

# History of The Great American Fortunes

J. PIERPONT MORGAN'S GENESIS



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## CHAPTER VII

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**D**ID EVER A MAN OF WEALTH have more in panegyrics than that conquering money hero of these present times, J. Pierpont Morgan? Long since, his fame was trumpeted to the four quarters of the earth. His copious praises have been chanted with an extravagance that in the case of anyone else would have been rejected as turgid. Most mighty patriot and unexcelled public-spirited citizen, great financier and noble philanthropist, marvellous "captain of industry" and conservator of the social structure, friend of kings, and king among men — these are but a selected few of the apotheoses too often seriously accepted by the people at large. One writer in particular, raptly reaching up for a large expression of homage, has touched almost the climax of adoration in emblazoning him, "Morgan the Magnificent."<sup>1</sup>

### MORGAN'S EXQUISITE REPUTATION.

Many a hired or acquiescent scribe, plying well his trade, has reeled out his effusions ; and the total of these has produced a certain settled, aggregate public opinion which looks up to Morgan with unabated awe and adoration. In the firmament of wealth no man shines out more dazzlingly than he.

If ever there thrived a money potentate whose fortune had been pre-eminently eulogized as having been acquired by purity of method, that man is J. Pierpont Morgan. Not once has he been subjected to strictures of "tainted wealth," nor at any time has he had to fight an inimical public opinion such as Jay Gould had to in his day, and as Rockefeller has encountered throughout his career. For the last thirty years Morgan has been overwhelmed with laudations of every character. Sporadically,

perhaps, some unshackled spirit in Congress or on the public platform might rise to break abruptly in upon this outpouring of flattery by venturing criticisms or revelations. But these irruptions passed idly by, hardly noticed in the general, continuous deluge of encomiums.

The praises, abundant enough, bestowed upon other magnates, have paled beside those heaped upon Morgan. Without question, he has been held aloft as the most extraordinary financier of all. His feats in this regard have been recounted as though they bordered upon the miraculous. As a railroad and industrial magnate he has been interminably glorified. But fully as much so has he been held up to the world's admiration as a philanthropist and a man of versatile parts and benevolences; an encourager and patron of Art, a lover of Literature, a Cræsus with a mind capable of at once grasping the most intricate details of finance and revelling in the beauties and understanding of the Fine Arts.

In all of the mass of reiterated, embellished accounts turned out about Morgan's career, there is no particle of truth save one undisputed fact. Undeniably he is one of the towering, aggressive money monarchs of the United States. What does he not own or control? Scan the conglomeration of properties owned exclusively by him, or jointly with others. What a bewildering list! The mind is taxed at inventorying them, and forbears enumeration. Banking institutions and railroads, industrial plants and mines, land, public utility systems and shares, steamships, publishing houses and newspapers — all his, or partially so. Morgan is super eminently one of the "Christian men to whom God in His infinite wisdom has confided the property interests of the country."

Let us scrutinize the career of this man whom God is alleged to have chosen as a trustee for the stewardship of the nation's property, and for the guidance of its Government.

Foulest of all foul blasphemies would it be to interrogate the divine choice of lieutenants or derogate from them. Yet inasmuch as those who make such emphatic claims of heavenly appointment have not as yet been able to produce their credentials (although earnestly beseeched to do so), we

fallible mortals shall have to fall back upon mere human standards of judgment. What (by way of analogy), if the people of the United States should forthwith conclude to confiscate all private property, and declare collective ownership upon the ground that the good Lord God had authorized it so — what would the present legal owners say? Would they not resist, and demand written documents, attesting the fact of divine sanction, signed and sealed by celestial notaries? And even if, let us fancy, such documents were forthcoming, would not our magnates have the Supreme Court of the United States denounce them as stupid forgeries, issue a mandate for the arrest of their contumacious Author, and again sternly declare, for the twentieth thousand time, that no power was superior to that of the Supreme Court of the United States?

All other criteria failing, we shall have to consider Morgan by the light of terrestrial evidence — perhaps a poor method, but the only one within our horizon.

### **NOT QUITE A “SELF-MADE MAN.”**

Morgan is not one of those magnates coming wholly under the classification of being a “self-made man.”

