



J.P. Morgan



Jacob Schiff

# Morgan and Schiff

## *America's Indispensable Bankers*

### By Edward Morris

ON MARCH 31, 1913, at age 73, American financier J. Pierpont Morgan died at the Grand Hotel in Rome. The next day, his death was the dominant newspaper story throughout the country. *The New York Times* dedicated much of its April 1 front page and several succeeding columns to reviewing his life and accomplishments. His funeral service was held at St. George's Episcopal Church, where limited seating accommodated only 1,500 people. Those people were important enough in Morgan's life to receive an admission ticket and an assigned seat. Thousands of others waited outside or in the nearby Stuyvesant Park to pay tribute.

Seven years later, Jacob Schiff died, also at 73, and had been the only banker who approached Morgan's prominence in the financial world. That prominence was reinforced by the major front-page stories that immediately appeared in the press. As with Morgan, the *Times* coverage of his funeral was the lead story and consumed much of the paper's front page. His funeral was held at the Emanu-El synagogue and was, like Morgan's service, limited to the mourners to whom tickets were issued. Many of those without tickets were Jewish immigrants from the Lower East Side of Manhattan and performed their own services outside the synagogue.

Included in the newspaper accounts of Morgan and Schiff's lives were estimates

of their wealth at the time they died. Those estimates were rough and mostly obtained from individuals who were outsiders with limited access to Morgan and Schiff's firms and families, so there is no reason to expect accuracy. But the papers' readers were nevertheless interested to learn that each banker's wealth was likely between \$50 and \$100 million. In today's dollars, that would be between \$1.5 and \$3 billion. Those are clearly high levels of wealth, but thought to be significantly less than that of some of the well-known plutocrats of the day: Henry Ford, Andrew Carnegie, Cornelius Vanderbilt and John Rockefeller. At Morgan's funeral, Rockefeller was purported to have remarked that, "He owned all of us and he wasn't even that rich."

Today most people have at least a vague idea of who Morgan was. Several biographies have been written about his life and his name is still part of two large financial institutions: JPMorgan Chase and Morgan Stanley. It is unlikely, however, that many recall the name Jacob H. Schiff or Kuhn, Loeb & Company, the once mighty investment banking firm he ran.

### Early Backgrounds of J.P. Morgan and Jacob Schiff

There is no credible rags-to-riches story about the lives of either of the two men. Morgan was the sole surviving male child of Junius Morgan, a merchant banker who operated out of Hartford and Boston,

and formed a very successful partnership in London with the international banker George Peabody. Junius carefully monitored and nurtured young Pierpont along—including providing the means for his education stints at the Boston English School in the mid-1850s, followed by a few years of studies at a Swiss school near Lake Geneva and then at a German school near Hanover. With the world of business becoming ever more international, Junius rightly saw that education abroad would sharpen Pierpont's facility with foreign languages and enhance his son's effectiveness in dealing with monied interests on the European continent. In addition to his studies, the teenage Pierpont took excursions to many western European countries and developed a life-long appetite for ancient art—an appetite that would expand throughout his lifetime.

Junius later shaped his son's Wall Street career by finding job opportunities for him from among the investment firms he routinely did business with. The most important arrangement Junius engineered for Pierpont was an alliance with Philadelphia-based Drexel & Company, a firm that had considerable success in finding investment opportunities for European investors. That partnership, fueled with a \$5 million infusion from Junius, led to a New York off-shoot, first called Drexel Morgan & Company and later just Morgan & Company which, after a few years, was managed by young Pierpont.

Schiff's father, Moses, was much more parochial about Jacob's education and insisted that he become well-grounded in both secular and religious studies available in his hometown of Frankfurt, Germany. Jacob's formal education ended in 1861 when he was just 14. After that he began an apprenticeship with a Frankfurt bank, followed by a brief stint with a banking firm run by a brother-in-law. Jacob, however, developed a fascination with America and pressed his father to both finance a trip to New York and to lend assistance in finding work with a Wall Street firm. His relocation to New York coincided with the end of the American Civil War and the early development of the country's industrial growth. Even though his proficiency with English at that time was barely passable, he found positions with Jewish-owned firms and quickly proved to be a young man with a promising future in the United States.

