.

[492]John Landry, "Corporate Incentives for Managers in American Industry, 1900-1940," *Business and Economic History* 24, no. 1 (Fall, 1995): 15.

[493]Roland Marchand, *Creating the Corporate Soul: The Rise of Public Relations and Corporate Imagery in American Big Business* (Berkeley: University of California Press, 1998), 11.

to maintain especially with politicians through plans such as an employee stock-sharing plan. In line with a favorable image, was fiscal transparency from the start. This had been a tactic of Morgan represented companies, including Federal Steel, that US Steel built upon. The firm in September 1901 was the first large cap company to issue quarterly financial statements and operating report gaining positive publicity.[494] Another large organization formed by the House of Morgan continued with the best practices from US Steel including greater financial transparency was International Harvester.

International Harvester

Since the founding of the US, farming was an integral business and key to the nation's success. While by the turn of the 20th century the number of farmers had been in constant decline relative to total population, it still represented the leading area of employment and major exporter in the US, with new technology gains welcomed by farmers. Given cost per acre was relatively modest and that labor was expensive encouraged the farmers in the US to spend large sums on farm machinery.[495] The longest running farm equipment producers were based in Chicago. McCormick was the oldest and largest within the farming manufacturing space, with production starting in 1842. In fact, in 1851, George Peabody, founder of the Morgan's London branch, had helped display Cyrus McCormick's reaper in an international exhibition of industrial products at the Crystal Palace, where during six months over six million people visited.[496] Another

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[494]Carosso, *The Morgans*, 488.

[495]Quigley, *Tragedy and Hope*, 182.

[496]Strouse, *Morgan: American Financier*, 50.

large industry competitor that was family owned was the Deerings, which was the second largest producer of harvesting machines.[497]

As in other major industries throughout the US price wars were commonplace in the industry.[498] A move towards consolidation began to reign in competition and thus boost profits.[499] Throughout the 1890s several attempts at consolidation occurred, but a consistent problem was the bitter rivals between the McCormicks and Deerings that did not want the other concern controlling the interest.[500] Upon conferring with the leading corporation lawyer in New York, Francis Lynde Stetson—who also happened to be J.P. Morgan's primary lawyer—McCormicks and Deerings decided to turn to the House of Morgan to organize the consolidation as trusted middlemen, thus preventing either party from control.[501]

The formation of the new company would be entirely led by the House of Morgan from management selection to picking the right board; which was essential among the bitter rivals.[502] Similar with other mergers, Morgan was quick to organize once it had formally begun, and chose New Jersey as the home given favorable corporate laws.[503] The company was more conservatively valued from previous deals given fears about

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[497]Kramer, "Harvesters and High Finance," 286.

[498]Ibid., 283-284.

[499]Ibid., 298-299.

[500]Ibid., 289-290.

[501]Ibid., 292.

[502]Carosso, *The Morgans*, 480.

[503]Ibid., 480.

backlash from farmers.[504] In 1902, five firms combined to create International Harvester Company, which accounted for 80% to 90% of production of major harvesting machinery segments in the United States.[505]

The primary way the House of Morgan controlled the firm was through the board of directors and as one of three trustees, with all directors selected by Morgan's partner George Perkins.[506] Perkins was also one of the three trustees and chairmen of the powerful Finance Committee and quickly put management in place that supported Morgan's vision.[507] Under the terms of the merger agreement of International Harvester, total discretion was given to Perkins, who would decide all organizational questions, with McCormick's and Deering's factions not in the position to bring about meaningful change.[508] The founding family members by 1906 who remained following the initial formation would all be replaced by salaried professionals chosen by Morgan's men.[509] Consistent with other Morgan operations, improving the fiscal operations was a primary focus, with solid results shown as evident by the declining ratio of selling expense to revenues—from 36% in 1899 pre-merger for McCormick's Company to 21% on average from 1908 to 1911.[510] Furthermore, another Morgan trademark was corporate transparency for the companies it represented, highlighted by a letter from George

[504]Kramer, "Harvesters and High Finance," 297.

[505]Ibid., 297.

[506]Ibid., 295-296.

[507]Ibid., 296.

[508]Ibid., 296-297.

[509]DeLong, "J.P. Morgan and His Money Trust," 226.

[510]Kramer, "Harvesters and High Finance," 298-299.

Perkins to the then President Theodore Roosevelt boasting of the amount of information made available.[511] The House of Morgan would also remain fiscal agent for International Harvester following the merger and aid in rising of additional securities valued in tens of millions of dollars.[512]

International Harvester highlights that the core of Morgan's operations for supporting overseas trade and banking needs was a good starting point to bring on future involvement with developing multinationals.[513] The House of Morgan would play an integral role in the International Harvester's overseas operations in non-financial manners such as registering McCormick's patents in Britain, New Zealand, and Australia and helping to arrange corporate displays of farm equipment at farm machinery shows.[514] Multinational's expansion often developed given change in laws, including anti-trust and tariff legislation. Owing in part to the possibility of increasing tariffs and being closer to foreign clientele, International Harvester in 1911 had five foreign plants located in Canada, Sweden, France, Germany, and Russia. By 1911, the firm had 40% of sales coming from overseas, which were of higher profit margins compared with domestic US sales.[515]

Russia, in particular, demonstrates how the House of Morgan aids a company to expand overseas. International Harvester's most important foreign market since 1905 was

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[511]Chernow, *House of Morgan*, 109.

