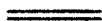


J. P. Morgan's Testimony



The Justification of
Wall Street



Compliments of



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Testimony of J. P. Morgan

Before the

Bank and Currency Committee of the
House of Representatives, at
Washington, D. C.

Appointed for the Purpose of Investigating an
Alleged Money Trust in
"Wall Street."



Cross-Examined by Samuel Untermeyer, Attorney
for the Committee.



December 18 and 19, 1912.

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Morgan Epigrams

I have absolute faith in the patriotism and public spirit of the Stock Exchange.

The moral responsibility has to be defended as long as you live.

Securities do not always prove good.

It is difficult to get stockholders to take active interest in their companies.

I do not believe I could carry any question through any board against the views of the other directors.

I like a little competition, but I should rather have co-operation.

Without actual control, you can do nothing.

I want to control nothing.

There is nothing in the world by which you can make a money trust.

I do not feel that I have vast power. I do not think I have power in any department of industry; I am not seeking it, either.

All the money and all the banks in Christendom cannot control credit.

My firm is not run by me; I am not the final authority.

I believe in divided as against concentrated responsibility.

I do not compete for deposits. I do not care whether they ever come, but they do come.

A bank, if it transacts its business right, will get its share of the business.

Nobody wants to put money into a new railroad in these times.

I always assist young men.

If it is good business for the interests of the country, I do it.

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I should attempt to tell where the money is in every transaction I make, I should have a hard time of it.

I did it because I thought it was the thing to do.

I should not allow a man to be associated with me that I thought was a fraud, simply because he owned a bank which at that moment was solvent.

Money is gold, and nothing else.

If a man had the credit, and I had the money, his customer would be badly off.

I have given a man a check for a million when I knew he had not a cent in the world.

The first thing is character, before money or property or anything else.

A man I do not trust could not get money from me on all the bonds in Christendom.

I never heard of a bank being controlled by anybody who gave it business.

The first thing is to get the business, and the next thing is the way you transact your business.

I think manipulation is always bad.

I never sold short in my life that I know of, but I do not see how you will get along without it. It is a principle of life, I think.

I would not favor legislation that would reduce the volume of speculation. You cannot prevent the public buying a thing that they think is low, or selling a thing that they think is high

You cannot in a bank in which you are a director, not in any first-class bank, at any rate, go and find out how much I have got in that bank.

You can get combinations that can control business, but you cannot control money.

PREFACE

A COMMITTEE of Congress, chasing what some folks say is a chimera, has elicited from perhaps the most renowned witness in the country's history the most vital testimony.

"Wall Street" was on trial. Sundry "reputation" witnesses had made a feeble showing. The hunters of the mysterious "money trust" were elated. Their brilliant counsel, who could say with Aeneas that he once had been part whereof he spoke, was moulding the case as a sculptor plays tricks with clay. A squad of expert accountants piled up tables of millions and billions, like Japanese jugglers.

The star witness had been summonsed. Chief servitor of the temple of the money-changers was he—a figure of Jovian majesty, magnificent, inscrutable, silent. He rivaled the Sphinx. Only twice, in the memory of the market, had he casually talked of current things. Each time he gruffly emitted an epigram. He diagnosed the ailment of the "rich men's panic" of 1904 as a case of "undigested securities." After the Supreme Court had started its anti-trust vivisection, he tersely suggested the difficulty of "unscrambling eggs." Otherwise, perpetual silence.

This uncrowned king of finance was called to justify his reign. For three long hours he, now past the scriptural age-limit, faced the inquisitor. Seldom has court-room produced so acute, searching and profound a cross-examination. Rarely has witness emerged so triumphantly. Where two continents had expected a sullen silence or passionate resentment there ensued three hours of suave, good-natured thrust and parry. Jove condescended; the Sphinx turned talkative.

More than that. This give-and-take, ranging on every province in the kingdom of finance, developed, bit by bit, a masterly exposition of the philosophy of high finance. The oracle was speaking. This

was personal and authoritative. The money-king, who had yearly dealt in hundreds of millions of dollars and not even a handful of words, now discussed freely and frankly the technique, the code, the ethics and the morals, of money market and stock market.

What he said of private vs. public banking, of interlocked directorates, of mergers, of voting trusts, of speculation, of credit and of money, had behind it his own prestige and personality. His yes or no meant pages in themselves.

Going further, Mr. Morgan laid down with the force of undisputed authority some of the basic tenets of finance. His definition of credit alone sufficed to lay the ghost of the "money trust." His observations on the functions and the faults of banker and broker set forth the essential service, while not blinking the incidental blemishes, of the country's apparatus for investment and speculation. He appraised and explained Wall Street. He did not have to defend it; he justified it.

The lasting value of his statement and its full significance were not to be had from a first casual reading in condensed and hurried press notices. In the belief that it deserves a wider and more careful attention, this compilation of Mr. Morgan's testimony is here presented in a more complete and permanent form.

THE HOUSE OF MORGAN

Q. Where do you reside, Mr. Morgan? A. New York.

Q. Are you senior member of the partnership or firm of J. P. Morgan & Co., bankers, of New York City? A. I am, sir.

Q. Are you also a partner in other banking houses in this country and elsewhere? A. No, I am not.

Q. Are you not interested in the Philadelphia firm? A. That is the same thing.

Q. That is the same firm with the same membership? A. Yes.

Q. Is that true also of the London and Paris houses? A. The firm in New York are partners in the Paris house and in the London house.

Q. Will you name the partners in the New York and Philadelphia houses? A. I do not know; I think you have them.

MR. NICOLL: If you will read them over, Mr. Untermeyer, Mr. Morgan will tell you whether they are correct or not.

MR. MORGAN: I think I can call them off.

Q. Will you just call them off? I think there are ten members, are there not? A. Have you a book of the New York Stock Exchange?

Q. Just look at this list here (indicating). A. You want the New York partners?

Q. The New York and Philadelphia partners. A. That is the same thing.

Q. Let us see if this is right: 'J. P. Morgan,' H. P. Davison, 'W. P. Hamilton,' Thomas W. Lamont, H. G. Lloyd, 'J. P. Morgan, Jr.,' A. S. Newbold, 'William H. Porter,' Charles Steele, 'E. T. Stotesbury.' A. I will read them off to you: 'J. P. Morgan,' E. T. Stotesbury, Charles Steele, 'J. P. Morgan, Jr.,' Henry P. Davison, 'Arthur E. Newbold,' William Pierce Hamilton, 'William H. Porter,' Thomas W. Lamont, 'Horatio G. Lloyd.

Q. There are eleven partners, are there not? A. Eleven, yes.

Q. And the same individuals constitute the Philadelphia house? A. It is the same house. There is no difference. It is one partnership. It only has a different name, owing to my desire to keep Mr. Drexel's name in Philadelphia.

Q. That is the Paris house? A. That is in Philadelphia.

Q. As to the Paris house, how many partners are there?

A. They are not there as individuals. The firm of J. P. Morgan & Co. and the firm of Drexel & Co. are partners as such, as a firm.

Q. In both the London house and the Paris house? A. In both the London house and the Paris house, yes.

Q. And added to that, I suppose, are other partners, residents in London or Paris? A. Yes, that is so.

Q. Does your New York house do a general banking business? A. We try to, sir.

Q. Do you take deposits? A. We do.

Q. You do the business that is done by a banker? A. Exactly, as far as we can.

Q. And you honor checks against deposits, just as a bank does? A. We do, except with us checks do not go through the Clearing House.

ITS BUSINESS METHODS

Q. You are not a member of the Clearing House? A. No.

Q. Do you clear your checks through another bank that is in the Clearing House? A. No.

Q. You clear them over your counter, do you? A. We draw checks on the banks and then check through—

Q. (Interrupting.) Checks against your firm are presented at your office? A. They must be presented at our office.

Q. And you give checks on banks in return? A. On a bank for them.

Q. Do your foreign houses also act as bankers in that same way and accept deposits? A. They do; not to any great extent but they do whenever necessary.

Q. Is there any business that your firm does not do in the way of the banking business that is done by any State or National bank, except to receive Government deposits? A. No, we do not issue notes. We cannot issue bank notes.

Q. You have no circulating medium? A. We cannot issue banknotes.

Q. But apart from your inability to issue bank notes and your inability to receive Government deposits, you act as a bank with the same power as any banking institution organized under a corporate law? A. We do.

Q. And you receive as bankers in that way deposits of inter-State corporations, do you not? A. Any corporation.

Q. You mean you have among your depositors large deposits of inter-State corporations—that is, corporations engaged in inter-

state commerce? A. Yes; I suppose we do, I do not remember any distinction between them.

Q. The distinction between them is that certain corporations are engaged in commerce between the States and others engaged in commerce only within the States. For instance, the Interborough Company engages in business only within the State of New York?

A. Yes.

Q. While the Southern Railway engages in business between the States? A. That is it.

Q. You receive deposits from both classes of corporations?
A. We receive deposits from any corporation that we think good.

Q. You have prepared, have you not, a statement of the amount of money on deposit with you by inter-State corporations at a given date? A. I think we have. I haven't that, however.

MR. LINDABURY: I have it.

MR. UNTERMYER: Will you produce it, Mr. Lindabury?

MR. LINDABURY: I do not produce it, but you apparently have it. I haven't it, with me.

Q. Can you tell by reference to this paper, Mr. Morgan, how many such accounts of inter-State corporations your firm had at your New York banking house on the 1st of January, 1912, and how many you had on the 1st of November, 1912? A. I would like to ask whether that cannot be given by some one more familiar with the accounts than I am. I do not know anything about them. Any statement that they submit to you, I will accept.

MR. LINDABURY: That is correct.

MR. MORGAN: I have not any doubt it is correct.

AND DEPOSITS

MR. UNTERMYER: I will read from this statement: On Jan. 1, 1912, there were sixty-six accounts with J. P. Morgan & Co. of New York of inter-State corporations, having aggregate deposits of \$68,113,315.31. On Nov. 1, 1912, there were seventy-eight accounts of such corporations having aggregate deposits of \$81,968,421.44. The total capital surplus and funded debt of these corporations—subject to correction if the figures are not correct—

MR. LINDABURY: As stated in some public record, I think that shows, does it not?

MR. UNTERMYER: \$9,765,825,500.

MR. LINDABURY: Does not that refer to the source of information?

MR. UNTERMYER: No. Yes, it refers to the source of information, but it does not give us the name of the corporation.

MR. LINDABURY: It was made up from some public record.. What we meant was that that is as it appears by the records.

MR. UNTERMYER: Of course, we have the data or the names of those corporations.. You felt reluctant about giving them, did you not, Mr. Morgan, and we do not find it necessary to have them. A. You are speaking about their capital and all that?

Q. I am speaking about the names of the people who deposit with you. That, you prefer not to give? A. That I did not want to give.

Q. But we do not find it necessary to have it. A. That is all right. I thought you were speaking about the capitalization of the aggregate companies.

Q. I see, and we have the figures there. Mr. Morgan, do you think these great corporations engaged in inter-State commerce, that have their securities scattered broadcast, ought to be permitted to make their deposits with private bankers? A. I do, sir.

Q. I am not speaking of any particular private bankers. I am speaking of the rule, which would apply to one private banker as well as to another. A. That depends upon their ability to meet the drafts.

Q. No, but taking the general rule, do you think that it is a wise thing to permit a public corporation that is owned by the public, with securities scattered, to make its deposits with a private banker? A. I do, sir.