When he returned to Frankfurt upon his father's death in 1873, Schiff was introduced to Abraham Kuhn who, with his partner Solomon Loeb, had founded a successful dry goods operation in Cincinnati they named Kuhn, Loeb & Co. The two founders, however, went their separate ways, with the homesick Kuhn returning to Germany and Loeb moving the company to New York with a focus more on finance than on dry goods. Kuhn, impressed with Schiff's already budding career on Wall Street, suggested that he contact Loeb upon his return to New York. He did that, and by 1875, at age 28, Schiff became the managing partner of Kuhn, Loeb & Co.

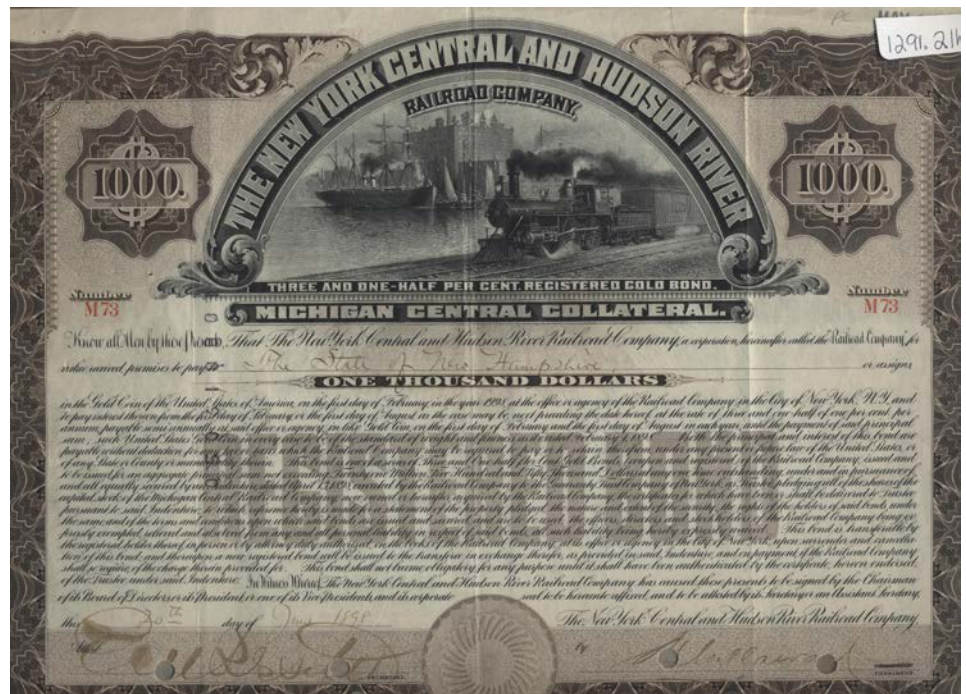
### Railroad Wars

The Gilded Age banking business conducted at J.P. Morgan and at Kuhn, Loeb was very different from today's commercial banking. Neither bank, for instance, held customer deposits or made loans to promote commercial trade. They did not advertise their businesses and baldly stated that, "We do not chase after business...we do business with people who come to us." Accordingly, there was not so much as a sign on the door at 23 Wall Street where J.P. Morgan & Company was located or at 52 William Street where Kuhn, Loeb did business.

In the narrowest description, the two firms made money by raising permanent, long-term capital to facilitate the



Certificate for 10 shares in the Pennsylvania Railroad Company, 1919.



New York Central and Hudson River Railroad bond, 1898.

industrial transformation of the American economy. They sponsored major investment offerings to provide the capital needed for railroad development and, as a related activity, reorganized railroads that were struggling. Because the United States was a debtor nation after the Civil War, the investment capital was raised primarily in the United Kingdom and on the European continent. Morgan and Schiff's financial expertise, business reputations and familial ties to those countries put

the two firms in a favorable position to attract international investors. (Morgan and Schiff, of course, did not have that fast-growing market totally to themselves. Several "Yankee" firms such as Kidder, Peabody & Co. and Lee, Higginson & Co. were prominent in international finance, very often as participants in the offering syndicates Morgan created; likewise, "Jewish" firms such as J. & W. Seligman & Co. and Speyer & Co. often wound up as part of Kuhn, Loeb originations.)