[512]U.S. Congress, U.S. House of Representatives, Subcommittee of the Committee on Banking and Currency, *Money Trust Investigation of Financial and Monetary Conditions in the United States under House Resolutions No. 429 and 504,* 62nd Cong., 3rd sess., December 19, 1912, 64.

[513]Carosso, *The Morgans*, 267-268.

[514]Wilkins, *The Emergence of Multinational Enterprise*, 100.

[515]Ibid., 103.

Russia given its large agrarian society that was increasingly relying on higher tech manufacturing solutions.[516] International Harvester was looking into setting up operations in Russia given increased fears surrounding a tariff.[517] It is important to note that George Perkins, was also a leader in New York Life Insurance—one of the most successful American ventures in Russia for the years 1895-1914.[518] Given Perkins' long track record of doing business in Russia, he had established connections at the highest positions and were on to how best to develop Russian operations further for International Harvester.[519] It is telling to note that the US State Department representative was not a real option given lack of information around tariff issues—with the House of Morgan in a better position to consult.[520] The House of Morgan's support of International Harvester in Russia also showcased the relationship it had with the State Department and how it could gain extra leverage to support Morgan's client goals through its leading role in Dollar Diplomacy. The US State Department utilized Morgan's operations for various enterprises in Central America and China, and hence had its own reasons for wanting to satisfy George Perkins with Russia if called upon.[521] American firms came to dominate

[516]Fred V. Carstensen and Richard Hume Werking, "International Harvester in Russia: The Washington—St. Petersburg Connection?" *Business History Review* 57, no. 3 (Autumn, 1983): 354.

[517]Ibid., 355.

[518]Strouse, *Morgan,* 546.

[519]Carstensen and Werking, "International Harvester in Russia," 355.

[520]Ibid., 356.

[521]Ibid., 359.

the market, and International Harvester would retain its leading market share in Russia at roughly 90%.[522]

The House of Morgan would again support corporate welfare programs and incentive-based initiatives in a cooperative approach to appease the various communities' interests the firm held. George Perkins' goal for International Harvester was to be shown as the "good trust" via corporate welfare programs built on the model they had followed at US Steel aimed at building trust among stockholders.[523] For its increasing women workforce, International Harvester launched ladies friendly dressing rooms complete with mirrors, and group entertainment was brought in during the day such as staging an operetta.[524] Proposals were also aimed at supporting the experience of male workers such as having a men's club, which gained strong media attention. George Perkins was an advocate of International Harvester's showcasing corporate welfare programs to other companies at fairs, expositions, and news articles with the intention that similar measures be adopted and likewise to get positive public relations for the company.[525] Other plans to support workers included incentive plans with the pension plan (1908) and profit-sharing plans (1909) developed by Perkins.[526] It is important to note that the House of Morgan viewed corporate welfare programs as an extension of its core business, and not charity,

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[522]Ibid., 361.

[523]Marchand, *Creating the Corporate Soul*, 12.

[524]Ibid., 12.

[525]Ibid., 13.

[526]Ibid., 13.

which promoted a positive persona of the corporation, as illustrated further with General Electric.[527]

General Electric

Electricity has been studied for many centuries, but its commercial utilization would occur in the 19th century, including its application to communications, heating, and lighting.[528] The story of General Electric's founding is intricately tied to electricity and one of history's greatest inventors. Thomas Edison had an astounding 1,092 patents during his illustrious career, with notable work, including phonograph, stock ticker, telegraph, telephone.[529] Thomas Edison would play a leading role in the lighting industry's formation as the primary inventor of the electric public utility still used today.[530] It has been said that one of Edison's chief assets has been his long relationship with the House of Morgan given the additional diligence attached to pleasing the bankers and significant financial support.[531]

Edison turned to the House of Morgan to organize his new company and promote his products abroad. Morgan's partners effectively leveraged world fairs to gain attention, as in the Paris Electrical Exposition in 1881 and Crystal Palace Fair shortly thereafter leading to Edison's lights being used in the entrance of the prestigious Paris Opera house,

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[527]Ibid., 13.

[528]William J. Hausman, John L. Neufeld, and Mira Wilkins, "Global Electrification: Multinational Enterprise and International Finance in the History of Light and Power, 1880s-1914," *Revue économique* 58, no. 1 (Jan., 2007): 179.

[529]Strouse, *Morgan*, 181.

[530]Hausman, Neufeld, and Wilkins, "Global Electrification," 177-178.