Q. As a rule? A. Not as a rule, I do not know that every private banker—

ABOUT SUPERVISION

Q. Do you not realize that there is no supervision over a private banker by any State authority? There is not, is there? A. No.

Q. And no requirement for keeping a reserve, is there? A. No.

Q. On the whole, taking the question as one of policy, and the broad question rather than a question personal to any particular banking house, do you not think— A. The same thing, I think, would apply to some banks.

Q. Do you think the same thing would apply? They are under Government supervision, are they not? A. I cannot help that. They have a small capital, and you do not know anything about their means.

Q. But there is some outside official authority that passes upon their solvency, is there not? A. That is my opinion.

Q. As a matter of policy? A. It is a mere matter of judgment, I should say.

Q. As a matter of policy— A. As a matter of judgment, I should say—

Q. I do not think you have heard my question. As a matter of public policy concerned with the regulation of inter-State corporations that are owned by the public and whose shares are widely scattered, you are of the opinion that they should be permitted, without restriction, to make their deposits with private bankers just as readily as with banks that are chartered? A. If their Directors so decide.

Q. Do you not think that anybody other than the Board of Directors has an interest in that subject? A. They can examine— if it is a company it can be examined at any time.

Q. But the private banker who holds their funds cannot be examined, can he? The private banker cannot be examined either publicly or privately? A. Yes. If the public claim the right to do it, they can be examined.

Q. You do not mean to say that a corporation, an inter-State corporation, depositing with a private banker would have any right to find out the means of that private banker? A. Then they need not deposit with them.

Q. But the question is whether they ought to have the right to do such a thing? A. I should think that was left to the Board of Directors.

Q. That is all you care to say about that, is it not? A. Yes.

FISCAL AGENTS

Q. Is your firm acting as fiscal agents for a number of inter-State corporations? A. We are, sir.

Q. For which corporations do you act as fiscal agents—I mean inter-State corporations? A. We have a list here.

Q. You act as fiscal agents for the Chicago & West Indiana Railroad Company, do you not? A. Yes.

Q. And for the Chicago, Indianapolis, and I suppose that means St. Louis, Railroad? A. St. Louis, is it not?

Q. The Chicago, Indianapolis & St. Louis? A. Mr. Untermyer, all I can say is that I do not know the details of those. I could not tell you all of those companies. If that is a register, if that is a list made out by the office, I accept it.

Q. Do you also act for the Pere Marquette? A. I think we do.

Q. The details of your business you do not carry about you?
A. I do not attend to the details of it, but I would be perfectly willing to accept any statement that comes from the office.

Q. And you remember, do you not, that you act for the New York, New Haven & Hartford and for the New York Central?

A. Yes, that I remember.

Q. And you have acted as fiscal agents for them for many years? A. Yes, and for the New York Central also.

Q. Is that under written agreements? A. I think there is an agreement, I do not know the terms of the contract.

Q. Generally, are the terms of the agreement such that they must issue all their securities through your firm? A. If we can agree, yes, sir.

Q. You have the right, have you not? A. Yes.

Q. (Continuing.) To issue all their securities? A. We have the right, on reaching terms. We have got to agree on terms.

Q. Have you not the right to issue then on the commission basis? A. Yes.

Q. Without giving them the right to go elsewhere? A. On the same terms, yes, sir.

Q. No; I do not think you understand me. Have you not the absolute right to the issue of all their securities? A. Not unless we can agree upon terms.

MR. UNTERMYER: Let us see the agreement, then. Is there any objection to having the agreement?

Here Chairman Pujo intervened, and, owing to the necessity for members of the committee to be present in the House, announced that the committee would take a recess until the following day.

DIRECTORS, DEPOSITS AND FISCAL AGENTS

J. P. Morgan resumed his testimony at the "money trust" hearing on Friday at 10.29 A. M.

Samuel Untermyer questioned Mr. Morgan about total deposits of J. P. Morgan & Co.

Mr. Untermyer asked: Can you give committee total deposits you had on November 1?

A. I haven't it here.

Q. You have told us of \$81,000,000 of interstate corporation deposits. How much more is there?

A. Oh, about \$20,000,000. About \$100,000,000 in all.

There was upward of \$81,000,000 held by the firm in New York on behalf of seventy-eight interstate corporations, but Mr. Morgan

thought there were more than \$20,000,000 of average deposits, outside of these—perhaps \$110,000,000. He promised to put the exact figures in the record.

Mr. Morgan said members of his firm were directors in some of interstate corporations that had such deposits and that he thought he had furnished a list of the names.

Untermeyer said he had not received list and witness agreed to furnish it. He also agreed to present figures of deposits of Morgan, Drexel & Co., of Philadelphia. He added that this class of deposits in his Paris and London branches was infinitesimal.

Morgan, Drexel & Co., of Philadelphia, he said had the same method of doing business. The Morgan firm acted as fiscal agents of some of these corporations, getting its authority to do so by resolution, correspondence or "word of mouth."

AGREEMENTS

Mr. Untermeyer reverted to the fiscal agents' agreements between the witness' firm and a number of other big corporations.

Mr. Morgan said he already had obtained data on these, and stepped up to the committee table and presented them. Most of agreements were verbal in form. Written ones were with New York Central and United States Steel.

There were tacit understandings with other corporations, such as Southern Railway and Northern Pacific Railroad.

Mr. Untermeyer read identical letters, addressed by J. P. Morgan & Co. to the presidents of the New York Central, Lake Shore, Michigan Central and Big Four. The agreement between the Morgan firm and the New York Central was read into evidence. It provided that J. P. Morgan & Co. were to be the sole agents for the railroad and to act for it whenever it shall require the services of bankers to dispose of its securities. The firm's commission on the sale of securities should be $1\frac{1}{2}$ per cent. of the par value of all such securities, unless the security had less than six years to run, when the commission should be $\frac{1}{4}$ per cent. for each year. The railroad companies had provided that the firm should advance to the companies up to 75 per cent. of the offered price upon securities offered to the public as collateral. At Mr. Morgan's instance, the correspondence showed, the percentage was increased to 90 per cent.

Mr. Untermeyer asked if the New York Central resolution was followed by a written acceptance. Mr. Morgan said it was, and added that he was a director and a member of the New York Central finance committee when the agreement was drawn.

Mr. Untermeyer asked: Did New York Central ever take any further official action. A. Nothing further.

// Mr. Morgan admitted under pressure that many million dollars worth of securities had been issued by New York Central since passage of this resolution through Morgan & Co. without additional sanction of directors.//

All the companies accepted the firm's suggestions. In the understanding with each road was a stipulation that should there be a disagreement between the Morgan firm and the road's finance committee as to the price at which any particular security should be offered to the public the agreement was not to hold. The agreement could be terminated on thirty days' notice.

// Mr. Untermeyer read an agreement submitted by the witness relating to fiscal agreement between New York, New Haven & Hartford and Morgan & Co. This agreement made the Morgan firm "sole fiscal agent for New Haven." Mr. Morgan's charges for banking assistance were the same as in the New York Central case, although no flat rate of commission was fixed.//

After reviewing some of the other corporations for which J. P. Morgan & Co. are acting as fiscal agents and in the direction of whose affairs they have at the same time a voice Mr. Untermeyer adds:

Don't you think it would be better for these great interstate railroad corporations if they are entirely free to sell their securities in open competition than that they should be tied to any banking house, however just might be its methods, in the issue of such securities? A. I should not think so.

Similar written agreements between Boston & Maine and the Morgan house were also read into record.

//Q. You've been acting for American Telephone? A. Yes, partly so.

Q. You have no agreement in writing with them? A. No.

Mr. Morgan said that some issues of New York Central securities had been made in the last ten years through other bankers than his house. "I can't recall any, but I think there were some." He thought the New Haven also had in the last decade issued securities not marketed by his firm.

From papers furnished by Mr. Morgan, Untermeyer read the Morgan proposal, accepted by the New Haven, in return for being made sole fiscal agents to loan the New Haven 90 per cent. of agreed sale price of its securities at a "reasonable rate of interest" and to give the road "benefits of counsel and advice." This was accepted January 11, 1911, by Maine Central; December 28, 1910, by Boston

& Maine, and December 19, 1910, by the New Haven, being signed by Charles S. Mellen in each case.

"I am still acting for these concerns; their securities are being disposed of through my banks."

Q. Take the case of the Southern Railway. During all the years it has been and is still under this voting trust. The fact is, is it not, that Mr. Baker and you, as a majority of the voting trustees, designate the directors of that company? A. Yes, sir.

Q. Don't you feel that in a sense, when it comes to issuing the securities of that company and fixing the prices on which they are to be issued, that you are in a sense dealing with yourselves? A. I do not think so. We do not deal with ourselves.

Q. Do you not realize that a board run by voting trustees is under the domination of the people who name it? A. My experience is quite otherwise, sir.

Mr. Morgan said it was better to have his firm name directors of railways the firm controlled. "Because," he explained, "we get the best men possible. I am speaking from a board point of view."

Q. Then you think that you have less control over them that way than otherwise? A. That's been my experience.

Q. And it's on that theory you have no objection to fiscal agreements? A. Yes.

Q. These issues of securities of interstate railway companies are in vast sums, are they not, running into the hundreds of millions of dollars a year? A. Yes, sir.

Q. Do you think it would be entirely feasible that securities of such corporations should be openly marketed and should be sold by competition, just as securities of the United States Government and state governments and city administrations and municipal bonds of different kinds are sold? A. I do not.

Q. Do you not think the company should be in a position to have other banking houses compete for these securities, and perhaps get a higher price than you might think they were worth? A. I have no doubt that could be done occasionally, but it would not be often.

Q. You think it is best for the interests of the company that it should only have one purchaser available? A. I think so.

Q. Now, if you like, you may explain why that is so. A. What I was going to say has gone out of my head. Wait a moment. I was simply going to say that there is another point about it, and that is this: You must remember that securities that are issued and sold do not always prove good.

Q. That would not apply to bonds of the New York Central,

would it? A. Not that particular road, but it has applied to other roads in New England and to other roads in New York State. When there is a fiscal agent or a person responsible for them who will put their name on them, that is a thing which is sometimes overlooked.

Q. But the name does not help after the bond is proved bad, does it? A. It does in this way: The house is called upon to protect those bonds, to assist in the reorganization of the road, to make them good, in case of a disaster.

BANKING HOUSE RESPONSIBILITY

Q. But what I mean is that this banking house assumes no legal responsibility for the value of the bonds, does it? A. No, sir; but it assumes something else that is still more important, and that is the moral responsibility, which has to be defended as long as you live.

PROTECTION OF SECURITY PRICES

Q. If the bond turns out to be bad, the banking house does not suffer any monetary loss after it has distributed the bonds, does it? A. Why, certainly, because they are obliged to do any number of things for the bond holders.

Q. But they get their money back? A. Not always.

Q. The question then is does not the expense and all the money necessary to reorganize the property come out of the security holder? A. I should hardly say that. It comes out of the property.

Q. Give us one instance in which a banker has done anything more than occasionally advance the interest on the securities, and then get it back out of the property. A. I think there are a great many cases of that kind, but I cannot recall for the moment.

Q. Can you give us any other reason why fiscal control of corporation securities is a good thing? A. Nothing that is pertinent.

Mr. Lindabury asked permission to suggest something to Mr. Morgan at his point, but Mr. Untermeyer objected.