The transformation of the US economy from agrarian to largely industrial took place between the late 19th century and the early 20th century, with the growth of railroads leading the way. Between the end of the Civil War and the end of the 19th century, railroad trackage grew from roughly 45,000 miles in 1870 to over 200,000 miles by 1900. Illustrating the importance of railroads to the American economy, when the first issue of the *Wall Street Journal* was published on July 8, 1889, the news of the burgeoning railroad industry dominated that paper.

Much of the early railroad growth took place in the eastern part of the country with a host of newly constructed rail lines crisscrossing through states east of the Mississippi River. The largest two eastern roads were the New York Central (NYC) and the Pennsylvania Railroad, with financing coordinated by Morgan and Schiff, respectively. Morgan became associated with the NYC by virtue of his purchase of the major portion of the railroad's securities from William Vanderbilt, son of Cornelius Vanderbilt. Schiff's tie to the Pennsylvania Railroad developed over a longer length of time as Schiff established himself as a highly effective banker with respect to financial advising and the distribution of railroad securities.

The most challenging and widely followed rail developments involved the "trunk lines," railroads whose routes were meant to extend great distances and provide shipments of goods and transport of passengers with minimal stops and transfers. The epitome of the newly constructed trunk lines of the late 19th century were those that originated in the nation's mid-section and extended across the vast but sparsely populated American continent. With the Pacific Ocean serving as the ultimate point of termination, the transcontinental railways bore names such as Union Pacific, Northern Pacific, Canadian Pacific and Southern Pacific.

Morgan & Co. and Kuhn, Loeb & Co. were generally the lead financiers behind those transcontinental rail enterprises. Sometimes they acted in direct competition, but more often as allies, through "community of interest" arrangements. (Such arrangements would become much more carefully scrutinized under antitrust legislation passed early in the 20th century.) In the case of the Union Pacific, for instance, Morgan attempted to re-organize



The Morgan Library and Museum, 1913.

Library of Congress



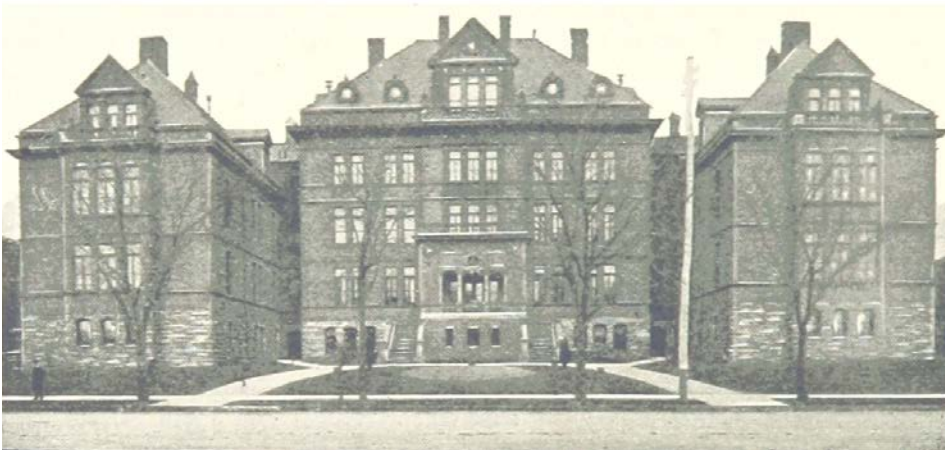
Knitting class at the Henry Street Settlement on Manhattan's Lower East Side, 1910. One of Jacob Schiff's major charitable acts was the funding and development of this organization.

Library of Congress

that poorly managed and undercapitalized railroad, but without success. When Schiff asked Morgan if he and his financial partners could take over the reorganization efforts, Morgan was only too happy to rid himself of a seemingly hopeless situation. But Schiff was successful, and the Union Pacific remains today as a premier transcontinental carrier in the United States.

Yet not all the Morgan and Schiff interactions were friendly or benign. In the

case of the Northern Pacific Railroad, for instance, the Morgan-controlled owners held nearly half of both the common and preferred common stock of the railroad. The Northern Pacific, however, was of great strategic value to other railroad operators as well. Recognizing that importance, Schiff organized a separate and powerful group of buyers, including National City Bank and the Rockefeller interests, to make an unfriendly



Montefiore Home for Chronic Invalids, 1890. Jacob Schiff served as Montefiore's president from 1885 until his death in 1920.

bid for Northern Pacific's stock in the open market. It was one of the few times that Morgan was caught napping (he was vacationing in France), and the resulting bidders' war between Schiff and Morgan caused the price of Northern Pacific's stock to increase in a matter of days to \$1,000 per share, up from the \$70 to \$80 per share price range at which it had been trading just a few days earlier. In the end, the Morgan and Schiff forces entered into a pact that led to their shared control of the Northern Pacific.