[531]Strouse, *Morgan*, 232.

development of the electric street car system in the US, and building a power station in London's Holborn Viaduct.[532] The House of Morgan would not only help display Edison's products but also financially back his new company, serve as the primary banker in both New York and London, and organize Edison Electric Light Company in 1882 merging the following year with its chief rival.[533] J.P. Morgan personally was the first to test out Edison's product in his home in 1882.[534] Mergers and acquisitions would remain prevalent in the coming years, largely planned by Morgan's partner Charles Coster.[535] The firm would further expand in the subsequent years under Morgan's guidance, leveraging international syndicates such as with Deutsche Bank and incorporating in New Jersey, a hallmark for the time.[536]

The General Electric Company (GE) would again be fostered through a Morgan lead merger in 1892 of one of its principal competitors Thomson-Houston Electric, and the newly formed entity which had over two-time sales of its chief electric rival Westinghouse.[537] The driving force behind the creation of the multinational corporation for GE was to stabilize the industry and improve efficiency within the company. To accomplish the task, the firm sought to stabilize the industry's pricing, reduce production costs, facilitate the exchange of patents, and improve overall management practices.[538]

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[532]Ibid., 232.

[533]Ibid., 232.

[534]Carosso, *The Morgans*, 270.

[535]Ibid., 270- 272.

[536]Strouse, *Morgan,* 312.

[537]Hausman, Neufeld, and Wilkins, "Global Electrification," 306.

[538]Carosso, *The Morgans*, 390-391.

Similar to its other mergers, the House of Morgan would control the board and select the management. Morgan's partners dominated the board following the formation of GE represented by Morgan's partner Charles Coster and J.P. Morgan himself taking an active role, including asking Henry Villard to resign in favor of Morgan's selected choice.[539] The newly formed venture hit problems during the panic of 1893 given the weak financial base of the former Thomson-Houston Electric Company, and Morgan and its syndicate partner would financially save the company, given in part its moral responsibility to investors.[540] The company prospects rebounded; bolstering over 10,000 customers spread around the world and operating distinct divisions ranging from mining, to rails to electric power equipment.[541] Central to GE success was a strategy around continuous innovation, something for which the House of Morgan aided in getting patent approval in different overseas locations.[542]

GE would demonstrate the preferred Morgan strategy of cooperation in contrast to trying to defeat one's competition, which was showcased within the electric lamp market. By dividing away the world markets with major competitors with international agreements, GE could focus on dominating the US market, which it did through cooperation with competitors. This was accomplished by 1905 with signing pacts with overseas firms where GE held equity in those such as British Thomson-Houson,

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[539]Chandler, *The Visible Hand*, 442.

[540]Mary A. O'Sullivan, "Living with the U.S. Financial System: The Experiences of General Electric and Westinghouse Electric in the Last Century," *Business History Review* 80, no. 4 (Winter, 2006): 626.

[541]Chandler, *The Visible Hand,* 429.

[542]Hausman and Wilkins, "Global Electrification," 306.

Compagnie Francaise Thomson- Houston, Tokyo Electric Company, Allgemeine Elektrizitats- Gesellschaft (AEG), and Canadian General Electric with contracts in exclusive territories with GE always retaining the lucrative US market.[543] For example, GE and Westinghouse Company dominated the American electrical industry with combined 75% market share in 1896. That same year, the firms agreed to share all patents via licenses that would put the value of production significantly in GE's favor (5:3 ratio), with both companies agreeing to pay a hefty royalty if they exceeded the ratio and would completely exclude all patents related to electric lighting.[544] In effect, GE could broker institutionalized market share over its chief competitor for years to come or implement an often-used Morgan strategy of interlocking company's ownership to have greater leverage of the industry. This was seen with the development of the National Electric Lamp Company in the early 20th century. GE owned three-quarters of the common stock of National Electric Lamp Company with most of the independent manufacturers being bought out by National Electric, which gave the appearance that these acquisitions remained autonomous of GE when in actuality, they were completely controlled.[545] GE dominated the highly profitable industry for decades to come.

At the turn of the 20th century GE would continue to acquire new companies in order to grow and raised external financing from the House of Morgan to do so, such as with Sprague Electric in 1902.[546] Additional funds were raised also to support internal

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[543]Ibid., 313.

[544]Ibid., 309.

[545]Ibid., 309.

[546]O'Sullivan, "Living with the U.S. Financial System," 630.

operations and bolster a strong balance sheet, consistent with other firms Morgan represented.[547] Operationally, GE continued to showcase good budgetary management in other ways—for example, reducing account receivables from 38% in 1905 to just 13% roughly twenty years later.[548] GE would remain a fiscally conservative firm, especially compared with its competitions, which was highlighted by the fact that the Westinghouse Company eventually was forced into a receivership while GE, given its relative fiscal conservatism avoided such issues.[549] GE was also a very shareholder-friendly firm, paying out $97 billion in dividends from 1897 to 2000 (inflation adjusted in 2000 dollars).[550]

GE would be a forerunner on what would be a growing trend in other larger companies, the education of workers given the need for skillful employees.[551] Corporate schools were also good for PR purposes and in-line with a Progressive Era business focused on perception of being paternal to its workers.[552] Consistent with corporate education was their apprentice program started in 1901, which provided specialized training overall applicable to GE.[553] Young executives next entered a rotation program through various parts of GE for one/two years to get hands-on training and see how the

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[547]Ibid., 631.