ABOUT NAMING DIRECTORS

Q. At the time of the organization of the Steel Corporation did you name the entire board of directors? A. No; I think I passed on it.

Q. Did you not, as a matter of fact, name the board, passing out a slip containing the names of the directors? A. I cannot say that no one else helped me in it. I am willing to assume the final responsibility, if that will answer your question. I will say, how-

ever, that whoever went on that board went with my approval.

Q. The board is named by you and your associates? A. No, sir; not now.

Q. Nobody is nominated for that board without your approval, is he? A. Yes, sir.

// Q. Is anybody nominated for it against your protest? A. Not against my protest.

Q. At the annual elections proxies are sent out, are they not, to the stockholders? A. Yes.

Q. Who passes on the names of the persons who shall be the proxies to vote for director? A. The finance committee.

Q. Is a member of your firm also a member of that committee? A. Yes, my son is a member.

Q. And until his retirement from your firm Mr. Perkins was chairman of that committee, was he not? A. He was for a time.

Q. Is not Judge Gary the chairman of the finance committee? A. Yes.

Q. You named Mr. Gary, did you not? A. I think it very likely. I do not remember.//

THE STEEL CORPORATION

Mr. Untermeyer wanted to know who fixed the prices at which the various subsidiary companies were taken in by the Steel Corporation.

Q. It was left to you, wasn't it? A. Yes, but I was not always able to get it at the price at which I thought it ought to go in.

Q. Which committee of the Steel Corporation selects the depository of the corporation? A. The finance committee.

Q. Who put Mr. Frick on finance committee. A. I did, I suppose.

"Who put Mr. Perkins at head of the finance committee?"

"He did it himself. I can't recall all these things," Morgan continued irritably.

Q. Who decided that J. P. Morgan & Co. should be the depository of the United States Steel Corporation? A. That was rather ex-officio, I think.

Q. You mean you decided it both ways? A. When the company was formed J. P. Morgan & Co. had the whole company at that time, and I think that is the way it came.

Q. You thought it was good business, and so you thought you would take it? A. No; I did not know whether it was going to be good business or not at that time.

Q. It turned out pretty good? A. It did. Very good, indeed, sir.

Q. You did not think you were taking any chances on it being good business when you took it up, then? A. No; but I began to have doubts when the stock went to \$8 a share.

Q. Your doubts did not interfere with your buying heavily? A. No; I bought all I could.

Q. You did not have any doubt, did you? A. Never, not for one moment.

Q. You were getting the advantage of other people's doubts at that time? A. Nobody ever sold it at my suggestion, sir.

Q. No, I did not mean to assume that. It only implies your confidence in the company at that time? A. I always had it, sir.

Mr. Morgan could not tell whether or not the Steel Corporation has power to deal in its own shares. He did not think the corporation actually had carried on dealings of this character. He had no knowledge of there having been buying and selling syndicates in steel stock.

Mr. Untermyer disclaimed any intention of intimating that Mr. Morgan's firm ever had participated in any pools of this character.

UNDERWRITINGS

Mr. Untermyer took up the matter of underwriting syndicates by the Morgan firm.

Q. And you have a list of those people whom you invite into these syndicate participations, have you not? A. Yes, sir.

Q. If you were issuing an industrial security, you would probably offer participation to a different class of underwriters from that you would offer it to if you were issuing railroad bonds? A. Exactly; that is what I wanted to say.

Q. Is it not a fact that sometimes, when an issue is evidently going to be very popular, you make your allotments without any previous application; and sometimes, when you have difficulty in making a syndicate, you invite applications? A. That is what I wanted to say.

Q. There are many banks and trust companies in New York which you permit to participate in these underwritings, are there not? A. Yes, a great many.

Q. But no insurance companies, since the law of 1906? A. No.

Q. And does your list of underwriters extend to the other great cities of the country? A. All of them.

Q. As a general thing these underwriting participations have

been profitable? A. Yes, otherwise you could not get any of them taken.

Q. Have you a vast market for your securities? A. Very often.

Q. The more people you have selling a security, the worse it is? A. Yes. The market is very apt to be dead.

Q. Do you distribute these participations in New York City to all the banking firms or only to some of them that are friends of yours? A. Oh, no! Of course it varies very much, but we distribute to those we think will help the issue.

Q. Do you not know that there are some in New York who are never invited to participate? A. Very few, sir.

Q. Do you not know that some of the leading banking firms in New York City do not participate in your underwriting? A. Yes, sir. A great many of them refuse it.

Mr. Untermeyer declared that Lee, Higginson & Co., of Boston, First National Bank of Chicago and other institutions often wanted to participate.

"They don't work with us, but take or refuse an offer we make," said Mr. Morgan.

Q. They don't often refuse, do they. A. Oh, yes, often.

Q. Then you offer them another opportunity. A. Yes, sir.

Mr. Morgan testified that his firm always allotted a part of every large issue to England, France and Germany. Mr. Morgan did not believe this wide distribution of securities necessarily made a market for them. On the contrary, he thought it was likely to retard the market.

Q. Have you a vast market for your securities? A. Very often.

Q. The more people you have selling a security the worse it is? A. Yes. The market is very apt to be dead.

The New York financier could not give a total of the securities that were marketed on the average by his firm in a year.

Q. How many securities do you market in a year? As much as a billion dollars? A. I think the figures are very much overestimated. I can't remember all of them.

Mr. Morgan added that he did not think it amounted to five or six hundred million dollars a year, but he would have the figures prepared.

IN RELATION TO BANKS

The committee then took up the joint operations between George F. Baker, of the First National Bank, and Mr. Morgan. Mr. Morgan testified that he was a director and member of the executive

committee of the First National Bank and that he and Mr. Baker were old and close friends. Their friendship dated at least from 1873.

Q. During that time your house has been of great aid to the First National Bank in building up their great prosperity and they have been of great aid to you? A. I hope so.

Q. Is there any datum obtainable that would show the extent of joint or partnership transactions between the First National Bank and your firm? A. I do not think there is any way of getting at that.

Mr. Morgan would not like to say that his firm and the First National Bank had been associated in nearly every big enterprise. He could not recall any in which the First National Bank had been omitted, but he felt sure there were some.

MR. MORGAN: I always offered them anything I had.

Q. And they the same to you?

"I think they would," said Mr. Morgan, who hastened to explain, however, that the First National Bank itself cannot of course go into stock operations, although Mr. Baker individually could.

Mr. Untermyer contended, however, that both the First National Bank and Mr. Baker were important factors in the underwriting of the Steel Corporation securities.

Q. Was not the First National Bank an important factor in underwriting Steel stock? A. Yes, I presume so.

Counsel called the witness' attention to the organization of the First Security Company and the City Security Company, but Mr. Morgan insisted that he knew nothing of the details.

Mr. Morgan's throat became husky, and he turned to his daughter, Mrs. Satterlee, and asked for a throat tablet. Mrs. Satterlee produced it from a handbag.

"Do you want a glass of water?" asked Mr. Untermyer.

"No, thanks," said Mr. Morgan.

"If you get tired," suggested Mr. Untermyer, "don't hesitate to say so."

"I'm not tired," returned the financier.

Q. You are a large shareholder in the National City Bank, are you not? A. No, sir; not very large.

Q. You have a million dollars or so in stock, haven't you? A. I think so, but I do not remember exactly how much. I think the firm has more than I have. I wish I had it all.

Q. Have they a million or so also? A. Not "also." We have it among us.

Mr. Morgan could not tell whether or not his son was a member of the executive committee of the City Bank.

Q. You have a very large interest in the National Bank of Commerce, have you not? A. I do not remember, not very large, about a million dollars.

At this the crowd in the room where the hearing was held had a good laugh.

Q. You have a large interest in the National Bank of Commerce, have you not? A. I do not remember. Not very large. About a million dollars. You have the statement there.

Q. You have \$1,686,000. A. How much is down there for me?

Q. The firm as a firm and the individual members have \$1,686,000. The firm has one million and the individual members \$686,000.

Mr. Morgan stated that Daniel G. Reid was not a director of the First National Bank. "I think I am right, Mr. Counsel," said Mr. Morgan.

Q. Mr. Davison says you are right, does he not? A. Yes.

Q. That is the reason you think so? A. I always believe anything Mr. Davison says.

Q. And willing to swear to it, are you? A. I will swear by that, yes.

Mr. Untermeyer wanted to know if Mr. Morgan had not made a considerable purchase in this bank recently in addition to the figures which the committee had obtained. Counsel for the committee made it apparent he was seeking to find out whether Mr. Morgan had obtained any stock from the Equitable Life Assurance Society after he had bought into that institution. The witness said he could not tell anything about the matter, as he was not in this country at the time. Mr. Morgan remarked that he spent four or five months abroad each year and members of his firm looked out for his interests.

Mr. Morgan looked a little irritated when Mr. Untermeyer asked him whether he knew anything about the details of the board of directors of the Bank of Commerce.

"I do not know about that; I do not watch it at all," he said.

Q. How many members of your firm are directors in the National Bank of Commerce? A. Two, I think.

Q. Are they not H. P. Davison and your son? A. I can't remember. I leave those details to members of my firm—any member who happens to have the matter in charge.

Q. Don't you look after these things? A. Not to any extent. They take care of themselves. We have too much to do to look after all these things.

Q. You do not watch the details as to the management of any of these banks? A. No.

Q. To whom do you refer that in your firm? A. Whoever happens to be there. They do not run it.

Q. You are doing everything you can to protect the prosperity of these institutions in which the members of your firm are directors, are you not? A. We do not bother ourselves much about that. They look after themselves.

Q. Why do members of your firm, in some instances two members, go on the board? A. Because we have a large interest to protect.

Q. In the protection of your large interest do you not look after the banks at all? A. Not to any extent.

Q. It takes the time of your partners, does it not? A. Yes, I have already remarked on that a great many times. It takes too much time.

Q. But when they are there I suppose they do their utmost to add to the prosperity of the institution? A. They always do that, I hope.

Mr. Morgan denied he had been consulted in regard to the establishment of a voting trust for the Guaranty Trust Company. It was done by his partners.

Q. You know, do you not, that two of the three voting trustees are members of your firm? A. I do not know who they are.

Mr. Morgan testified he had no knowledge of the formation of the voting trust of the Bankers Trust Company.

CONFIDENCE IN PARTNERS

At this point Mr. Morgan turned once or twice toward Henry P. Davison, his partner, to ask for information.

"I believe anything Mr. Davison says," remarked Mr. Morgan, "and am willing to swear by it."

Mr. Morgan could not tell in how many corporations he and the members of his firm were voting trustees. He thought there were only two or three now outstanding. Mr. Morgan said when questioned in regard to the voting trust for the International Harvester Company that he never had known there was one until a few days ago when he read it in the newspapers. Mr. Untermeyer recalled also the voting of the International Agricultural Corporation, of the Chicago, Great Western and of the Erie, Reading and Southern Railways. Mr. Untermeyer contended there had been a Baltimore and Ohio voting trust in which Mr. Morgan himself was one of the voting trustees, but Mr. Morgan did not recall it.

In speaking of the voting trust of the International Mercantile Marine, Mr. Morgan said he and Mr. Steele, Lord Pirie and Mr. Ismay were the trustees.

"I am glad it is you and not I," said Mr. Untermeyer with a smile.

"I am ready to be anything, sir," replied Mr. Morgan with a hearty laugh.

Q. Have you ever known an instance in the history of corporations in this country, where the stock was largely scattered, in which the stockholders, however dissatisfied, have ever succeeded in procuring a change of management. A. I do not recall any at the moment.

