

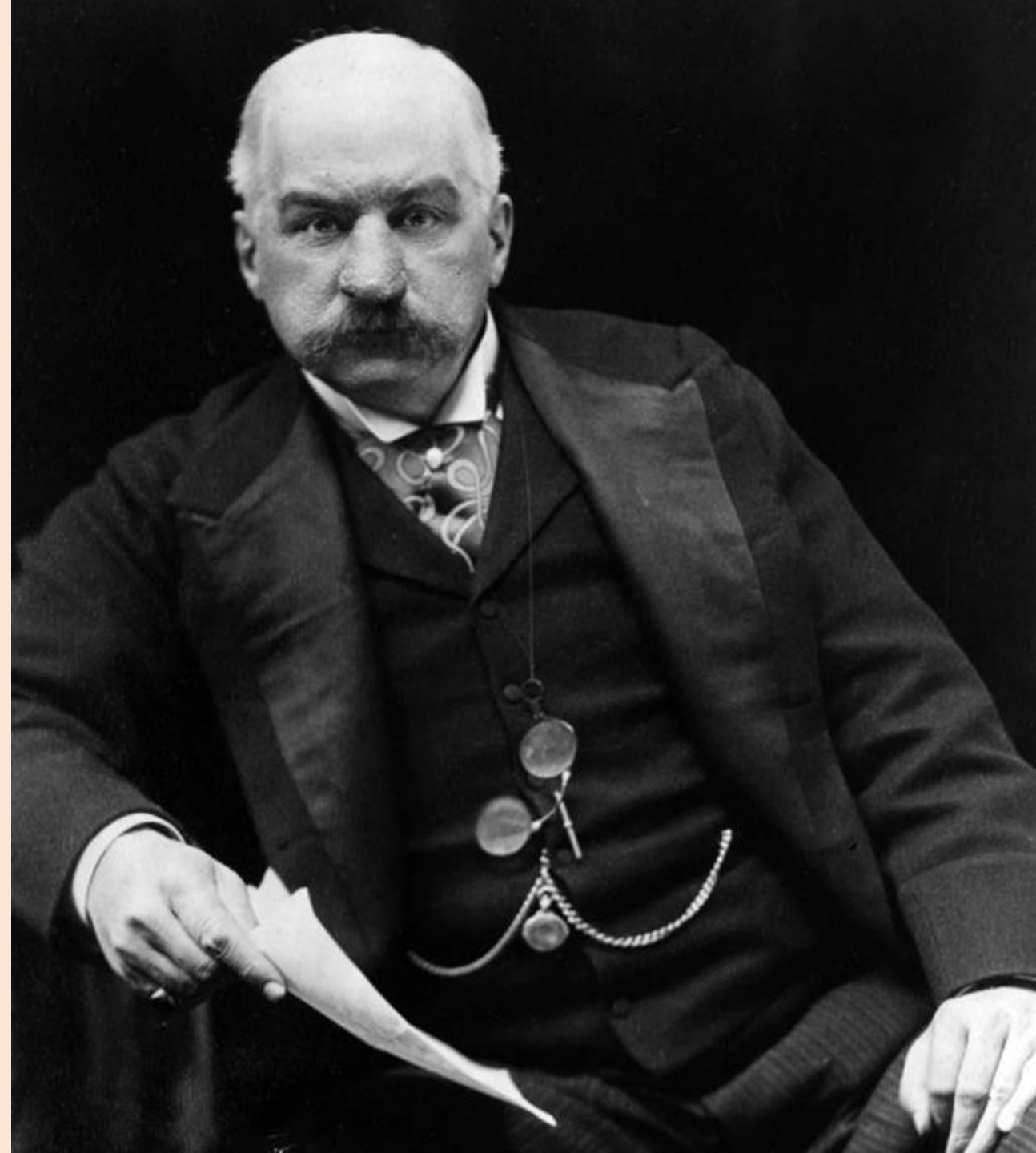
How J.P. Morgan Learned the Art of Central Banking: From Building Financial Syndicates to Building Financial Lifeboats