[548]Ibid., 646.

[549]Niles Carpenter, Jr., "The Westinghouse Electric and Manufacturing Company, the General Electric Company, and the Panic of 1907," *Journal of Political Economy* 24, no. 3 (Mar., 1916): 230.

[550]O'Sullivan, "Living with the U.S. Financial System," 653.

[551]Shan Nelson Rowe, "Corporation Schooling and the Labor Market at General Electric," *History of Education Quarterly* 31, no. 1 (Spring, 1991): 32-33.

[552]Ibid., 33.

[553]Ibid., 36.

assorted parts of GE function and would be placed in one of the departments having gained a more holistic view of the company in contrast to spending one's whole career in the same distinct group.[554] Given the number of products and the global customer base, a diverse group of managers was trained and specialized in specific areas, effectively aided by the apprentice program, still used in many corporations today. GE's apprentice training program was very effective in developing young employees into skilled positions and managers and was adopted throughout the firm.[555] The apprentice training model quickly spread to other organizations as similar with Morgan's other concerns, GE promoted its virtues in industry journals, and academic publications and was given a lot of weight by other executives to adopt similar corporate schools given GE's leading industrial position.[556]

The House of Morgan had promoted its enterprises to be the respective leaders in innovating new technologies for its industry, for which GE became the standard for other large industrials to emulate. GE would take innovation one step further by being the first large-scale company to develop a research and development center.[557] After its initial small-scale start, GE would quickly expand the operation under former MIT Professor Willis R Whitney's guidance and provide a hybrid laboratory that was, on the one hand, research based with scientific freedom and on the other guided by real-world

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[554]Ibid., 36.

[555]Ibid., 42.

[556]Ibid., 28.

[557]George Wise, "A New Role for Professional Scientists in Industry: Industrial Research at General Electric, 1900-1916," *Technology and Culture* 21, no. 3 (Jul., 1980): 409.

application.[558] For GE, its business required it to be at the leading edge of technology for its business lines, which it could do through acquisitions or research and development.[559] Many of the best practices from General Electric were implemented in other Morgan organized companies, such as International Mercantile Marine, but in this particular case a very different long term outcome.

International Mercantile Marine

While the House of Morgan had incredible success in the majority of its business ventures, it did not have the Midas touch with all its deals. This was readily evident with the formation of the world's largest private merchant marine—the International Mercantile Marine Company formalized fully in October 1902. The company was not only far from a success for its shareholders but an unmitigated failure with the common stock having an annualized decline of -25% over the time of its formation to the start of World War 1.[560] The losses for the company were not just financial, but it had the greatest private maritime loss for the time with the world's biggest ship the *Titanic's* tragic sinking with the loss of over 1,600 lives, the news having been kept on the front page of both US and British papers for some time after.[561] By the spring of 1915, the difficult results were shown by International Mercantile Marine Company's entering foreclosure proceedings following missing interest payments on its outstanding bonds for

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[558]Ibid., 410.

[559]Ibid., 411.

[560]DeLong, "Did Morgan's Men Add Value," 219.

[561]Carosso, *The Morgans*, 492.

six months.[562] The multi-million dollar profit expected for the House of Morgan was the polar opposite—with a loss estimated over a million dollars—which also tied-up the partner's funds and slightly damaged the invincible mystique of the world's premiere merchant bank.[563] Given its history of success before and after, what went wrong with the House of Morgan's formation?

To understand why the formation went so wrong, it is helpful to get a background of the shipping industry before the merger. Ocean-bound trade experienced steady growth since the founding of the American Republic.[564] American-made ships initially dominated US trade given ample supply of wood for ships; by the 1830s the US had 90% of international trade under its flag.[565] The shipping industry was encouraged to expand politically given strategic importance of the high seas as well as being given support by the largest sector of the economy. Railroad executives in Philadelphia (Pennsylvania Railroad) and Baltimore (Baltimore & Ohio) had for years been active in the shipbuilding industry to encourage an increase in overseas trade with Europe by having a port for their respective railroad lines.[566] Shipping is a highly elastic business which fluctuated with international trade and having to compete with global operators, especially with the world's navel superpower in London.[567] With the advent of steam shipping, a dramatic

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[562]M. J. Fields, "The International Mercantile Marine Company-An Ill-Conceived Trust," *Journal of Business of the University of Chicago* 5, no. 4 (Oct., 1932): 362.

[563]Navin and Sears, "A Study in Merger: Formation," 328.

[564]Ibid., 299.

[565]Strouse, *Morgan*, 458.

[566]Navin and Sears, "A Study in Merger: Formation," 294.