Q. Did not your firm reorganize Cramp & Sons? A. I don't remember.

STOCKHOLDERS LACK INTEREST

Q. Is it not true in this country, unlike other countries, it is difficult to get the stockholders to take any active interest in their companies? A. That is very true. That is a reason why a voting trust is so desirable.

Q. That is the reason for this paternalism on the part of the financial gentlemen who reorganize the company? A. That is the reason why in reorganizing a company we employ that method. We exercise our powers and protect the stockholders.

Q. Protect them against what? A. Oh, against anything.

THE READING AND COAL PRICES

At this point Mr. Morgan asked to have read into the record a report made by the voting trustees of the Reading Railroad to the stockholders in 1904. This report shows the remarkably successful results that have been obtained under the voting trust.

Q. During that time how much had the price of coal increased to the consumer. A. That I do not know anything about.

Q. You cannot give us any idea whether the Reading Company has made this money by boosting the price of coal and on the carriage of coal? A. I think they have done all they could to sell it.

Q. And all they could to get all they could for carrying it? A. I do not think they have cared so much about that as they have about selling it.

Q. All the great railroad systems, or most of them, have increased very much since 1907. Is that your argument in favor of a voting trust? A. That is one of the arguments to show the advantage of it.

VOTING TRUSTS FOR SAFETY

Mr. Morgan added that in the infancy of a corporation or in its incipency a voting trust, in his opinion, is necessary for the protection of the property.

Q. But would you call the fifteen years the incipency of the Southern Railway? A. No.

Q. But when does it get out of swaddling clothes? A. We have been trying to get rid of it, but they will not take it.

Q. You mean the stockholders will not take it? A. Yes.

Q. Do you not realize that these voting trusts, putting into the hands of one or a few men these great systems, tends toward enormous concentration and control? A. No, sir.

Q. Do you not think that if, for instance, you are the voting trustee of all the systems of railroads in the United States it concentrates a great deal of control in you? A. No, sir, it would not. That cannot be.

Q. You would not have any more control then than if you were not voting trustee? A. Not in them all. It would be a concentration in my hands, but the board of directors are the controlling force and you do not put the same board in every company.

Q. Sometimes they come pretty near it. A. No, sir, never.

INTERLOCKING DIRECTORATES

Q. But do you realize this vast and dangerous concentration through having the same directors in various banking institutions? A. No, sir; I do not see any danger in it at all.

Mr. Untermyer then turned to the problem of the concentration of banking resources. He wanted to know if Mr. Morgan did not realize that the concentration brought about through having the same directors in various banking institutions was dangerous.

A. No, sir, I do not see any danger in it at all.

Q. Do you think that competitive banking institutions should have the same boards? A. Certainly not, but they do not have the same ones.

Q. Do you think they ought to have a preponderating influence in each board? A. I do not.

Here Mr. Untermyer attempted to illustrate. He pointed out that Mr. Morgan's firm was represented largely in the boards of the Bankers Trust Company, the Guaranty Trust Company, the First National Bank, the Bank of Commerce, the Chase National Bank, the City Bank, the Liberty Bank, the Chemical Bank, the Astor Trust Company and other institutions.

Q. Those institutions all appeal for the same kind of business, do they not? A. No, but they are all banks or trust companies.

Q. But they are all appealing for deposits, are they not?
A. Yes.

Q. And they are all supposed to be competing for it? A. No, not necessarily.

Q. Do you see nothing improper in having the same men looking into one another's business in competing institutions? A. They are not looking into each other's business. The directors do not see all the details, all the books.

Q. Is it not his business to know what is going on? A. It may be his business, but he cannot do it.

Q. Then he is a sort of figurehead? A. Call him a figurehead if you like. The officers of the banks run them, not the directors.

"I have been in a good many banks and corporations," said Mr. Morgan, "and I defy any man to go into any of those boards—even myself, I will say that for the sake of argument—I do not believe I could carry any one question through any one board in which I was a director, against the views of the other directors. I have a great quantity of cases where I could bring in poofs of this. There is no question of control unless you have got a majority of the directors in all the banks."

CORPORATION BETTER THAN COMPETITION

Mr. Untermeyer pointed out that some of the members of the Morgan firm were not only members of the board of directors of other banks but of the executive committees as well. Mr. Morgan finally said that even assuming that they did know the business of competitors he could see no objection to it.

Q. Do you think that promotes competition? A. It does not prevent it.

Q. You are opposed to competition, are you not? A. No, I do not mind competition.

Q. You would rather have combinations, would you not?
A. I would.

Q. You would rather have combination than competition?
A. Yes.

Q. You are an advocate of combination and cooperation as against competition, are you not? A. Yes. Cooperation I should favor.

Q. Combination as against competition? A. I do not object to competition either. I like a little competition.

Q. You like a little if it does not hurt you. Competition that hurts you you do not believe in? A. I do not mind it. Now, another point. This may be a sensitive subject. I do not want to talk of it. This is probably the only chance I will have to speak of it, but without you have control you can do nothing.

Q. Unless you have control cannot do what? A. Unless you have got actual control you cannot control anything.

Q. Well, I guess that is right. Is that the reason you want to control everything? A. I want to control nothing.

MONEY TRUST IMPOSSIBLE

Q. What is the point, Mr. Morgan, you want to make? A. What I say is this: *That there is nothing in the world by which you can make a money trust.*

Q. What you mean is that there is no way one man can get it all? A. Or any of it, or control of it.

Q. He can make a try of it? A. No, sir; he cannot. He may have all the money in Christendom, but he cannot do it.

Q. If you owned all the banks of New York with all their resources would you not come pretty near having a control of credit? A. No, sir, not at all.

Q. Supposed you owned all the banks and trust companies, or controlled them, and somebody wanted to start up in the steel business, you understand, against the United States Steel Corporation. You would be under a duty, would you not, to the United States Steel Corporation to see that it was not subjected to ruinous competition? A. No, sir. It has nothing to do with it.

Q. You would welcome competition? A. I would welcome competition.

Q. The more of it the better? A. Yes.

MR. INTERMYER: Whether this competitor would be able to get the money from the banks that Mr. Morgan controlled.

"Yes, he would," said Mr. Morgan very positively.

Q. That is what you would be there for? A. Yes.

Q. Some other man who might control, might not take the view you have? A. He would not have the control.

Q. Your idea is that when a man has got a vast power such as you have—you admit you have, do you not? A. I do not know it, sir.

Q. You admit you have, do you not? A. I do not think I have.

Q. You do not feel it at all? A. No, I do not feel it.

Q. Well, assuming that you have it, your idea is that when a man abuses it he loses it? A. Yes, and he never gets it back again either.

Q. Have you any instance in your mind of any such man who has had any such power and control to experiment with? A. No, but I know from experience.

Q. Experience of your own? A. No, what I mean to say is this: the question of control, in this country at least, in money is personal.

CANNOT CONTROL CREDIT

Q. How about credit? A. In credit also.

Q. Personal to whom—to the man who controls? A. No, no. He never has it. He cannot buy it. All the money in Christendom and all the banks in Christendom cannot control it.

Q. But have you not seen many instances in the history of this country of financial men getting vast control and abusing it through a long period of years before they lost it? A. No.

Q. I do not want to be individous by stating illustrations, but have you known of men in some particular departments, such as the railroad, getting control and abusing that control for a series of years before they lost it? A. I have, but I say that I am not discussing the questions of railroads or merchandise. I am talking about money and credit.

Q. You admit that men may get control of railroads or business enterprises and monopolize them and so abuse their privilege? A. Yes.

Q. And retain that control? A. Yes.

Q. By the force of their power? A. Yes.

Q. And you say that so far as the control of credit is concerned they cannot do the same thing? A. Of money, no. They cannot control it.

SOME COMPETITION GOOD

Q. But do you think that a competitive condition in the bank and trust companies of New York is more or less preferable than a concentrated control over those banks? A. I would rather have competition.

Q. Would you rather have it freer, and the freer the better? A. Up to a certain extent I would have it free.

Q. Let us see if the same groups converge and come together in each of the great banks. Does not that interfere with competition between them? A. No, I do not think so.

Q. Do you think that the same men, that the same groups coming together can dominate a number of institutions; can still keep competition open between those institutions? A. Certainly, because they have to have a board of directors.

Q. You know every big thing is run by one or two men? A. No, I do not know that.

Q. Your firm is run by you, is it not? A. No sir.

Q. You are the final authority, are you not? A. No, sir.

Q. You never have been? A. Never have.

Q. You do not believe that great projects are best concentrated in the management or hands of one or two men? A. No, sir.

Q. You think they are best managed when the responsibility is scattered? A. It cannot be otherwise than scattered.

DIVIDED RESPONSIBILITY BETTER

Q. Do you think a railroad can be run better by a board of directors than by some one man? A. I think it would be run better by the board of directors.

Q. Do you not believe in individual responsibility in great enterprises? A. No, I do not.

Q. Do you not know that great enterprises have been built up in that way by the efforts and responsibility of some one man? A. Not necessarily, no, sir.

Q. You think the prosperity of many of the great systems in this country is due to the directors as a body? A. In a great many cases, yes, sir.

Q. This is your experience? A. Yes, sir.

Mr. Morgan acknowledged that the boards of directors left most of the business to their executive committees, but he did not find that the executive committees leave pretty much everything to their managing officials.

Mr. Morgan said he believes in divided as against concentrated responsibility.

Q. But you do believe in concentrated power, do you not? A. I do not exactly understand that.

Q. Power to do things, confided and delegated to some one man. A. That is a question of personality.

DEPOSITS COME OF THEMSELVES

Counsel reverted to the subject of bank concentration in New York. He pointed to the Guaranty and Bankers Trust companies. He said that twelve or fourteen of the Bankers Trust Company were directors of the Bank of Commerce and a large number of

the directors of the Guaranty Trust Company were in the Bank of Commerce; also a large number of the directors of the Guaranty Trust Company were in the Bankers Trust Company, and vice versa. With those three institutions located in the same section of the city Mr. Untermyer wanted to know how there could be competition among them under such circumstances.

Mr. Morgan contended that they did not do the same kind of business, and he rather doubted whether they competed for deposits.

"I have been in business a great many years in New York," said he, "and I do not compete for any deposits. I do not care whether they ever come, but they do come."

"But," said Mr. Untermyer, "everybody is not so fortunate."

"The parties that have their money to deposit decide that question," said Mr. Morgan.

EVERY BANK GETS ITS SHARE

Q. Your idea is that the Bank of Commerce, or any other great institution, should not try to get business, but just sit down and wait for it to come? A. The Bank of Commerce, if it transacts its business right, will get its share of the business.

Q. Suppose it wants more than its share? A. It cannot get it.

Q. It often does, does it not? A. Then it ought not to have it.

Q. What determines what is its share of the business? A. The public will decide that.

Mr. Morgan said he had never known of a case of this kind to run "to excess."

Q. Let us take a case like the Bankers' Trust Company, that went from \$5,000,000 of deposits to \$168,000,000 of deposits in nine years. Did they get there by sitting there and waiting for the business? A. They got it because people wanted to send money to them.

Q. Do you not believe they got it by going out after it? A. I do not believe they did.

Q. You did not help them get it, did you? A. I have done everything I could to help them.

Q. And the same is true with reference to the Guaranty Trust Company? A. Yes, but that had already grown before I was—

Q. It had grown as compared with the way it grew after you took hold of it, had it? A. I helped the banks, yes.

The witness attributed the great growth of the Bankers' Trust Co., to the activities of a few young men who made the arrangements.