**New Lessons from the Archives:
The Evolving History of Central Banking
House of Finance**

Goethe University, Frankfurt

Thursday June 29, 2023

**Mary Tone Rodgers, State University of New
York at Oswego and Jon R. Moen, University of
Mississippi**



1855 *G* 1898

To meet

companions who were students at the
Georg-Augusts-Universität zu Göttingen

1855 — 1856

with some others of earlier and later dates

Mr. J. Pierpont Morgan, Mr. Charles Frederick Chandler

Mr. James Duncan Hague

request the pleasure of

company at dinner

on Saturday, November the twelfth, at seven o'clock, at the

Metropolitan Club

New York

P. s. v. p.

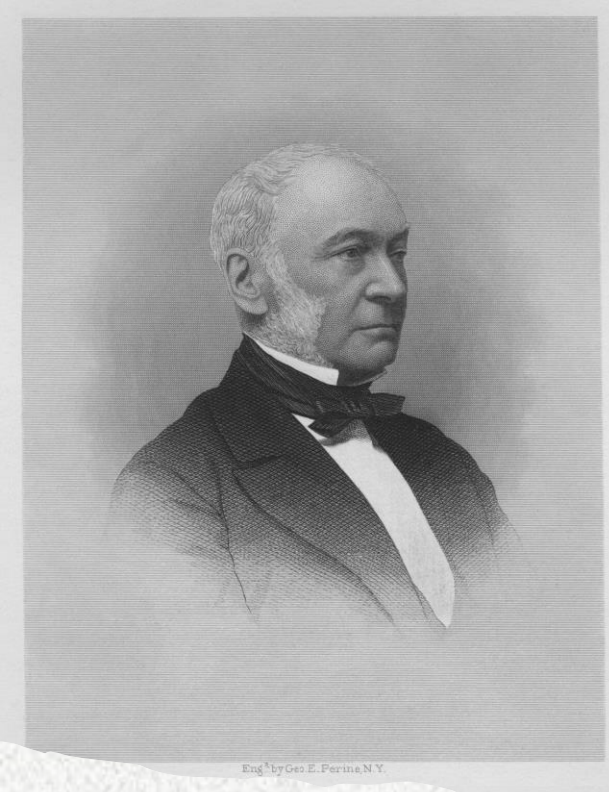
J. P. Morgan
hosting a
University of
Göttingen
alumni
dinner, 1898

Our key observations and arguments

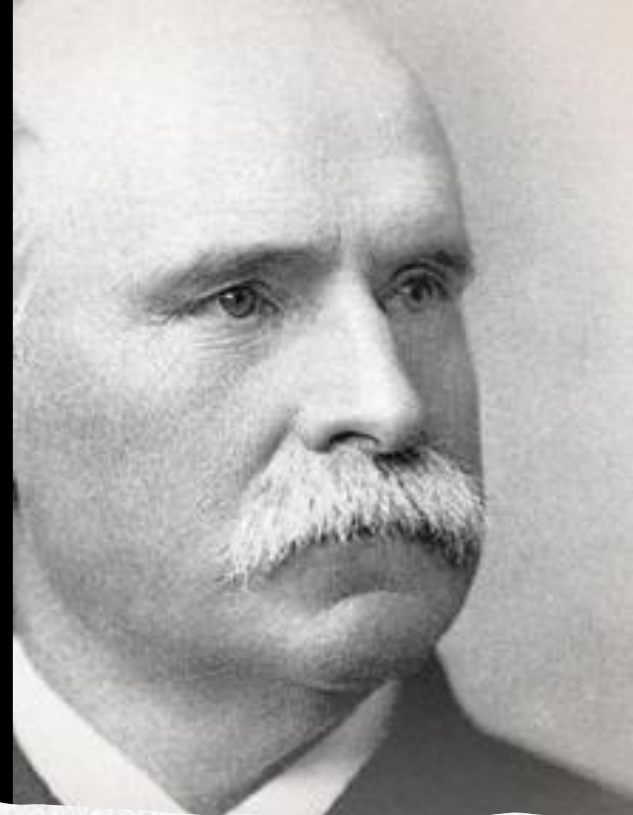
1. Like all bankers, he resolved information asymmetry between borrowers and investors well enough to find a market clearing rate that adequately compensated investors to take risk. Success was when he found P/Q equilibrium.
2. Coordinating syndicated loans was his primary business practice. Syndication allowed bankers to mitigate risk of flotation in two ways: diversify the offering across several bankers' balance sheets and produce more information about the issuer than any single bank on its own.
3. Our key insight is that the fewer the members in a syndicate, the less coordination expense and the more profit each member earned. (See vast literature starting with Wilson, 1968.)
4. Some transactions contained several small allotments. Why include members who could not provide large funding capacity? The costs of coordinating small allotments may have been offset by informational gains from them.
5. He routinely included informed individuals via small allotments in pre-1895 non-crisis syndicates. He carried the routine into the formation of the 1893 and 1895 crisis syndicates.
6. That is how he learned the art of central banking...from his business routine of experimentation with deal structure and customization of syndicate membership. Profit was his coordinating mechanism.