[567]Edward Sherwood Meade, "The Capitalization of the International Mercantile Marine Company," *Political Science Quarterly* 19, no. 1 (Mar., 1904): 56.

shift occurred with the US only having 10% of US foreign trade under US ships given the near 30% cost advantage British shipbuilders offered compared versus American counterparts by the turn of the 20th century.[568]

An increase focus on promoting a US transatlantic shipping corporation in the US was gathering steam given Americans were not getting their perceived fair share of trade and rapidly rising prices following the panic during the mid 1890s. Several events contributed to the push, including the outbreak of the China-Japanese War (1894-1895), Greco-Turkish War (1897), Spanish-American War (1898), and the Boer War (1899-1902), which took normally merchant going ships in the North Atlantic into military conflict and increased demand for supplies for these various wars such as grain which further increased the demand for shipping.[569] For example, the British Empire by the end of 1900 had withdrawn roughly 2 million tons of shipping, which was nearly equal to its next European rival Germany's total tonnage and double France's.[570] On the Pacific, ships were further deterred to handle the Klondike and Nome Alaska gold rush.[571] Factoring that global trade had become buoyant and these aforementioned events highlighted to American businessmen the vulnerability of their overseas trade that given such high dependence on foreign nations for shipbuilding could materially impact business trade.[572] The most preeminent leaders in navel studies such as Alfred T. Mahan

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[568]Strouse, *Morgan,* 458.

[569]Navin and Sears, "A Study in Merger: Formation," 296.

[570]Meade, *The Capitalization*, 61.

[571]Navin and Sears, "A Study in Merger: Formation," 296.

[572]Ibid., 299.

to presidents such as William McKinley and Theodore Roosevelt, advocated for stronger and expanded merchant marine.[573] Morgan-dominated industries such as steel wanted a more consolidated shipping industry to have more stabilized and predictable industry for international trade. Morgan-controlled railroad executives' vision was essentially to extend rail tracks across the North Atlantic and better align shipping to train schedules, thereby increasing efficiency and lowering cost.[574]

By the turn of the 20th century, North Atlantic trade and passenger movement were the largest in the world for shipping, with British, German, and US companies looking to have a large-scale consolidation.[575] The leading advocates for an American transatlantic shipping corporation included the top shipbuilders such as the head of the International Navigation Co. Clement Griscom based in Philadelphia boasting three decades in shipping and Bernard N. Baker of Baltimore's Atlantic Transport Company.[576] New York Harbor at this time dominated all Atlantic trade in the US, having the larger tonnage versus the entire American east coast combined and relied on foreign built ships.[577] The British Empire was the principal supplier given its roughly 30% cost advantage to American competitors.[578] The American shipbuilders, unlike their British

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[573]Gittelman, *J.P. Morgan and the Transportation Kings,* 92.

[574]Ibid., 21.

[575]Hannah, "J.P. Morgan in London," 132.

[576]Navin and Sears, "A Study in Merger: Formation," 294.

[577]Ibid., 294.

[578]Ibid., 295.

counterparts, struggled including Griscom's company's not being able to pay for dividends and pushing for increased subsidies from the US Government.[579]

Despite some serious reservations about the shipbuilding industry, ultimately the House of Morgan drove the consolidation of the shipping.[580] As with other mergers, the firm had previous relationships with the key companies involved, including helping the International Navigation Company raise $13 million in mortgage bonds during 1899.[581] The combination was unique in its global nature, through the combination of four of the preeminent British and US shipping lines: International Navigation Company, Atlantic Transport Company, Frederick Leyland & Company, Oceanic Steam Navigation Company, plus traffic agreements with two of the leading German carriers over the ensuing decade, Hamburg-America Line and North German Lloyd.[582] The deal was enormous at a total of $170 million, broken out by $50 million in bonds, $60 million in preferred stock, and $60 million in common.[583] International Mercantile Marine was essentially a merger of British shipping lines, with US-flagged ships only accounting for 15% of its assets and the greatest private, foreign direct investment before World War I.[584] The world's largest shipping company controlled roughly 20% the non-tramp tonnage in the leading North Atlantic trade.[585]

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[579]Ibid., 295.

[580]Carosso, *The Morgans*, 482.

[581]Navin and Sears, "A Study in Merger: Formation," 296.

[582]DeLong, "J.P. Morgan and His Money Trust," 241.

[583]Navin and Sears, "A Study in Merger: Formation," 311.

[584]Hannah, "J.P. Morgan in London," 132.

[585]Navin and Sears, "A Study in Merger: Formation," 291.

In many ways, the deal was orchestrated as the previous aforementioned fruitful mergers the House of Morgan lead on. The firm used the same syndicate members, by and large, that they used in the prosperous US Steel deal.[586] The firm was securely in control post the merger, boasting two of the five trustees positions and three of twelve board positions.[587] The price, while high in certain respects had, in fact, a lower book value price paid compared to US Steel.[588] Besides the consolidation, potential competition coming from Germany was neutralized for the coming decade given a profit-sharing cartel agreement.[589] The House of Morgan would appear to ensure stable traffic given control over American railroads and the US Steel Corporation.[590] In fact, four board of directors from International Mercantile Marine were on the board of US Steel.[591]

However, as cited, the deal was the House of Morgan's biggest blemish during its history to date. There was no one reason why, but there were several key factors. The syndicate had a whole host of issues with the securities, even causing a delay given expected subsidy from the US Government never materialized, weak equity markets, and a cyclical downturn in shipping after formation—eventually the syndicate's unloading the securities at a heavy discount and a loss.[592] The House of Morgan, unlike other mergers mentioned in previous chapters, was very hesitant about getting into the deal fully, really

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[586]Carosso, *The Morgans*, 485.