Q. Did you help them? A. I don't know as they needed help, but I always assist young men.

Q. How about International Harvester? A. I never knew anything about that. Perkins managed that. I did not know that there was a voting trust in that corporation organized in my office until I read it in the papers a short time ago.

BANK MERGERS GOOD FOR PUBLIC

Q. Do you know that the Guaranty Trust Company has merged five institutions so that it represents to-day six trust companies? A. Yes.

Q. Do you know that the Bankers' Trust Company has taken in two large trust companies? A. Yes.

Q. So these two institutions represent to-day what were formerly nine large, prosperous institutions. You approve of that kind of concentration? A. Yes.

Q. Carrying that on to its logical outcome, would you approve of their gathering in all the rest of these banks and trust companies? A. Certainly not.

Q. How many of them would you think they ought to gather? A. I think they have about enough.

Q. They may have to take in some more? A. Yes.

Q. In order to get more business? A. No.

Q. As a public-spirited thing? A. Yes.

Q. Why? A. Because it might be necessary to protect some companies.

Q. They did not take in any of these companies in order to protect them, did they? A. I do not know.

Q. They were all solvent institutions, were they not? A. They were all solvent institutions at the time, yes.

Q. And they paid well for all of them? A. They might not be hereafter.

Q. What would prevent solvent institutions, for which seven or eight hundred dollars a share was paid, to take them in as these were taken in, from continuing solvent? A. It was profitable.

Q. Profitable to take them in? A. Yes, and profitable for the stockholders of the old one, too.

Q. You say that they might have to take them for some reason of public policy. I am trying to find out in what instance they have ever taken in a bank or trust company, except for the profit there was in it. Would you like to stop here, Mr. Morgan. A. I do not want to stop at all. I am ready to go right on. I would like to get

through. That is all. I have had enough. I wanted to have you understand my views about the thing. I will stop any remarks on my side, however.

At this point the committee took a recess for luncheon.

FOREIGN BANKS

At the beginning of the afternoon session Mr. Untermeyer began his examination of Mr. Morgan on the system of cumulative voting of stock in European banks. In the case of the Bank of England, each stockholder holding 500 shares of stock or more has but one vote, regardless of the amount of his holding. Limitations, more or less extensive, are imposed on bank stockholders in other European countries.

Mr. Morgan, when asked if he was familiar with English and continental laws restricting the voting powers of banks over stocks, replied that he thought he was. Untermeyer, wishing to refresh his memory, read the regulations of the national banks of England, France, Scotland, Russia and Belgium, which limit the number of shares one person may vote and restrict the classes of stockholders from which the directors may be chosen. The counsel for the committee then asked:

Q. Do they permit cumulative voting on the Pennsylvania railroad? A. I don't know.

Q. Do you know that minority representation on boards is hard to get? A. Yes.

Q. Don't you think such representation is desirable? A. I should think so.

To a question by Mr. Untermeyer, "In your judgment, cumulative voting would be an improvement upon the present system, would it not?" Mr. Morgan replied: "I do not think it makes much difference."

Q. Do you not think it makes much difference whether the vast majority of a corporation is represented in the Board and has the right to know what is going on, rather than to have a bare majority control? A. I think it is very desirable. I see no objection to it. But those figures that you have read seem to me to indicate a sort of voting trust in the case of all of those people over there.

Q. On the contrary, do you not see that those figures make a voting trust impossible? A. On the contrary, I consider them a voting trust. They prevent stockholders from being represented.

Q. Under that system if you had a voting trust, as you have voting trusts of the majority of the shares of a corporation, you could not vote in all the Directors, anyway, could you? A. No.

Q. You could only vote on a small proportion of them. The people who did not choose to give you a voting trust on their stock would have representation in the Board, would they not? A. I do not want to suggest such a plan, but they could very easily transfer the shares into different names so that they could accomplish the same purpose.

Q. But you know that over there this sort of hocus pocus does not go, do you not? A. I think the records will show otherwise, sir.

Q. Do you not know that the laws there prevent the consolidation and concentration of banking control by prohibiting directors in one bank from being directors in another bank? A. Yes; but I would like to say in reply to that that there is no place where mergers and consolidations and all that have taken place to the same extent that they have in England during the last twenty years.

Q. Not in the banking world, have they? A. In the banking world.

Q. Do you know that, quite in contrast with our systems, those groups over there are absolutely independent of one another, that they have not any common Directors at all, and are not allowed to have? A. I did not know that that was so.

CAPITAL TOO SCARCE FOR NEW ROADS

Q. Is it not the fact that in this country there has been a consistent and continuous and increasing cementing and concentration and consolidation of the great railroad systems? A. I think that is true.

Q. Do you attribute the absence of competing railroad building as against the great systems to the dominance of the banking interests in those great railroad systems? A. I do not.

Q. And do you not know that unlike our own situation, if a man has a good project in England and he goes to one group and cannot get his business done, the other groups take it up very readily, and that they have no connection with one another? A. Oh, that is very possible.

Q. Is not that a very much more healthful condition of things than to have the groups interlocking so that if one refuses the business, you cannot get it done at another? A. I do not think that exists to any extent here.

Q. Is it not a fact that in this country there has not been in the last ten years, any railroad construction of parallel or competing lines to any great system existing here? A. I understand that to be so; yes.

Q. And is it not the fact that in this country there has been a consistent and continuous and increasing, cementing and concentration and consolidation of the great systems? A. I think that is true.

Q. Do you attribute the absence of competing railroad building to the fact that in this comparatively new and growing country there is not any need for any more railroads? A. I do not.

Q. Do you attribute it to the difficulty of getting new capital? A. I do. I think it is owing in large measure to the fact of the want of protection against railroads that has been current in this country for the last ten years.

Q. You mean the want of protection to the railroads? A. To the railroads; yes. Nobody wants to put money into a new railroad in these times.

Q. The railroads are doing pretty well, are they not? A. Some of them are. The old ones are. Yes.

MORGAN SEEKS NO POWER

Q. Take for instance, the Reading road. You and Mr. Baker dominate the anthracite coal road situation, do you not, together? A. No, we do not. At least, if we do, I do not know it.

Q. Your power in any direction is entirely unconscious to you, is it not? A. It is, sir, if that is the case.

Q. You do not think you have any power in any department of industry in this country, do you? A. I do not.

Q. Not the slightest? A. Not the slightest.

Q. And you are not looking for any? A. I am not seeking it, either.

Q. This consolidation and amalgamation of systems and industries and banks does not look to any concentration, does it? A. No, sir.

Q. It looks, I suppose to a dispersal of interests rather than to a concentration? A. Oh, no; it deals with things as they exist.

Q. It is for the purpose of concentrating the interests that you do amalgamate, is it not? A. If it is desirable yes. If it is good business for the interests of the country to do it, I do it.

Q. But, Mr. Morgan, is not a man likely, quite subconsciously, to imagine that things are for the interests of the country when they are good business? A. No, sir.

Q. You think that you are able to justly and impartially differentiate, where your own interests are concerned, just as clearly as though you had no interest at stake, do you? A. Exactly, sir.

Q. And you are acting on that assumption all the time, are you not? A. I always do, sir.

Q. Of course there is a possibility of your judgment being mistaken, is there not? A. Oh, I may be wrong in my judgment, but I do not think it lies in that direction.

Q. Does it not go somewhat on the theory that the wish may be father to the thought? A. I do not think so.

THE EQUIPMENT COMPANIES

Mr. Untermyer seemed to question this. He took one case as an illustration.

"Assuming," said he, "that you and Mr. Baker and your few partners and associates dominated the great railroad systems of the country and you were interested in the American Locomotive Company and the Baldwin Locomotive Company, what chance would a new locomotive works have?"

"They would have plenty of business," replied Mr. Morgan. "We would not give all the business to one company."

Q. That is the reason you have two, is it not? A. Yes, and if there was another one we would probably use that. We cannot get our locomotives now.

Q. You issued the securities of the Baldwin Locomotive Works—your firm? A. Yes, it was done in Philadelphia. I do not know the details.

Q. Your New York house participated? A. It is the same thing, sir.

Q. And you pool the results? A. It all goes into a pool. Yes.

Q. So far you have had no reason to complain, have you? A. I do not complain of anything, sir.

Q. The locomotive manufacturers of the United States had combined and formed the American Locomotive Company, and the Baldwin Company was not in it? A. It was not in that combination.

Q. Then you took hold of the Baldwin Company? A. Yes.

Q. Are there any other companies? A. I do not know.

Q. Do you know of any that get any business in cars or locomotives? A. I do not know anything about the details, but we certainly would not give the business all to one company or to two companies.

Q. Do you think it is a healthful condition to have industries so concentrated that the interests in the supply company are alike or similar to the interests in the railroad company? A. But they are not.

Q. Let us see if they are not. Are not the interests of the

Baldwin Locomotive Company dominated by the same interests that dominate the railroad situation? A. No.

Q. You are responsible for the securities issued? A. Morally, yes.

Q. When trouble comes, do you not consider that, as the issuing house of these securities, you are under the duty to protect the securities? A. Yes, if they get into trouble.

Q. Suppose they should get into trouble through threatened new competition; do you think you would be under no duty to them to throttle it? A. No, I do not.

THE READING CASE

Q. Are you familiar with the evidence in the Temple Iron Company case, which was decided a few days ago—the Reading road case? A. I know there was something of that kind, but I do not remember the details of it now.

Q. Do you remember the decision a day or two ago? A. Yes.

Q. Do you remember that at that time Mr. Bacon conducted the negotiations by which these parties were taken in and the railroad was not built? A. I do not.

Q. Do you know those facts were proven in that case? A. I do not know anything about the case.

Q. You were not familiar with the facts in that case? A. No, sir.

AS TO STIFLING COMPETITION

Q. Then you consider your firm, as fiscal agents, and as promoting and being responsible for securities of the railroad system under no sort of obligation to discourage or prevent a competing railroad? A. No, sir.

Q. You know a competing railroad might ruin you? A. I could not help that.

Q. You would not try to help it? A. Something might occur that might necessitate it. I cannot say what I would do, but on general principles I should not.

Q. I would rather have a concrete case, for instance, like the West Shore Road paralleling the New York Central, you thought the best policy was to buy up that competition, did you not? A. Yes.

Q. These concrete cases are occurring from time to time, are they not? A. The New York Central wanted to lease it.

Q. That meant doing away with competition, did it not?
A. That was the effect of it, yes.

Q. Do you believe in buying up competing railroads? A. That is a general question, I take each case by itself. I want a concrete question.

Q. You were concerned, were you not, in the efforts to destroy the competition between the Great Northern and the Northern Pacific through the organization of the Northern Securities Company? A. I put them together.

Q. You mean so as to do away with the then existing competition between the two lines? A. Yes, I suppose that was it.

Q. Do you think that is a justifiable thing? A. It depends upon each particular case by itself.

Q. Take that particular case. What would be your justification for destroying that competition? A. I do not know.

Q. What would be your justification for destroying that competition? A. I do not know.

Q. The same policy would dictate, would it not, buying competing industrials, or industries, and putting them together? A. No. of record.

Take, for instance, the United States Steel Corporation. To-day I would not buy anything.