For the remainder of their business lives, Morgan and Schiff continued their rivalries as railroad financiers. Later, they expanded their focus towards new industries that emerged in the early 20th century. Morgan & Co. played a leading role in the creation of behemoths such as US Steel, Standard Oil, Edison Electric and International Harvester. At the same time, Kuhn, Loeb & Co. had its own, if slightly more modest, list of newly formed businesses. That list included Westinghouse Electric, US Rubber and the Western Union Telegraph Company.

### Philanthropy

During the 50 or so years that Morgan and Schiff were raising capital for developing businesses, they were simultaneously providing a substantial amount of funding for not-for-profit and charitable causes. While both bankers made highly generous donations to well-known educational and cultural institutions, they "invested" much more heavily in endeavors that held special interest to them. Morgan, for instance, was an avid and life-long collector of antiquities and precious art and his very

sizeable collections were often donated to a select group of art museums. Those museums included the Morgan Library and Museum that he connected to his Madison Avenue mansion. The library and museum have grown over the years and have become an important fixture in the fine arts community.

Schiff is best remembered as a promoter of Jewish causes and social work. The time between 1880 and 1920 became known as the "Schiff Era" of philanthropy in recognition of his innumerable gifts to Jewish causes and endeavors, including the Hebrew Union College at Cincinnati, the New York Seminary and the Semitic Museum at Harvard University. Though Schiff had not received a university degree, he was drawn to educational endeavors and made substantial brick-and-mortar gifts to Barnard College, Columbia University, Cornell University and Johns Hopkins University.

His most substantial efforts and funding, however, were for the benefit of all, irrespective of religious beliefs. The most notable of his many charities may have been the Montefiore Hospital (now affiliated with the Albert Einstein Medical School), which he called his "labor of love." Between 1885 and his death in 1920, he served as Montefiore's president. When he first came upon the "hospital" it was little more than a small home for chronic invalids. But with Schiff's money-raising initiatives and personal dedication—he spent virtually every Sunday at the hospital—the "home" grew to become one of the leading hospitals in New York.

Another of his major charitable acts was the funding and development of the Henry Street Settlement in Manhattan's Lower

East Side. During much of the time Schiff was at the helm of Kuhn, Loeb, the American economy was soaring, and the United States had transformed itself from a debtor nation to a creditor nation. But at the same time, tens of thousands of impoverished Eastern European immigrants were swarming into the country each year. A majority of them arrived in New York without working skills, family connections, language or money. The result was a rise in crime from the tenement housing and deplorable living conditions.

An idealistic young woman, Lillian Wald, observed the devastation and squalor of the tenements and chose to live among the tenants to provide at least minimal medical services through her Visiting Nurses Service. Taken by the social turmoil she had witnessed and the resources needed to overcome it, she contacted Schiff. He, too, was overcome by the miserable living conditions, and, in an effort to improve them, he purchased the building that would become a service location for destitute families: The Henry Street Settlement House. Over the years, Schiff was closely involved in the settlement and was its most effective fundraiser. Today the Henry Street facilities offer multi-mission programs in education, employment opportunities, health and wellness programs, senior services, sports and recreation.

The United States experienced rapid growth following the end of the Civil War. But many early projects, especially railroads, were plagued with a history of management incompetence, fraudulent activities, and, inevitably, bankruptcies. International investors, of course, were wary of providing capital to finance America's unstable industrial growth. Fortunately, Morgan and Schiff, with their reputations for honesty and financial prowess, were able to re-establish credibility among overseas investors. It is no exaggeration to say that Morgan and Schiff had become America's indispensable bankers. \$

*Edward Morris is Professor Emeritus of Finance at Lindenwood University. His latest book is Wall Streeters: The Creators and Corruptors of American Finance (Columbia Business School Publishing). He can be reached at [emorris@lindenwood.edu](mailto:emorris@lindenwood.edu) or through his website: [edwardlmorris.com](http://edwardlmorris.com).*