[587]Ibid., 491.

[588]Hannah, "J.P. Morgan in London," 135.

[589]Ibid., 21.

[590]Navin and Sears, "A Study in Merger: Formation," 292.

[591]Gittelman, *J.P. Morgan and the Transportation Kings*, 33.

[592]Hannah, "J.P. Morgan in London," 133.

becoming committed when the economic turn against the industry and more cash was needed; they came to their client's aid against their best intuition.[593] Importantly, unlike many other large American consolidations, this was a foreign acquisition, with International Mercantile Marine lacking the supportive US tariff protection to give it a boost.[594]

New competition was not dealt with effectively, as the British shipbuilders had built and launched tramp carriers which were unscheduled with no fix sailing dates and essentially just in-time carriers versus the large steam shippers with set schedules leaving port often with empty cargo space often.[595] While trade continued to surge into World War I as predicated, it became progressively more lopsided with US's reducing its dependence on the British Empire for finished goods, aided by tariffs, including the Dingley Tariff. The net result of the unbalanced flow of trade allowed tramp steamers from London the ability to have just-in-time shipping loading schedules and sail to most profitable ports, while International Mercantile Marine ships with fixed schedules increasingly had inadequate cargoes.[596] In fact, the British would again take over the largest share of North Atlantic trade given its ability to be flexible with quick delivery time.[597]

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[593]Navin and Sears, "A Study in Merger: Formation," 327.

[594]Hannah, "J.P. Morgan in London," 137.

[595]DeLong, "J.P. Morgan and His Money Trust," 241.

[596]Navin and Sears, "A Study in Merger: Formation," 320.

[597]Hannah, "J.P. Morgan in London," 136.

The creation of International Mercantile Marine was done to serve not only the shareholder's value, which it clearly did not, but as in all major Morgan-led mergers serve a large community of interest. Ultimately, one of Morgan's chief goals was achieved just not by their design. While the just-in-time shipping from the British trampers significantly undercut International Mercantile Marine, it did lower prices and increase the flow of trade, which benefited the far larger interest of the rails and manufacturing exports such as steel. Despite the lackluster company results from International Mercantile Marine, the overall result of broader stability in global trade was consistent with the House of Morgan's underlying philosophy of supporting a broader community of interest in promotion of a more stable society.

Chapter VII

Conclusion

Morgan's partners and their preceding family members had cultivated cultural, financial, political, and social capital that was unmatched in the US as recognized leaders in the varying parts of the society. These various forms of capital helped develop the superstructure for the multinational to operate within and create the overarching framework of the company itself. The title of my report is *How the House of Morgan Cooperated to Develop the Large-Cap US Multinational Corporation, 1895-1913.* With an underlying British foundation, goal of preserving their shared rich tradition and strong interests across society; the House of Morgan cooperated among a community of varying interests to further develop the large-cap US multinational during 1895-1913.

The Morgan partners were members of a privileged ruling class whose forbearers leading status went back centuries to the British Empire. The House of Morgan's partners were hypostatic in nature, both wholly British but also proudly American. They took what they deemed as one of the finest traditions civilizations had ever seen and reformed it to fit the US society to continue it onward. The families of the House of Morgan built up some of the US most preeminent institutions prior to their advancement of the US large-cap multinational corporation. Morgan's partners families were pivotal in the formation of the United States, from founding several states such as Connecticut and Massachusetts, having leading generals in fighting for Independence, to being founding fathers of the American Republic. Relations overseas was well maintained with the great powers such as the British Empire and France, given leading roles as ambassadors for the

US to family members having prominent roles overseas in areas ranging from the House of Lords to the Bank of England. The moral temperament of the nation was set in large measure through these same families, from starting the Great Awakening to fighting against the evils of slavery. Financially, US money matters were consistently directed in part by Morgan's partners families' directives', from their roles as preeminent merchants and bankers to formulating the First and Second Central Bank in the United States. Education standards in the US were developed in large measure from the House of Morgan's family's founding Princeton, and Yale to being the leading benefactors of Harvard, Columbia, and the University of Pennsylvania.