Q. I know, because you have got enough now to have a very commanding power, have you not? A. No, not that, either.

Q. You did engage in buying up competition there in order to form a company, did you not? A. No; I bought it up for the purpose of having a corporation which in itself could manufacture all kinds of steel.

Mr. Untermeyer then began to question Mr. Morgan about the Steel Trust suit, but suddenly stopped, saying that the suit was in the courts and that the questions were improper.

THAT EQUITABLE LIFE STOCK

Q. You bought the control of the Equitable Life Insurance Company, did you not? A. I did, sir.

Q. From whom? A. From Mr. Ryan and Mr. Harriman.

Q. And what was the amount of the par value of the stock which you bought? A. Five hundred thousand dollars.

Q. No, it was \$51,000. A. Yes, \$51,000.

Q. The total capital of the company was \$100,000, was it not?
A. I have not the books with me. Whatever it was, it is a matter

Q. Fifty-one thousand dollars. There were 510 shares of stock?
A. Yes.

Q. What is the amount of dividends to which that stock is entitled? A. The regular dividend is 7 per cent.

Q. That is all it ever has paid—that is, \$3,570 a year? A. Yes.

Q. And you paid how much for that? A. I do not know the amount.

Q. About \$3,000,000, was it not—two and a half millions and the interest that had accrued? A. Somewhere in that neighborhood.

Q. About \$3,000,000. On that investment of \$3,000,000 the return in dividends is \$3,570. It yields a return of about one-eighth or one-ninth of 1 per cent. a year? A. I believe so.

Q. Are Messrs. Stillman and Baker associated with you or interested in that purchase? A. Not as it stands to-day.

Q. Have they never had any interest in that purchase? A. It has never been consummated.

Q. What was the understanding as to their being interested with you in that purchase? A. I cannot tell you that, sir. That is private business of my clients.

Q. But it seems to me that the question of whether you had or have associates in that purchase in the form of Mr. James Stillman and Mr. George F. Baker is not a matter of private business. Did they not agree to participate with you in that business? A. I should like to consult my counsel.

MR. MORGAN (after consulting with counsel): Mr. Chairman, neither Mr. Baker nor Mr. Stillman has ever had any interest in it, but it is understood that if I want to they will take half of it at any time I say so.

Q. When was that understanding reached? A. I do not know; I think it has practically been so from the beginning.

Q. From the time you took it? A. Yes.

Q. And they are under obligation, then, to take half of the interest off your hands? A. If I wish it.

Q. Is there any writing on the subject? A. I do not know whether any writing has passed on the subject or not. (After consulting with counsel.) There is a writing on that subject.

Q. May we have it? A. You may have a copy of it; yes, sir.

BOUGHT FOR GOOD OF SITUATION

Q. You may explain, if you care to, Mr. Morgan, why you bought from Messrs Ryan and Harriman \$51,000 par value of stock that paid only \$3,570 a year for approximately \$3,000,000 that could

yield you only one-eighth or one-ninth of one per cent. A. Because I thought it was a desirable thing for the situation to do that.

Q. That is very general, Mr. Morgan. Will you speak of the situation? Was not that stock safe enough in Mr. Ryan's hands? A. I suppose it was. I thought it was greatly improved by being in the hands of myself and these two gentlemen, provided I asked them to do so.

Q. How would that improve the situation over the situation that existed when Mr. Ryan and Mr. Harriman held the stock? A. Mr. Ryan did not have it alone.

Q. Yes, but do you not know that Mr. Ryan originally bought it alone, and Mr. Harriman insisted on having him give him half? A. I thought if he could pay for it that price, I could. I thought that was a fair price.

Q. You thought it was good business, did you? A. Yes.

Q. You thought it was good business to buy a stock that paid only one-ninth or one-tenth of one per cent. a year? A. I thought so.

Q. The normal rate of interest that you can earn on money is about five per cent., is it not? A. Not always, no. I am not talking about it as a question of money.

Q. The normal rate of interest would be from four to five per cent. ordinarily, would it not? Where is the good business, then, in buying a security that only pays one-ninth of one per cent? A. Because I thought it was better there than it was where it was. That is all.

Q. Was anything the matter with it in the hands of Mr. Ryan? A. Nothing.

Q. In what respect would it be better where it is than with him? A. That is the way it struck me.

Q. Is that all you have to say about it? A. That is all I have to say about it.

Q. You care to make no other explanation about it? A. No.

Q. The assets of the Equitable Life were \$504,465,802.01 on December 31, 1911. Did Mr. Ryan offer this stock to you? A. I asked him to sell it to me.

Q. Did you tell him why you wanted it? A. No. I told him I thought it was a good thing for me to have.

Q. Did he tell you that he wanted to sell it? A. No, but he sold it.

Q. He did not want to sell it, but, when you said you wanted it, he sold it? A. He did not say that he did not want to sell it.

Q. What did he say when you told him you would like to have it, and thought you ought to have it? A. He hesitated about it, and finally sold it.

Q. He also sold the Morton Trust Company, did he not, to the Guaranty Trust? A. I do not know. I suppose the stockholders sold that.

Q. Do you not know that he had control of the Morton Trust? A. I do not think he had it.

Q. He was in control at the time of the sale, was he not? A. He may have been the negotiator. I do not know. I had nothing to do with those negotiations, so far as he was concerned.

Q. You had nothing to do with the acquisition of the Morton Trust stock? A. All that I did was to buy Morton's.

Q. You bought Morton's interest? A. Yes.

Q. Who bought Mr. Ryan's interest? A. I do not know. The Guaranty people, I suppose.

Q. After you bought the Morton interest, did you put it into the Guaranty? A. I put it in with the others—those who bought the stock put it into the Guaranty. I have never had any question about the disposition of the Equitable Life stock. My idea has always been to have it turned over to the policyholders.

POLICYHOLDERS SHOULD OWN STOCK

Q. Let us see about that. You mean turned over, provided you got the \$3,000,000 back? A. Just what I paid for it. That is all.

Q. You know what that means, do you not—turning over an insurance company to policyholders? A. I do not know how it could be done—the terms of it, at all. Whatever was to be done was to be done by trustees. The stock was in the hands of the trustees; I have no control over it, in any way, shape or manner.

Q. What I want to know is this: Do you not know, Mr. Morgan, from your experience with life insurance companies, with mutual companies, that the men who are in the saddle are the men who continue to control a life insurance company, whether it is mutual or stock? A. No, not necessarily that.

Q. Have you ever heard of a case in which the policyholders have ever been able to take it out of the hands of the men who control it? A. That has always been my idea.

Q. Have you ever heard of a case in which they have been able to do that? A. I do not know.

Q. Do you not know the case, for instance, of the Mutual Reserve, where the men went to jail, and they could not change the control of the company? A. I do not know anything about that. I am not seeking that occupation.

Q. Do you not know that the policyholders' control amounts to nothing, as against the management, who have the agency force under their domination? A. I do not know anything about that. I think the Legislature of the State of New York could fix that.

Q. They have not fixed it yet, have they? A. I am living in hopes.

Q. You are living in hopes of getting back your money? A. No, I do not care anything about the money.

Q. I do not understand why you bought this company. A. For the very reason that I thought it was the thing to do, as I said.

Q. But that does not explain anything. A. That is the only reason I can give.

Q. It was the thing to do for whom? A. That is the only reason I can give. That is the only reason I have, in other words. I am not trying to keep anything back, you understand.

Q. I understand. In other words, you have no reason at all? A. That is the way you look at it. I think it is a very good reason. Some of these days you will agree with me.

Q. You can never tell what may happen. Some of these days you may agree with me, Mr. Morgan. A. Very well. That may be. If I do, I shall wait for a good reason.

Q. In the meantime, I wish you would give me a good reason, or any reason, why you should have bought that stock, except the fact that you thought it was the thing to do? A. That is the only reason I have. The reason I called it up again was that I wanted to call the attention of the members of the committee and yourself to the fact that I did not buy it to make money. I did it because I thought it was better in the hands of these three gentlemen.

STOCK SHOULD NOT BE SCATTERED

Q. It was in the hands of three equally eminent gentlemen, was it not? A. They were very eminent. I have no criticism of anybody.

Q. Why was it not as good in Mr. Ryan's hands as it was in yours? A. No, no. I thought it was best to have that stock where there was no danger of it being divided up into small lots. Mr. Ryan had already sold half of it, and you could not tell. Mr. Harriman died a few months afterward, and if that had gone into his estate, you could not tell how it would have been divided. Those are the things that I had in mind. I am trying to show you some of the things that went through my mind. The only reason I did it, on which I am willing to stand up before the community or anybody, is that I thought it was the thing to do.

Q. That is a little nebulous, is it not? A. You may call it so, but I do not look at it in that light.

Q. You know, do you not, Mr. Morgan, that Mr. Ryan originally bought that stock alone? A. I only know that he owned it at one time.

Q. Do you not know that Mr. Harriman insisted on his dividing it with him? A. That was afterward. It could not have been so bad—that is another point—if Mr. Harriman was so anxious to get half of it.

Q. I do not think it was; but I am trying to find out where the money was in it at one-ninth of one per cent. return. A. My friend, if I should attempt to tell you where the money is in every transaction I make, I would have a very hard time of it.

Q. You would not be able to do it? A. I have given you, from my heart, the exact facts.

Q. I know you have, Mr. Morgan, and I am trying to find out the real reason for this thing. A. I have no reason, except the one I have already given you.

Q. You say there was danger of it being divided into small lots? A. I did not say there was danger of it, at all. I said there was a possibility of it.

Q. What would be the harm of it being divided into small lots? That would be a good deal like having a mutual company, would it not? A. Then, if the company did want it, which was commonly discussed, as to the policyholders having it, it could not have been had.

Q. Do you not think that a stock that was paying one-ninth of one per cent. return could readily have been had by somebody, who wanted to give money for it that would yield five per cent. return, or forty-five times what it was yielding then? A. I know nothing about that, sir. I am willing to take the criticism or the credit, or whatever it may be, of the transaction. I only say this, that I did it because I thought it was the thing to do; and that is the only reason I had, and the only thing I can say.

Q. We are trying to analyze that? A. You cannot analyze it.

Q. If this stock were divided into small lots, it would be almost equivalent to mutualizing the company, would it not? A. Not at all.

Q. No one man would retain control? A. It was not a question of control.

Q. Take the New York Life and the Mutual Life. They are both mutual companies? A. I thought there was, at one time, some stock in the New York.

MR. LINABURY: If you turn to me, for once I shall be with you. They are both mutual companies.

Q. If the stock was divided into small lots, there would be less danger of some one man controlling it. It would be more like a mutual company? A. I am not afraid of anybody trying to control it. If there was a committee appointed, wanted it, nobody could deliver the control of that stock.

Q. If a man could get forty-five times the return it was bringing? A. No, sir. If a man came to me to-day and offered that price for it I would not take it.

Mr. Untermyer put in evidence data furnished by Mr. Morgan with regard to the proposed mutualization of the Equitable. Mr. Untermyer also offered as evidence data relating to the Equitable, the New York Life, the Mutual and the Metropolitan companies.

MR. MORGAN: Had not those better be read, as to the amounts, etc.?

MR. UNTERMYER: They are very long.

MR. MORGAN: Just as to the amounts, I mean.

MR. UNTERMYER: They will be read when they are aggregated. Is there anything you want to say after talking with Mr. Nicoll just now?

MR. MORGAN: I do not know of anything I want to say except I was just thinking about the condition of affairs at the time. Mr. Ryan at that time was not in good health. You asked me for the facts.

