

**J.P. Morgan Bails Out US Banks**

**Lead: In 1895 John Pierpont Morgan, a New York banker, arranged to loan gold worth \$65,000,000 to the United States Government. This may have prevented national bankruptcy.**

**Intro.: *A Moment in Time* with Dan Roberts.**

**Content: Before the establishment of the United States Federal Reserve System, government financial leaders were convinced that people would trust government issued paper money only if it was freely convertible to**

**precious metal, gold or silver.**

**Theoretically, anyone could go into a bank and exchange paper money with a face value of, say twenty dollars, for an equivalent amount of gold. During the depression triggered by the Stock Market Crisis of 1893, many people especially foreign investors exchanged their paper money for gold.**

**U.S. law required that \$100,000,000 of gold be kept in reserve, but by 1895 the reserves were down to less than \$50,000,000. President Grover Cleveland and his Secretary of Treasury, John Griffith Carlisle moved to stop this hemorrhage of the national treasure. Cleveland tried to borrow gold from overseas with a loan guaranteed by the London-based**

**merchant banking house of Rothschild. The Rothschilds were open to the idea but did not wish to take the leading role. anti-Semitism was bad enough in the United States. If an international Jewish banking house were perceived as bailing the United States out of its difficulties, nativist resentment of Jews might rear its ugly head. J.P. Morgan, a prominent Wall Street banker was chosen to lead the syndicate which put together the loan and he went head to head with President Cleveland. At first Morgan insisted that the loan be for \$100,000,000 in gold but the President would commit the Treasury for no more than \$65,000,000. Morgan said later that he was so excited that in the course of the conversation, he crushed**

**an unlighted cigar in his hands. When he left a small pile of snuff lay on the floor.**

**Ironically, the loan brokered by Morgan and the Rothschilds did not completely calm the financial markets. Gold withdrawal was not under control until January, 1896. Their loan was a sweet one. The government bonds issued to cover the gold purchase paid 4%, a good return in that era, and by the summer they had made a very healthy profit, some estimate \$16,000,000. Morgan's reputation was made. He occupied a pre-eminent place in U.S. financial circles until his death during the First World War.**

**At the University of Richmond, this  
is Dan Roberts.**

**Resources**

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**Wheeler, George. *Pierpont Morgan and Friends: The Anatomy of a Myth*. Englewood Cliffs, NJ: Prentice-Hall, 1973.**

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