Transcript of Sean Carr, PhD, Justin Tsang, and Rayan Krishnan via Skype on 2-5-15 9:00 EST

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Justin Tsang: Professor Carr? Hi I'm Justin Tsang …

Rayan Krishnan: And I'm Rayan Krishnan. The first question we had was what started the Panic of 1907 and how could it have been avoided or changed for today?

Sean Carr: Well, there are several questions that you're asking. IN part, as for any major crisis, what was the precipitating event that caused it was the great earthquake in San Francisco. The reason that mattered was the destructions in San Francisco had destroyed so many buildings and businesses that as a result of the coming year, it put a lot of strain on the financial system and a lot of repairs were necessary. At that time, San Francisco was essentially the financial capitol of the United States. That put a lot of strain on the amount of capital. It was not necessarily a cause, but one of many factors. The general robustness of the economy was also another factor. The economy had been growing by great amounts over the past 5 to 10 years. The expansion of railroads across the country has all contributed to a great leap in financing. And then, sort of closer to the actual event of the panic, an approximate cause was … a bunch of financiers trying to corner a stock, profiting off the ownership of that stock. It became aware in the financial sector … that this attempt at a corner of a stock was also supported by people from respectable institutions from trust companies, similar to today's hedge funds. Well known individuals associated with this were in what was perceived to be stuck in these financial shenanigans. The

market got very nervous, and people got very nervous, and wanted to take money out of the institutions. This was the trigger, not the *cause* of the … Great Panic. So how could it be avoided today…

Justin Tsang: As a successful businessman and self-made businessman, how did Morgan translate that into a solution to the Great Panic?

Sean Carr: By that time, J.P. Morgan had established himself as a titan on Wall Street, and not just on Wall Street but for the financial world too. [He established himself as] … colossus because his influence was so great. … His wealth was not as great as many had surmised. He wasn't quite the wealthiest man in the world or among the richest, that wasn't quite the case, although he was a wealthy individual. But what he had done was keep intervening and making wise choices and supporting the markets and the financial system at various other times in his career. And thus, greatly respected, feared, expectedly. Certainly it is known that he was quite fierce to antagonists and competitors. Nonetheless, his actions were considered just and appropriate so when he wanted to step into the … Panic of 1907, he was not only able to use his own money to affect a better outcome, but also interact directly with the leadership of the New York Stock Exchange. … He was able to literally corral the heads of the major bank presidents and the heads of all the major trust companies, and bring them into his library in New York City, and at one point locked them in a room, and would bring their collective resources to aid the exodus of money from the financial system. The result of this is that he was able to buy his influence, and collective action of a number of key actors brought great calm to investors and many depositors that were scared and afraid they would lose all their money. This brought a

reassurance that the system would not collapse, and it was on the brink of doing so. And so just by his influence and wise and sound influence, … the lessons for that today is that *collective action* is important. One question that we often ask is, "Who is the J.P. Morgan of today?" Is it Warren Buffet, some would say yes, but the world is now larger and more complex, where there is not one single actor. But we do have the legacy of a central bank, a federal institution that … provides a balance when systems can get out whack, similar to what J.P. Morgan was do individually.

Justin Tsang: I was wondering, how is this representative of what happened during the Great Recession?

Sean Carr: … We looked at other financial crises over time. They are normally associated with periods of financial growth, … some kind of precipitating event. There was not too much collective action during this time, and … a lack of sufficient safety buffer. There wasn't enough liquidity, not enough money flowing in the banks, but that wasn't the issue there because most of the issue was in the housing market. The lack of control created and … changed the economy. Those are some key commonalities between the two.

Rayan Krishnan: How would the Great Depression during 1929 have been different if J.P. Morgan had not stepped in 1907.

Sean Carr: Going in so far as to say; had J.P. Morgan not intervened so effectively, it's likely that they would subsequently not have created the Federal Reserve system in 1913, and in 1929, some have criticized the Fed for not intervened strong enough during that stock market crash. …

Rayan Krishnan: In order to prevent more collapse, Roosevelt approved the monopolization of TCI; how was this beneficial for Morgan on a personal basis and also on the national scale?

Sean Carr: Some have criticized Morgan for having appeared to have been opportunistic in buying up TCI and subsequently furthering his interests and the main shareholder and force bonding with US Steel. His acquisition happened because he was trying to take the stocks off the hands of a brokerage in New York called Moore and Schley. What happened during the fall of 1907 is that the fall of trust companies led over to other state, local, and federal banks, and then further on to the brokerage firms. Of course, this is where the federal institutions were keeping their money. Moore and Schley were on the brink of collapse, but … J.P. Morgan acquired a big portion of Moore and Schley, essentially establishing a greater monopoly. The action, considered by some, was good because it stooped the domino effect of the Panic. On the other hand, he was clearly profiting, which was typical throughout his career. … When it came to the financial market, Morgan was out to make a profit. That's an interesting question.

Justin Tsang: How did J.P. Morgan really influence the creation of the central bank?

Sean Carr: It was both direct and indirect; indirect in that it was as a result of Morgan that there needed to be some measure by which liquidity could be constrained or expanded in the financial sector in times of crisis or need. Morgan did do it, not only using his own finances, but by brining in other businesses and trust companies to pool their funds. Other than that, there was no central authority or institution. More explicitly, he and associates of him ended up pursuing the

Jekyll Island meeting to basically put together a blueprint of what the central banking authority should look like in America. Morgan was involved in those efforts as well.

Rayan Krishnan: How would America have been different had Morgan not stepped forward during the panic?

Sean Carr: The counterfactuals are really fun to think about that. One thing to say about that is that if he had not stepped forward and provided an example of a central authority, we would not have had a model for it at all. Perhaps at that time, we could claim … it might have taken a lot longer for the creation of the Federal Reserve to occur. You might have seen the crash of the Depression in ’29 and subsequent Recession occur a lot earlier. And even slowing down overall economic growth. The economy had not appreciated as much until recently. So we might not be where we are today without his actions then because a cascade of positive effects followed, so without Morgan’s intervention, a model of behavior and action would led us to where we are today.

Justin Tsang/Rayan Krishnan: Thank you very much …

Sean Carr: …

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