The House of Morgan's partners continued their families' rich history themselves around the turn of the 20th century given their leading positions and development across various areas of society. This can be seen across the spectrum in business, financial, philanthropic, and religious matters. Morgan's partners were leading members of the Episcopalian Church—US based member of the Anglican community who was also focused on social justice to solve society's broader issues. They formed what would be the predecessor of modern foundations, the Peabody Education Fund, to the operating of the first major transnational non-profit in the Red Cross. They were equally benefactors of high culture from developing leading social clubs to congregating in places such as the Metropolitan Club, to the finest museums such as the Metropolitan Museum of Art. In financial matters, they were the chief defenders of a gold standard to provide expanded stability and advocated for a Central bank, which they helped to organize eventually as a Federal Reserve System that closely cooperated with the Bank of England. In politics extension of what they deemed as best practices such as the gold standard, promoted

increased ties internationally with the formation of the Council on Foreign Relations, developed corporate friendly laws such as in New Jersey and heightened regulation to preserve a more stable business environment.

As they were on corporate boards, Morgan partners were equally well represented in positions of power throughout the society in which they were entrusted. The key glue that held the balance together was trust; the House of Morgan was entrusted by the varying groups with an unprecedented amount of power. While leading industrialists such as Rockefeller and Carnegie had been known for cutthroat competition tactics when they first entered business, the House of Morgan alternatively chose the "gentlemen banker" model founded on a British code of honor that rather looked at a generally longer-term view and utilized cooperation. Its advantage over others was its pristine reputation built over generations. Seemingly low barriers to access within merchant banking were actually the opposite as new entrants had to forge trust over many years to build the various other forms of capital needed and hence the reason why such a high profit rate could exist for so many years.[598]

Morgan's partners firmly believed they were possessors of a "magnificent tradition" that needed to be shared with the world, both as a proactive measure of uplifting the populace and as a defensive measure to allow their fine tradition not to be submerged by competing cultures. Morgan's partners were not just bankers. They were the leaders of a broader society which had many parts that they represented. It is important to note that companies represented by the House of Morgan did not suffer by the apparent conflict of interests. As the data has shown Morgan's partners organized

[598]DeLong, "J.P. Morgan and His Money Trust," 217.

companies generally had stronger financials, robust earnings and higher stock returns compared with the market and competitors. The House of Morgan represented its clients as a part of a broad community for the long term. A farming, steel, or telephone company was a part of a larger respective industry, which was within the US economy, a member of the international economy, and in turn was a part of the whole global society.

In helping to organize a broader US society, the House of Morgan would interlock different subsystems, including finance, charity, and politics with business in the promotion of a more harmonious, predictable, and productive economy. Morgan's partners had a clear goal of helping to create a large, global business operation that would belong in an oligopoly industry structure with high barriers to compete, ultimately manifesting in the contemporary multinational. Competition that had no central planning was ruinous in their eyes, wasting capital and promoting financial panics. It prevented the development of sustainable long-term planning for a stable economy. The large-cap multinational corporation in the US was formed largely through cooperation not competition. As trusted middlemen from the various parts of the economy, the House of Morgan was entrusted with not just the influence of an advisor but also with leading control to develop the new corporate structure.

The social capital firms like the House of Morgan possessed were the underpinning of the trust they invested in new multinational to attract investors, the glue that conducted trade far-reaching around the world and allowed fractional reserve banking to exist. The gentlemen banker's code that the Morgans adopted was wholly from London, as were community norms and practices. Morgan's partners were selected for their leading social capital, which came from families of immense communal esteem

going back centuries. To enhance their societal position, they were leading pillars of the community, ranging from being the benefactors of the most exclusive culture to supporting the poor. They networked and interacted with others of comparable standing in posh private clubs that they helped largely to build and in which they were leading members. The environment had shared norms, similar religious beliefs, and common culture that fostered a trusting relationship.

Given the leading positions throughout society, including in business, the reputation built and fostered was an important asset and underlined the trust they received from outsiders. Cooperation ruled the day in such an environment, even those such as the German-Jewish houses with a different social circle and religious beliefs, which had a very similar approach but applied to their sphere of society. The German-Jewish houses shared a similar social standing among its community. They were deeply involved in civic causes, were global in outlook, patrons of the fine arts, and very much involved in politics. Their perceived conflict was actually a strength in that both the Anglo-American and German-Jewish bankers could be in positions of clear leadership in their respective society and marshal resources accordingly. As financial-syndicate information has shown, collaboration not competition was the standard between the two societies.

Financial capital would also play an integral role in the advancement of the multinational by providing the resources necessary to develop and operate a large-scale enterprise. The business had for generations been reliant on cooperation through syndicates and respect for the gentlemen banker's code of not competing for other peers' clients. By leveraging their syndicates in major economic centers, the House of Morgan raised needed capital to allow companies to expand and acquire new assets. With the

most liquid of exchanges and globally oriented investors, London provided the largest pool of resources. Morgan's role as middleman extended far beyond just trade but in solving the issues that arose from separation of ownership, as trusted overseer of owners' interests as board members and trustees of corporations. Future growth for companies was promoted through research and development centers, further acquisitions, and capital expenditures. The welfare of the worker became increasingly a business focus, with incentives tied to stock in community housing utilized.

