Mister, We Could Use a Man Like J. P. Morgan Again

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One improbable irony of this summer's financial turmoil has been the quiet rehabilitation of J. P. Morgan -- the most powerful private banker in the nation's history and, for many years, a poster boy for the dangers of concentrated wealth. But now Morgan is emerging as an emblem of something that seems too scarce in corporate America: character.

In his day, Morgan (1837-1913) was admired and reviled for his immense influence. In the 1880s and 1890s, he reorganized many railroads to restore their profitability by curbing competition. (Railroads so rearranged were said to be "Morganized.") Later, Morgan consolidated the steel industry by merging Andrew Carnegie's operations with competitors and creating U.S. Steel. In 1895, when the government's gold reserves were falling rapidly, Morgan replenished them with a $65 million loan. In 1907 he stemmed a banking and stock-market panic by marshaling loans from strong to weak banks.

At various times this man played roles now assumed by the Federal Reserve, the Securities and Exchange Commission, the Treasury and government agencies yet to be created -- because no one would empower them to reshape entire industries. But he had a saving grace, notes Jean Strouse (on whose splendid biography, "Morgan: American Financier," this column relies heavily). He exercised his power with a sense of "moral responsibility," as she wrote recently in the New York Times.

Morgan was a conduit for capital. He connected wealthy investors, American and foreign, with railroads and industrial enterprises that needed money for expansion. But once transactions were complete, Morgan did not withdraw. He saw himself as the guardian of investors' wealth. If the enterprise went bad, Morgan intervened. He installed new managers, revamped industries, had his partners sit on corporate boards. The point was to ensure that his investors got repaid. Morgan felt bound by moral obligation.

Here is the contrast with the present. In the late 1990s Wall Street's investment banks sold hundreds of billions of stocks and bonds that later became worthless, notably in dot-com and telecom companies. The same investment houses blessed dozens of mergers whose stock prices subsequently collapsed. Unlike Morgan, who regarded his investors' money as his own, Wall Street's present overlords see investors' money as a commodity to be pursued and processed -- but not necessarily protected. The bankers take their fees. Big institutional investors (mutual funds, pension funds, insurance companies) are presumed to be sufficiently sophisticated to protect themselves.

Morgan always denied that his most critical decisions were based mainly on financial calculus. In one congressional hearing, the committee's counsel asked, "Is not commercial credit based primarily upon money or property?"

"No sir," Morgan replied. "The first thing is character."

"Before money or property?" the skeptical counsel asked.

"Before money or property or anything else," Morgan said. "Money cannot buy it."

In today's climate, character seems a quaint consideration. Deals go forward if the numbers add up (and sometimes if they don't). This change may reflect greater competition. One harsh criticism of Morgan was that his bank, with a few others, controlled too much of the nation's investment capital. They were "the money trust." By contrast, businesses can now -- in good times at least -- raise money from many sources. If one seems too reserved, it might get bypassed to the point of oblivion. The custodians of capital find it harder to play gatekeepers when so many are fighting for the same business.

Present business leaders doubtlessly believe they operate by a moral code. And they do. In some ways it's stricter than in Morgan's day, because it is defined by more government regulations and laws. Moreover, Morgan's code was controversial and self-serving. He believed that access to capital was indispensable for the nation's industrial development. Therefore, it was vital to ensure that investors got a return. If this meant curbing competition, so be it. But many farmers and small businesses felt oppressed by railroad freight rates. Shippers wanted rate wars.

Similarly, Morgan thought the gold standard was essential to attracting capital. Investors wanted to be repaid in money they trusted. Here, too, there was ample opposition. Borrowers felt victimized. For them, Morgan's morality meant tight credit and falling prices.

It is hard to judge one era's behavior by another's moral standards. No one would now cede so much economic power to a private individual. Still, Morgan's conduct offers lasting lessons. One is that in business (and most activities) all the laws and regulations cannot entirely substitute for human judgment about what's right and wrong. A second is not to mistake money for character. Money measures creativity, ambition, talent, effort -- and perhaps luck, inheritance or criminality. Character, though more intangible and sometimes not easily recognized, is priceless.