Q. You said he did not want to sell? A. I did not say he did not want to sell. He did not offer it to me.

Q. Then it was not because of his health that he finally sold? A. No; but I was thinking of where the thing might go. I only want to get the facts. I only want to explain why.

Q. It was not on account of his health, was it, that you paid \$3,000,000 for securities earning \$3,570? A. I would have bought it anyway rather than have it go into hands that might have been injurious.

Q. But he was not offering it to anybody, was he? A. No; but I knew he had it.

Q. Was it injurious there? A. I have explained it. I have nothing more to say on that subject.

THE SECURITY COMPANIES

Q. Were you consulted with respect to the organization of this City Security Company by the City Bank? A. No, sir.

Q. Or the First Security Company by the First National Bank?
A. No, sir.

Q. Do you not know why those two security companies were formed from the First National Bank and the City Bank? A. I have my impression. I do not know anything about it.

Q. You are a large stockholder in both, are you not? A. The firm is; yes, sir.

Q. And you received your stock as a dividend from the bank, did you not? A. I do not know whether it has ever been delivered.

Q. You are entitled to that stock, and it was in the way of a dividend, was it not—that is, each bank, the First National Bank and the City Bank, declared a dividend of \$10,000,000, and with that these companies were organized? A. Yes, as I understand the case.

Q. What do you understand to have been the reason for the organization of those companies? A. I do not know, except that I supposed they wanted to do business in securities which as a bank they could not do. I do not know anything about that.

Q. Do you know anything about the operations of these two companies? A. I do know to a certain extent.

Q. They buy stocks of other banks, do they not? A. They deal in securities, the same as any other trust company.

Q. Did not they buy stocks of a vast number of small banks?
A. I do not know anything about the City at all.

Q. You are a large stockholder in the City? A. I cannot help it—I do not know anything about the details of the work.

\$1,500,000—A SMALL AMOUNT

Q. I do not think you want to help it, either. But you are a large holder, as a fact? A. The firm is. I am not individually, I think; if I am, it is a small amount.

Q. The firm has \$1,500,000 par value, has it not? A. What have I got?

Q. That is largely yours, is it not? A. None of it is mine, except as a member of the firm.

Q. That stock is quoted to-day at what price? A. I do not know—four hundred and something.

Q. So that would be at present value about \$6,000,000 in value?
A. Yes.

Q. You would not call that a small holding, would you?
A. That is not a controlling interest, is it?

Q. But it is not a small holding in dollars and cents. A. No, I should hardly call it a small holding, but it is not a controlling interest.

Q. It is not a stock control? A. It is not a thing that requires constant watching and all that, like other securities.

Q. You do not know, do you, whether that company distributed \$10,000,000 to put into this security? A. I do not know. I know it was discussed at one time, and I understand it was given up, but I have not heard anything more.

Q. The company is still in existence? A. I do not know. If anybody should ask me, I could not tell them, to save my life.

VOTED WITH ASSOCIATES

Q. Do you think it a wise thing for a national bank to have an attachment of that kind? A. I do not feel called upon to pass upon the action of my associates one way or the other.

Q. Do you not think you ought to, in a matter affecting a national bank in which you are so largely interested? A. I voted in favor of it.

Q. Then you approved of it? A. I did not say I did individually, but as a stockholder my proxy went in favor of the transaction.

Q. Personally, did you approve of it? A. I have not said and I do not feel called upon to say that. I do not think that is a fair question.

Q. Why not? A. I mean to say my firm as a stockholder voted for that thing, and as such I approved it.

Q. We are investigating here, you know, the concentration of money and credit and the question affecting the national banks and their relations to concentration of money and credit, and in that connection I would like to ask you to tell us in a general way whether you think it is a wise public policy to permit a national bank to have organized out of its surplus a company that circulates or invests in stock in which the bank cannot deal, with identical directors and so tied to the bank that the stock of that company can neither be sold nor bought except in connection with the stock of the bank? Do you think that is a wise thing? A. It can be distributed.

Q. Do you not know it cannot be distributed except— A. To the stockholders of the other.

Q. Do you not know that one cannot be bought or sold without the other? A. It might be distributed—as I understand it—I do not know; I may be wrong. It is attached and can be distributed at any moment.

Q. It cannot be distributed except in proportion? A. They have to distribute it to the people that paid for it. It belongs to the people that paid for it.

Q. Yes; but that is not what I am trying to get at. Do you not know that each stockholder of the National banks must own the same proportion of stock in the holding company that he holds in the bank, and that each stockholder of the holding company must own the same proportion of the stock of the bank that he holds of the holding company? A. No; I do not know that.

Q. Do you not know the arrangement? A. No; not as you have stated it.

Q. In what respect does your recollection in regard to that transaction differ from mine? A. I understand that as far as the banks were concerned they were criticised or people discussed the question of their doing business in securities. This is what I understand to be the case, although it was natural, and, as far as the Directors of the bank knew, it was legal. That being the case they got this idea. It is not a new one in New York. It exists in Chicago and other places, too—the same thing. It started in Chicago. Consequently they formed another company of the same capital as the bank.

Q. No; the other company was of a less capital than the bank, was it not? The capital of the other company was \$10,000,000 and the capital of the bank was \$25,000,000. Is not that right? A. No; I think not. You are talking about the City?

THE FIRST'S SECURITY COMPANY

Q. Yes. A. I am talking about the First. I know nothing about the City. I know nothing about their contracts or anything of that kind. I am talking now about the First. The First had the same capital, and then the stockholders paid for their stock separate from the bank; and then the dividend at the end of the year, or whenever it was, was paid them, which was the same amount.

Q. Is it not the fact, then, that this disposition of \$10,000,000 of the bank's assets was made, and put into the security company, with the proviso that the stock of the security company would have to be owned by the same people, and in the same proportion, and continue to be owned by the same people and in the same proportion as that of the bank? A. That is so; yes.

Q. And the wisdom and the propriety of that is a thing on which you do not want to pass? Is that right? A. Oh, no; but you asked me if I thought it was proper, and I say I voted for it, and that is all I can say.

THE CLEARING HOUSE

Q. Are you at all familiar with the Clearing House situation?
A. No, sir.

Q. But you understand how it is operated? A. No, I do not know anything about them except they clear checks every morning. That is all I know about it.

Q. Do you see any reason why a solvent bank that is approved as to solvency by the banking authorities, having charge of it, should not be entitled to become a full member of the Clearing House?
A. That depends upon the organization of the Clearing House, I should think.

Q. No, but no matter what its present organization may be, the question is, as a matter of banking and as a question of justice and right, do you see any reason why every solvent bank should not have the right to become a member of the Clearing House association?
A. I say, it depends upon the by-laws.

Q. I know. But if the by-laws are wrong, the question is whether they should not be changed? A. There is nobody to change the by-laws, is there, except the Clearing House itself?

Q. What about the Government? Do you forget about that?
A. No, not at all. The Government can take the Clearing House, of course.

Q. The point is this: Do you not think that the Clearing House association should be put in such form, through the law, that solvent banks cannot be excluded. A. I do not think so; not unless—

Q. Do you not think there ought to be some authority in the State or the Government somewhere to give to a solvent bank the right to clearance through the association? A. Yes, but it depends upon in whose hands the bank is.

Q. Oh, you think that the competitors of a bank ought to determine into whose hands it should go? A. For instance, suppose I were the Clearing House. I should not be in favor of allowing a man to be associated with me that I thought was a fraud, simply because he owned a bank which at that particular moment was solvent.

Q. Let us see about that. Do you think it ought to be left to a man's competitors to say whether he is a fraud or not, without any right or review by the State authorities? A. I am not prepared to decide that question.

Q. I am willing to go into the merits of it, but I do not think we want to do it this afternoon. Do you know the difference between a Clearing House member and what they call a non-member that clears through a member? A. Yes.

Q. You know, do you not, that in New York, for instance, the Clearing House association has a given number of members, sixty-three members, and that it has twenty-two non-members? You know the difference between a member and a non-member, do you not? A. I do not know what you call a non-member.

Q. A non-member is a bank that clears through a member bank. Do you know whether or not where a non-member has to clear through a member the refusal of the member further to clear for that non-member closes up the non-member bank as a rule? A. No.

Q. Do you not know that that has happened in New York in every instance? A. It depends upon whether or not another bank would do it. It has not in every instance, because I have known of cases—I could not recall them, but I know there have been cases—where a bank has cleared one day through the City Bank and the next day it has cleared through another bank.

Q. Yes, but as a rule the case in which a Clearing House bank has withdrawn its clearance privileges from a non-member have been followed immediately by the closing of the bank, have they not? A. That is because they do not think it is solvent.

Q. Do you not think that in such a case a non-member bank should have a right to the judgment of the Clearing House association rather than be dependent upon the judgment and decision of one bank? A. No, because they are the bank that is responsible. If a Clearing House will assume all the indebtedness of the member that originally cleared for them then I would do it.

Q. But do you not think that if you had no non-members, that if the Clearing House were compelled to admit to membership all solvent banks, that they believed to be solvent and that the banking authorities believed to be solvent, that would do away with any injustice that might be practiced by one member on a non-member? A. No, I should not think so.

Q. You do not think the judgment of the whole association would be better than that of some one bank? A. Yes.

Q. You think the Clearing House members ought to have sole discretion as to whether they will keep a man out or let him in? A. Yes.

Q. With no review at all? A. No review from the Clearing House.

Q. You do not think, for instance, that there should be a right of review, with reference to a State bank, on the part of the Superintendent of Banks, or, with reference to a National bank, on the part of the Controller of the Currency? A. Not if the Clearing House finds them insolvent, no.

Q. Suppose it turns out that they are not insolvent in the end, after they have been closed up? A. That is an unfortunate thing, but I cannot imagine such a thing. I never heard of a case of that kind.

Q. There have been some instances, sought to be proven here. A. I never had heard of them.

Mr. Morgan said he had never heard of the Oriental Bank case in which a clearing house bank was declared to be responsible for its closing, although it was perfectly solvent at the time.

Q. Did you ever hear of the Metropolitan Bank case. A. No, I never heard of it.

INSOLVENT BANKS

Q. Have you no opinion as to whether that judgment and that final decision as to whether a bank shall be closed and the depositors injured, should be left entirely with its competitors? A. We were talking this morning on the question of competition. Now you are on the other side of competition?

Q. No; I am on the same side, and so are you, Mr. Morgan. The question I ask you is as to whether competitors should have the say of another competitor entirely in their hands, to close it up or let it go on without any review anywhere? A. If they are insolvent, I think they should be shut up at once. There is no other view possible that I know of.

Q. Do you not think a review on the part of the banking authority would be possible? A. Not unless there is time. The question of time comes in.

Q. It does not take long to telephone, does it? A. It does, sometimes.

CONTROL OF MONEY DOES NOT CONTROL CREDIT

Q. I want to ask you a few questions bearing on the subject that you have touched upon this morning, as to the control of money. The control of credit involves a control of money, does it not? A. A control of credit? No.

Q. But the basis of banking is credit, is it not? A. Not always. That is an evidence of banking, but it is not the money itself. Money is gold, and nothing else.

Q. The basis of banking is credit? A. Yes.

Q. Is there any country in the world of which the outstanding obligations passing as money are supported dollar for dollar by gold? A. It comes nearer to it in England than anywhere else.