This phrase, used with so unctuous an effect in contemporaneous descriptions of rich men’s careers, has never been applied to Morgan. For once, there is a break-off in the almost unvarying run of similitudes. Of the early careers of nearly all other multimillionaires the same story has been mechanically written by glorifying writers; how these men started out as poor boys, opened a little store somewhere, saved money and gradually worked up to wealth.

In the nineteenth century the term “self-made man” was invested with an inordinate importance as signifying great personal energy and ability; so much credit was supposed to attach to it that it was always mentioned with praise and received with pride. The object of its application was pointed out as a man who, possessing no original advantages, overcame all obstacles by sheer force of skill and determination, and achieved wealth.

This, however, could not be said of J. Pierpont Morgan. His father, Junius S. Morgan, was a millionaire. Ascending by successive steps from the positions of farmer boy, dry goods clerk, bank clerk and commercial man, Junius S. Morgan became a partner of George Peabody in the banking business. When the Civil War came on, George Peabody and Company were appointed the financial representatives in England of the United States Government. Synchronously with this appointment their wealth suddenly began to pile up; where hitherto they had amassed riches by stages not remarkably rapid, they now added many millions within a very few years.

### **HIS FATHER'S CAREER.**

How did they contrive to do it ? Biographical narratives aver that it was done by legitimate banking methods, although what those methods were is not explained. But if we are to believe the comments and criticisms appearing in the American newspapers of the time, their methods were not only very far from being legitimate, but were within the pale of the most active treason. The Constitution of the United States defines treason as consisting in citizens levying war upon the nation, or in giving aid and comfort to the enemy. According to writers of the day, the methods of George Peabody and Company were of such a character as to be not only treasonable, but double treason, in that, while in the very act of giving insidious aid to the enemy, George Peabody and Company were the financial plenipotentiaries of the United States Government, and were being well paid to advance its interests.

An article for example, published in the *Springfield Republican*<sup>2</sup> in October, 1866, asserted: "For all who know anything of the subject know very well that he [Peabody] and his partners in London gave us no faith and no help in our struggle for national existence. They participated to the foil in the common English distrust of our cause and our success, and talked and acted for the South rather than for the nation."

Evidently, it was the sight of the large benefactions which Peabody was then giving that prompted the remarks upon the origin of his fortune.

## **MILLIONS FROM ALLEGED TREASON.**

The writer of this article went on to say that George Peabody and Company swelled the feeling of doubt abroad, and speculated upon it. "No individuals" he continued, "contributed so much to flooding our money markets with the evidences of our debt in Europe, and breaking down their prices and weakening financial confidence in our nationality than George Peabody and Company, and none made more money by the Operation. All the money, and more, we presume, that Mr. Peabody is giving away so lavishly among our institutions of learning was gained by the speculations of his house in our misfortunes." A writer in the *New York Evening Post*, issue of October 26, 1866, also made the same statements, accusing Peabody and Junius S. Morgan of using their positions as United States financial representatives to undermine the very cause that they were paid to represent, and profiting heavily from their treachery.

These are a few of the newspaper comments then current. Whether they were all true, or partially true, or not true at all, we do not know ; no confirmation of them can be found in official records. The statements are given here for what they may be worth.<sup>4</sup> But it should be remembered that not the one-thousandth part of what was going on in the world of capitalists ever found its way into official documents. Reasoning from conditions prevailing at the time, it is more than likely that the accusations were by no means ill-founded.

## **YOUNG MORGAN'S ENVIRONMENT.**

In the chapters on the Vanderbilt and the Gould fortunes an abundance of facts from the Government records have been presented, depicting how every part of the capitalist class was engaged in the most gigantic frauds and swindles upon the Government during the Civil War. To add to this collocation would be superfluous were it not necessary to bring out clearly in each case the prevailing methods, influences and conditions, and to show that particular acts were not those of individuals so much as of a class. Peabody and the elder Morgan were but following the standards of their class, the capitalist order of society, and the lessons which young J.

Pierpont Morgan imbibed, were those taught in exemplary fashion by the whole of the class. To describe his transactions with a precipitate abruptness of treatment, while omitting a perspective upon his times, would afford no understanding of the moulding forces in operation, and would be prejudicial and without aim.

