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National History Day – *Email Interview with Author and Professor Robert Bruner*

(Black are our questions, Red are the Responses)

### J.P. Morgan and the Creation of the Federal Reserve

What started the Panic of 1907? **The Panic nominally started with the failed “bear squeeze” of short-sellers in United Copper Company stock. This bankrupted a couple of brokerage firms and started rumors that some banks that had backed the speculators were also in distress because of the losses on the failed speculation. Failed speculations are often at the beginning of financial crises. BUT speculations fail virtually every day in the stock markets. Our book argues that the real origin of the Panic of 1907 was the San Francisco earthquake of April 1906—that event strained the global financial system and caused brokerage firms and banks to be more vulnerable to failed speculations.**

How might this have been avoided or changed for today? **We need to build “shock absorbers” into the financial system. Traditionally, these take the form of increased reserves against which to absorb loan losses and massive withdrawals by depositors. Also, there needs to be more transparency about the actual condition of financial institutions so that depositors know about the health of their banks. I argue that a bank panic is driven by fears which are caused by depositors not knowing the real facts. Since 1907, a host of regulations have been put in place that impose greater reserve requirements on banks and require more disclosure about their financial condition.**

How did the actions of JP Morgan change the course of events that might have happened; perhaps in the Great Recession? **JP Morgan organized pools of rescue funds for the banks that**

were solvent but didn't have the liquid resources to meet the demands of depositors. Today, the Fed serves that function.

Do you think that Morgan could have stopped the Financial Panic without the help of Secretary Cortelyou, who helped voice him to the government? Cortelyou contributed to quelling the Panic, but was not a major factor. His help was to deposit \$50 million in US gold reserves into a few national banks in New York City. This action was "too little, too late." It occurred at least a couple of weeks after the onset of the crisis. And the national banks weren't the problem. The crisis was mainly focused on a set of different financial institution, called trust companies. The real turning point in the crisis occurred when JP Morgan essentially forced the CEOs of the trust companies to form a rescue pool for their peers.

How would America be different if Morgan had not stepped forward during the Panic? As it was, the Panic of 1907 was one of the worst in American history, according to Milton Friedman. Without Morgan's intervention, the Panic would probably have spread more broadly and would have caused much more economic misery: more unemployment, more bankruptcies, less economic growth, and more failed financial institutions. Some of the core values of a free economy are trust and confidence; Morgan basically helped to restore those values by virtue of his actions..

As a successful businessman and baron, how did Morgan translate his self-made success into a solution to the Great Panic? What was the short term and long term legacy? More than money, Morgan's most important resource with which to fight the Panic was his strong social network, developed over a long and successful career. Because of his reputation for integrity and brilliance, he was able to marshal leaders throughout the financial system to take coordinated

action. The legacy of his example was to create a central bank in the U.S. that would take over the future coordination of efforts to respond to financial crises.

After the Great Panic came great relief among those on Wall Street. How did individuals such as Morgan inspire future preventative measure like the Federal Reserve? See previous answer.

Known for his riches, how much political influence did Morgan have? When confronted by Treasury or Congress, how did Morgan react? Morgan unquestionably had influence. He had been a financial backer of President Theodore Roosevelt's campaign for re-election in 1904. But the first decade of the 20<sup>th</sup> Century saw the dawn of the Progressive Era, a reaction against the cronyism of the Gilded Age. By 1907, Roosevelt and the political establishment viewed Morgan and his peers with suspicion. In response to Morgan's attempt to engineer a merger between the Northern Pacific Railroad and the Great Northern Railroad in 1901, Roosevelt objected, and Morgan said "have your man see my man and they can fix things up." But Roosevelt wouldn't play along, which marked a turning point in their relationship.

In order to prevent more collapse, Roosevelt approved the monopolization of the Tennessee Coal, Iron and Railroad Industry. How was this beneficial on a personal basis for Morgan, and also on the national scale? As my previous answer suggests, Roosevelt never approved monopolization in the Railroad Industry. Morgan didn't seek to consolidate the railroad industry out of a motive to build monopolies and squeeze the consumer. Rather, he wanted to rationalize that industry in the interests of investors to whom he had sold railroad bonds. The railroad industry became badly overbuilt in the years after the civil war, owing mainly to very generous incentives from the US government. This caused aggressive expansion of railroad lines, many of which proved to be poor businesses. In effect, Morgan saw himself as "Mr. Clean" for the railroad industry.

And the acquisition of TCI probably was not a profitable deal for Morgan. TCI was an inefficient steel company and not an attractive acquisition for US Steel. Morgan had to argue at length with the US Steel directors to get them to agree to buy TCI. The motive for the deal really was not monopolization, but instead, an effort to save Moore and Schley, another threatened brokerage firm, whose failure would have extended the Panic.