Q. Does it not come nearer to it here than in England? A. No, because you have got your greenbacks.

A. At any rate, it is largely credit there as it is everywhere, is it not? A. Yes.

Q. A man or a group of men who have the control of credit have control of money, have they not? A. No, sir; not always.

Q. That is generally so, is it not? A. No.

Q. If you had the control of all that represents the assets in the banks of New York you would have the control of all that money? A. No, sir; not in my opinion. It may be wrong, but that is my opinion.

Q. Money is a commodity, and you know you can control any other commodity, do you not? A. I do not think so.

Q. I thought you said this morning that you could control a commodity, but you could not control money? A. *I say you can get a combination that can control business and all that. You can control business, but you cannot control money.*

Q. You can control a given commodity like steel or wool? A. Take the question of food, and all that sort of thing. You could not control that.

Q. I am not speaking of food. A. That is a commodity.

Q. I say there are commodities that you can control. A. Yes, I suppose there are.

Q. And it is conceivable that every commodity could be controlled, is it not? A. Except money.

Q. If a man controlled the credit of a country, he would have a control of all its affairs? A. He might have that, but he would not have the money. If he had the credit and I had the money, his customer would be badly off.

Q. Yes, I understand that. But it is not conceivable one man would have the credit and the other the money, is it because the credit is based upon money? A. But money cannot be controlled.

CREDIT BASED ON CHARACTER

Q. *Is not the credit based upon the money? A. No, sir.*

Q. *It has no relation? A. No, sir; none whatever.*

Q. So that the banks of New York City would have the same credit, and if you owned them you would have the same control of credit as if you had the money, would you not? A. I know lots of men, business men, too, who can borrow any amount, whose credit is unquestioned.

Q. Is that not so because it is believed that they have the money back of them? A. No, sir. It is because people believe in the man.

Q. And is regardless of whether he has any financial backing at all, is it? A. It is, very often.

Q. And he might not be worth anything? A. He might not have anything. I have known men to come into my office, and I have given them a check for a million dollars when I knew they had not a cent in the world.

Q. There are not many of them? A. Yes, a good many.

Q. That is not business? A. Yes, unfortunately it is, I do not think it is good business, though.

Q. *Is not commercial credit based primarily upon money or property?* A. *No, sir; the first thing is character.*

Q. *Before money or property?* A. *Before money or anything else. Money cannot buy it.*

Q. So that a man with character, without anything at all behind it, can get all the credit he wants, and a man with the property cannot get it? A. That is very often the case.

Q. That is the rule of business? A. That is the rule of business, sir.

Q. If that is the rule of business, Mr. Morgan, why do the banks demand, the first thing they ask, a statement of what the man has got, before they extend him credit? A. That is what they go into; but the first thing, they ask is "*I want to see your record.*"

Q. Yes, and if his record is a blank the next thing is how much he has got? A. People do not care then.

Q. For instance, if he has got Government bonds, or railroad bonds, and goes in to get credit, he gets it, and on the security of those bonds, does he not? He does not get it on his face or his character, does he? A. Yes, he gets it on his character.

Q. I see; then he might as well take the bonds home, had he not? A. Because a man I do not trust could not get money from me on all the bonds in Christendom.

Q. That is the rule all over the world? A. I think that is the fundamental basis of business.

Q. That is the way money is loaned on Wall Street, on collateral? A. I do not know anything about that. I have nothing to do with it; but that is the principle.

MORGAN LOANS TO ONLY WHOM HE KNOWS

Q. You loan on Stock Exchange collateral? A. If I know who he is.

Q. You loan it from day to day on the Exchange, do you not? A. I used to do it.

Q. And you do it now? A. Yes; I know. That is all right.

Q. You lend it at the Loan Stand on the Exchange? A. Yes.

Q. Do you know anything about to whom you lend it? A. I do; at least, I always did.

Q. Do you mean to say that when people lend, as loans are made on Stock Exchange collateral, to the extent of hundreds of millions of dollars, they look to anything except the collateral?

A. Yes, they do right on that point, what I did, what I used to do, and I think it is pretty well done now, is this: If a man comes in and I see there is a loan to Mr. Smith, I say, "You call that loan right away." I would not have that loan in the box. I would not have that loan.

Q. That is not the way money is loaned on the Stock Exchange? A. That is the way I loan it. If he is not satisfactory to me, I call the loan at once, personally. I am not talking of anybody else's way of doing business, but I tell you what I think is the basis of business.

Q. I want to know if you really want us to understand that the great mass and volume of loans made on Stock Exchange collateral from day to day are not made entirely upon the collaterals? A. No, sir.

Q. I do not want to know what you do, but I want to know the course of business. A. Others do it also; that I know.

Q. Every bank in New York, every great national bank down town, lends money on the Stock Exchange, and the thing they look to is the collateral. Do you think they ever look at the name? A. I do not know what the banks do. I know what I do.

Q. I am asking about the banks. A. I do not know what the banks do.

BANKS NOT DOMINATED BY OUTSIDE INTERESTS

Q. Is it or not a fact that many of the great corporations are dominated by men who have neither stock nor offices in the company? A. They ought not to be. I do not think they are to any great extent.

Q. Have you not any instances in mind in which they are so dominated? A. I do not know of any now.

Q. Is not the bank's prosperity dependent more largely upon people who can give it business than upon any other one factor except that of management? A. I never heard of a case of this sort. I never heard of a case of any bank being controlled by anybody who gave it business.

Q. What are the banks looking for—large business, large deposits? A. Yes, that is true, but they want to know where it comes from. The first thing is to get the business and the next thing is the way you transact your business.

Q. The people who give large business to a bank and who prac-

tically supply its business and are not stockholders, have they any potent voice in that bank? A. I never knew of a case.

Q. Suppose \$100,000,000 out of \$150,000,000 of deposits of a bank came through the influence of one man or group of men. Do you mean to say that would not give them any dominating voice in the management? A. I should not think so.

Q. Would not have anything to do with it? A. No, it ought not to. Any way, I never knew of such a case.

THE STOCK EXCHANGE

Q. Have you considered the question as to whether or not the Stock Exchange ought to be put under some sort of Governmental control? A. I have never considered it, but offhand I should say no.

Q. If you have not considered it, I do not think we care much about an offhand opinion. A. Then I do not make any answer to your question.

Q. Do you not realize that it is important that those Stock Exchange quotations should represent genuine transactions? A. I think generally they do.

Q. You never heard of such a thing as manipulation on Stock Exchange? A. Oh, yes.

Q. You do not think that is genuine, do you? A. No, not at all.

DOUBTFUL IF GOVERNORS FAVOR MANIPULATION

Q. But manipulation is a bad thing, is it not? A. I think manipulation is always bad.

Q. Do you know that the Exchange governors think manipulation is a legitimate thing? A. I would like to see the vote on that subject—I should doubt that.

Q. It has been testified here repeatedly that the Exchange governors regard manipulation as a legitimate thing. A. You have not had the majority of the governors here, have you?

Q. Do you think the majority of the governors would hold the other way? A. I do not know, sir. I would like to see the vote.

Q. You disapprove of it, do you not? A. I do, sir.

PROMOTERS' PROFITS SHOULD BE DISCLOSED

Q. You know how rigid the rules are in European countries as to disclosures of bankers' and promoters' profits? A. Yes.

Q. You know in those countries the prospectus has to state all the contracts between the original vendor and right down to the selling public? A. Yes.

Q. You think that is a wise and wholesome thing, do you not?
A. I think so, yes, as a rule.

Q. You know, do you not, that in this country the amount of profits that bankers or promoters make in an enterprise which they offer to the public are considered a matter of their private business? Do you not think that is wrong? A. I think the other way is better. Whether you can do it in this country, I rather doubt.

Q. Do you not think it would go pretty far in that direction if the Stock Exchange were required to have the contracts on file before they would list the securities? A. No; but I think they would get up another Stock Exchange.

Q. You think it is a wholesome thing, but if it is done they would get up an other exchange? A. I do not think you could do it. I do not think you could carry it out if you tried it.

Q. You say it is right and ought to be done? A. I should favor something of that kind, and would assist it, but I should think the result was rather doubtful.

Q. Have you no faith in the patriotism and public spirit of the Stock Exchange? A. I have, absolutely.

Q. Why do you think they would not do it? A. Because they would say it interfered with their business.

Q. Do you believe that the securities of any company, over a period of five or six years, we will say, are legitimately sold over from twenty to thirty times a year? A. I should not be at all surprised.

Q. You mean to speculators? A. Speculators, either long or short.

Q. And sometimes both ways? A. And sometimes both.

SPECULATORS BECOME INVESTORS

Q. You do not call them investors, do you? A. No, but they become investors. For instance, take a stock like that of the New York Central Railroad and sell it 100 per cent. short. You have increased the capital stock of the New York Central Railroad to \$200,000,000, double the amount. In other words, if you wanted to buy it up, if you wanted to control the New York Central, you would have to buy \$200,000,000 of the stock.

Q. We will say there is \$100,000,000 of the stock outstanding. Somebody sells \$100,000,000 short. He has to get that stock. There is only \$100,000,000 outstanding. Where would he get it, except from that which is outstanding. A. He would try to buy it.

Q. But there is only \$100,000,000 outstanding? A. On the

contrary, if he puts up the 10 per cent., and I had sold him the stock, I would sell my stock back again and get the 10 per cent.

SHORT SELLING A NECESSITY

Q. You mean you can sell something you have not got? Do you approve of short selling? A. I never did it in my life that I know of.

Q. Do you approve of it? A. I do not like it—not that I wish to criticise it at all, because I do not see how you will get along without it.

Q. Why can you not get along without a man selling something he has not got, in the way of stock? A. That is a principle of life, I think.

WOULD NOT REDUCE SPECULATION

Q. Does Wall Street speculation, Mr. Morgan, draw a great deal of money from the country? A. I think they do, yes.

Q. Would you favor any legislation that would reduce the volume of speculation? A. No.

Q. You would let speculation run riot? A. Yes; provided the transactions are legal. You cannot prevent the public buying a thing that they think is low, or selling a thing that they think is high.

Q. You can prevent them, however, from naming fictitious or manipulated transactions? A. That is another point.

Q. If the money were not available from the banks to carry these stocks that are bought on speculation there would be less speculation, would there not? A. Then the gold would come from Europe.

Q. I say, there would be less speculation? A. Not at all. They would get the money.

Q. They would get the money if they had to draw it from the country anyway? A. Or from Europe.

Q. They would do that by paying high rates? A. Yes.

Q. A prohibitive rate would not stop money from coming? A. Not in the least.

Q. If you had a usury law that would apply to collateral loans on the Stock Exchange, and was rigid, you think they would get around that, too, would they? A. Yes; they would make loans in Europe.

BANK DIRECTORS DO NOT EXAMINE PRIVATE ACCOUNTS

Q. Suppose, Mr. Morgan, you or one of your partners wanted to ascertain the commitments of a big operator on the Street, and the collateral that he had, into how many banks and trust companies could you delve through your own partners holding connection with them as directors? A. None of them. I do not think they would be allowed to look at them.

Q. They would not be allowed to know the name. A. No, sir.

Q. A director would not? A. No, you cannot in a bank in which you are a director, not in any first-class bank, at any rate, go and find out how much I have got in that bank.

MR. UNTERMYER: Well, Mr. Morgan, I think that is all. I am very much obliged to you.

Mr. Morgan had been on the stand more than three hours when he finally was excused and the chairman announced that the committee would take a recess until January 6.

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