While trust coming from social capital provided a foundation for the economy, including the multinational to be built upon, political capital helped to provide for a more unified world, supportive laws increased predictability for investment and a safety net for business was fostered. At a macro level, the Morgan partners were instrumental in having a more integrated global economy based on gold and aimed at reducing business cycle volatility with the creation of the Federal Reserve System—after a long history as lenders of last resort. The sounder economy and solid business prospects helped bring down the cost of funding for multinationals. The Morgan partners also significantly aided trade in their role as leading merchant bankers, funded a transnational transportation system allowing for a mass production to have mass distribution system and bridged the gap between politics and business serving as the ambassadors from Wall Street. Domestically, they helped create new corporate regulation that promoted longer-term stability and helped construct laws that were friendly for development of industries. Cooperation was pivotal, whether it be working with leading politicians on both sides in creating regulation that managed big business or supporting the broader community of interest required by working together in different ways.

The social, cultural, political, and financial capital provided the overarching infrastructure of which the multinational was built. The Morgans sponsored a more globally integrated world through cooperation. Creation of the Federal Reserve, for example, evidenced cooperation among Wall Street and politicians with the desired shared outcome of a more stable economy. Likewise, US international policy of "Dollar Diplomacy" was cooperative, by improving US government goals. It advocated big business as well. A cooperative element was still seen in the cultural realm, ranging from caring for the poor, supporting education and endowing the arts as providing materialistic benefits for broader society but also raising the social standing of those involved. Cooperation had been working to meet shared goals, and now the strategy would be brought down to a micro level in developing some of the multinational corporation's most enduring qualities.

The US by the coming of World War I would have the largest capitally intensive companies in the world with several different operating units that required massive capital. The money raised was used for operations, research and development, and expansion, with large capital expenditures' projects controlled by Wall Street as gatekeepers. Institutions, by and large, did not become multiunit overnight through natural growth, but instead acquired other former competitors in a similar business, a supplier, or a distributor. The House of Morgan dominated merger activity with leading market share near the start of the 20th century, and acquisitions remain a still used strategy to diversify one's business. Companies also went increasingly global in search of markets, through trade at first and later setting up operations directly overseas to support

their market. Morgan's partners were among the leading merchant bankers fostering US trade and international development for companies to plant operations aboard.

One of the biggest structural changes that happened was the separation of owners and managers. Capital markets provided a way to pool thousands of would-be owners—over half a million in the United States by World War I—to purchase partial ownership in a company. These well-functioning global markets had been developed and tested for generations before by leading merchant banks such as the House of Morgan. The principal-agent issue raised by owners' and managers' being separated was relieved by the role Morgan's partners played on corporate boards in being the trusted middlemen with ultimate control of the company's strategic direction and allowing former, sometimes hostile competitors, which were now a part of the same company, to function. The House of Morgan fostered reliable information to be used by inside and external decision makers through the promotion of audits and production of financial statements. Promoting employee relations through programs that took care of needs to increasing incentives to work was also becoming a hallmark of the Morgan firms.

In looking at case studies of some of the leading US multinationals being developed, we can see more clearly how the House of Morgan developed the multinational corporations, in case studies such as GE, International Harvester, International Mercantile Marine, and US Steel. The Morgan's London branch had a long-term connection with many of the most successful US founders since the time they started in operation. Andrew Carnegie's relationship went back with the Morgans starting in 1868. Cyrus McCormick in 1851 had his reaper in an international exhibition of industrial products thanks to the House of Morgan, while Thomas Edison turned to the

Morgan partners to organize his new company and promote his products abroad. The House of Morgan was integral to all four in their respective mergers, and subsequent follow up corporate acquisitions. The firm dominated the process, from setting the valuation of assets and forming the financial syndicate in US Steel to selecting the entire board and management in International Harvester.

The principal-agent problem was greatly reduced by the Morgan's partners involvement both before and after the creation of the corporation. In the case of International Harvester, the two largest factions, the McCormicks and the Deerings, only agreed to merge by agreeing to have Morgan's partner George W. Perkins have total control of the merger and development of operations. The International Mercantile Marine deal only went forward once the Morgan partners fully committed. In all the case studies, they had significant control on the board, such as US Steel's entire board being selected by George W. Perkins. The management teams were also selected by Morgan's partners. This was illustrated by replacing the leading management once they took over in all case study instances.

The strategy that the four companies would run would be cooperation over competition. This was fostered by Judge Gary's in US Steel's having regular dinners with the leaders in the Steel industry while GE and its lead competitors were setting up arrangements to protect their local markets. Overseas expansion was promoted through banking and political connections alike. International Harvester leveraged connections with George Perkins in Russia; International Mercantile Marine was linked with the leading German competitors from the start while trading operations for US Steel in Europe were serviced by Morgan's London arm. Education centers became a new way to

deal with the problem of a lack of a skilled workforce, as shown within GE. Dependable information became a staple for these four companies as well as financial statements and audits. Corporate welfare initiatives at International Harvester targeted women workers and the US Steel stock option program increased morale and public image. As International Mercantile Marine amply demonstrated, they did not have a perfect record. However, the returns to investors of the House of Morgan were generally well above the market, with the underlying companies boasting healthier financial balance sheets.

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