Our work augments other work on pre-Fed US financial crises

1. Research has focused on understanding crises WITHIN the banking sub-network of the financial system where the NY Clearing House Association limited its crisis response to coordinating its 54 members.
2. Morgan bridged distressed non-bank sub-networks to the bank network. He worked ACROSS the financial system. He coordinated hundreds of syndicate members.
3. Today's presentation covers three LOLRs. Our book covers fifteen.
4. A.) Syndicates, B.) Panic of 1893, C.) Treasury Loan of 1895, D.) Comparison of pricing of LOLRs at BofE and BdeF to Morgan's, E.) Surprises from Archives and Morgan's Legacy to Federal Reserve

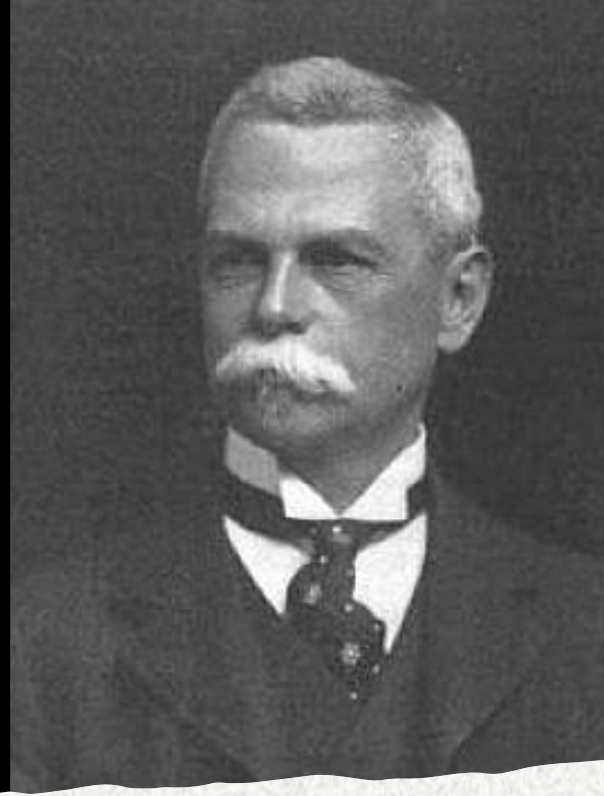
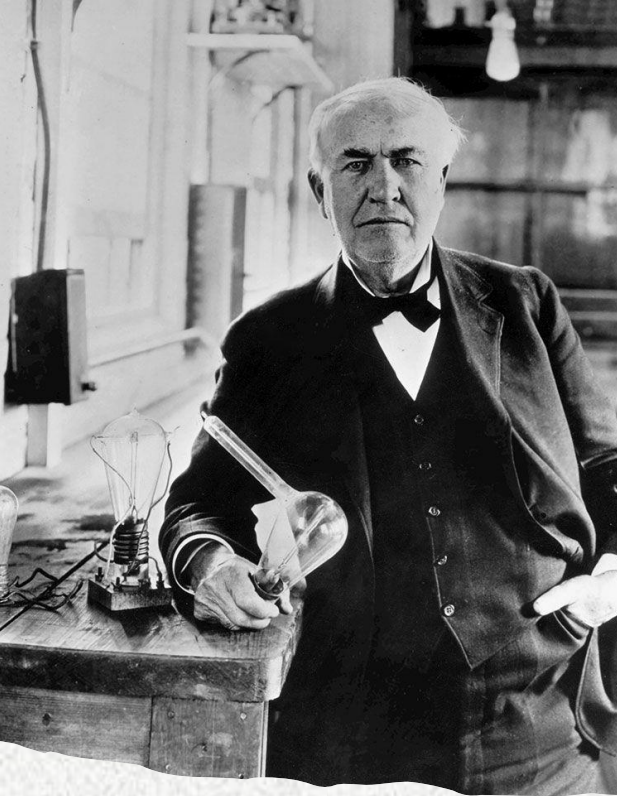


Eng^d by Geo. E. Perine, N.Y.



Pre-1895 Providers of Capacity to Morgan Syndicates

- James Brown of Brown Brothers
- George F. Baker of First National Bank of New York
- Jacob Schiff of Kuhn Loeb
- Anthony Drexel Sr of Drexel & Co., Philadelphia partner



Pre-1895 Providers of Information to Morgan Syndicates

- Thomas Alva Edison, Edison Electric common stock
- Samuel Spencer, Southern Railway Reorg bonds
- Melville Ingalls, Chesapeake & Ohio common stock
- James Roosevelt, Philly & Reading Reorg bonds, with son FDR, 32nd president



Building Financial
Lifeboats 1893 and 1895:
The Indispensable London
network

- Walter Hayes Burns, J. S. Morgan partner in London
- Everard Hambro, 1893 term sheet for NY Savings Banks
- Nathaniel Mayer Rothschild, 1895 term sheet for US Tsy

Morgan's legacy to Federal Reserve

- Experimentation with transaction design and customization of syndicate membership to match the demands of each crisis.
- Each transaction had strategic syndicate members to fill the information void.
- Each transaction had strategic syndicate members with adequate capacity to supply liquidity.

Archives used

- Baker's letters at Harvard
- Satterlee's memos at NY
- Belmont's letters at Columbia
- Morgan's letters, telegrams and ledgers in NY and in London
- Rothschild telegrams
- Morgan's Syndicate Books, not a ledger per se, but a record of coordination of syndicate members