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Wall Street and the Ghost of J.P. Morgan

JPMorgan's Purchase of WaMu, Bear Stearns Echoes Its Founder's Saving Graces

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Fear. Turmoil. A run on the bank.

It was not a pretty picture for Wall Street as panic set in and the country's leaders fought to keep the economy afloat.

But then J.P. Morgan swept in, poured money into the market and a recovery began.

No, we're not talking about the recent crisis hitting the nation, but the great Panic of 1893.

Back then, financier John Pierpont Morgan created a syndicate to loan the government gold to weather the storm. Then in 1907, Morgan stepped in again, working with John D. Rockefeller and those on Wall Street to inject millions of dollars into failing banks.

Now, more than 100 years later, it is once again the House of Morgan -- along with the government -- that is bailing out the financial system. First, in March, JP Morgan Chase bought out Bear Stearns, with the government backing the assets. Then last week, Morgan again swept in, this time buying Washington Mutual after government regulators seized the bank on the brink of failure.

If Morgan's ghost could look down on Wall Street today, the scene might seem all too familiar to him.

Jean Strouse, author of "Morgan, American Financier" and the director of the Dorothy and Lewis B. Cullman Center for Scholars and Writers at The New York Public Library, said that in 1893 Morgan did what the Treasury couldn't do -- he was responsible for raising the necessary gold.

"It made him, in a way, the government's banker for a time," Strouse said. "It also cast him into national prominence, not always in a good way. Lots of people very much resented that private banker had that much power. And they resented it even more after 1907 when he really was the lender of last resort."

By the end of the 19th Century, Morgan had become known, informally, as the country's central banker.

"After 1907, it was indisputable," Strouse said.

While today a bank with ties back to Morgan is, in some ways, saving two massive financial intuitions Strouse said this is a very different type of bailout. Back then, Wall Street was responsible for saving its own. Today, it's the government.

Financial History: Economic Panic of 1907

"Partly because of what happened in 1907, there are now complex government structures to deal with this type of situation," Strouse said.

Larry E. Schweikart, a history professor at the University of Dayton, said that after 1907 Morgan "goes to Congress and says: I can't do this a third time. The system is too big for one man, or even a syndicate of banks to do, we need a lender of last resort and that of course leads to the creation of the Fed."

Still, as much things have changed in the last century, somehow Wall Street still seems the same old place.

When the first mega-banking superpowers formed in the late 1800s, they handled customer deposits, big commercial loans and stock transactions.

Then in the wake of the 1929 crash and the Great Depression, lawmakers decided that banks shouldn't touch all those corners of American finance. The 1933 Glass-Steagall Act prohibited banks from operating both brokerage and retail deposit operations.

Eugene White, an economic professor at Rutgers University, said the act came after pressure for Congress to do something in response to the Great Depression, even though such synergies weren't clearly a cause.

"There was a rush to legislate," White said.

Schweikart said that connection between banks' various operations essentially ended up as a scapegoat.

Those provisions of Glass-Steagall were eventually repealed in 1999 by the Gramm-Leach-Bliley Act. Both professors said that was a good thing for American commerce which is now starting to be realized.

"Interstate branch banking diversifies risk," Schweikart said. "If you are a bank in Michigan you're not screwed because the auto industry is in the toilet. You can take advantage of a soaring Silicon Valley."

White said that "what is happening now, with any crisis, it speeds up the process of the formation of these new universal banks. The taking over of Merrill Lynch by Bank of America, it speeds up a process which might have taken another 10 years."

White said JP Morgan Chase's acquisition of Washington Mutual is good for the company because it expands them beyond their existing branch network.

Wall Street: Change in Mortgages

Basically, White said Morgan's CEO Jamie Dimon essentially said: "We're going to pick up a good part of a potential empire for us."

"That really moves back to the trends of the 1920s," White said. "I think those types of formations are good ones."

Schweikart is optimistic that the bad mortgages will ultimately be worth something.

"Property always comes jumps back. After the panic of 1837, property came back in about five years. Every since panic we've had in American history, property values do come back," he said. "Property is inherently valuable. … What we're dealing with here is an overbought market where people got loans who had no business having loans."

And for him that's what it all comes down to: greed on the part of both lenders and homeowners.

"Greedy lenders were trying to make a lot of money so they were giving out loans to people that these lenders knew couldn't pay back and in some cases they were hoping that they were going to be able to sell or repackage those loans to some other fool before the gate came crashing down," he said. The troubled homeowners "are the people who can afford the $140,000 house and tried to get a mortgage for a $400,000 house. It's greed on the borrowers' part too."