In every department of business the most persistent and gigantic frauds had long been committed by capitalists, and grew to enormous proportions during the Civil War. Not only were those rich bribers and defrauders secure from punishment, but they had little difficulty in keeping all, or nearly all, of the wealth thus fraudulently acquired, and investing much of it in other channels. It is advisable to advert here again to the practices of that large body of importers who had already acquired consequential fortunes, and who, when Morgan was just starting out, occupied a superior position as respectable, conspicuous and patriotic "leading citizens."

In the one prolific field of defrauding the Government of customs dues, large private fortunes had already been amassed by the year 1860. In preceding volumes we have given instance after instance, particularly the enormous frauds of Phelps, Dodge and Company. But those instances were only a few of an immense total.

A Congressional report in 1850 (Ex. Documents, Second Session, Thirty-first Congress, 1850-51, Vol. V, Ex. Doc. No. 44) specified 2,062 different cases of fraudulent under valuations on the part of nearly as many importers at Boston, Philadelphia, New York and New Orleans. Replying to a resolution of the United States Senate calling for a statement of measures adopted to prevent frauds upon the revenue, U.S. Secretary of the Treasury Corwin reported (U.S. Senate Documents, First Session, Thirty-first Congress, 1849-50, Vol. XIV, Doc. No. 79) that the honest trader had no opportunity in business. "All the frauds," he wrote, "which can be perpetrated by double invoices and false valuations continue without abatement. Honest merchants and fair traders have been driven from the business of importing foreign merchandise, being unable to compete with the dishonest practices that prevail and which our present system favours. ... The means at the disposal of this department are entirely

inadequate to such an examination of imports as will effectually suppress the systematic frauds known to be extensively perpetrated.”

Thirteen years later Edwin Jordan, Solicitor for the United States Treasury Department, reported the same state of affairs. Describing the custom house frauds at New York, he reported, on January 25, 1863, to Chase, Secretary of the Treasury (House Miscellaneous Documents, Third Session, Thirty-seventh Congress, 1862-63, Vol. I, Doc. No. 18), “ that frauds in the importation of foreign merchandise are extensively, constantly and systematically carried on. They are affected in various ways.” One method, Jordan wrote, was that of considerable direct smuggling of jewellery, laces, rich silks and other costly goods carried on the person, often with the connivance of the revenue officers. Jordan continued:

But probably, the usual mode in which frauds are committed is by the use of invoices, in which the goods to which they relate are falsely described, or undervalued. Sometimes the importer relies upon the inability of the revenue officers to detect such false description or under valuation, and sometimes upon his own power by corruption, to induce them to pass the goods, with a full knowledge of the fraud. Experience has proven that in neither case is his expectation disappointed by the result. ...

As to the accessibility of many of those employed in the custom house to corrupt influences, the evidence is, I regret to say, conclusive and startling.

The facts developed in connection with the particular frauds before referred to show that money, in large sums, was received by officials as the undisguised reward of fraudulent acts or connivance. But, in addition to this, the statements herewith submitted seem to justify the belief that nearly the entire body of subordinate officers in and about the custom house are, in one way or another, in the habitual receipt of emoluments from importers or their agents.

Jordan reported (page 6 of the report) that one lawyer declared that he had paid to a single custom-house record clerk the sum of \$1800 in a period



of fifteen months. “Entries from the books of an importing house, doing but a moderate business, are discovered, showing that about a thousand dollars had been paid by it to an examiner within a period of a year. It is shown that a bond clerk, with a salary of \$1000 per annum, enters upon a term of eight years with nothing, and leaves it with a fortune of thirty thousand dollars.” Jordan reported that he thought the amount and extent of bribes were much larger than the custom-house officials were willing to admit.

What was set forth in official reports as “the notorious Williams case,” was characteristic of the methods by which fortunes had been thus acquired. In these official reports, the firm of J.D. and M. Williams, wine importers of Boston, was described as one of the “oldest established” in that city; its members had grown very rich, and occupied a pre-eminent station of superior elegance and prestige. They professed to be deeply shocked and wronged when, in 1865, Collector Goodrich of the Port of Boston specifically charged them with long-continued defrauding of the Government in the importation of sherry and champagne.

The Government examiners and officials presented calculations showing that, by under valuations, the firm had cheated the Government out of at least \$150,000 in duties ; that the interest would make the amount nearly \$200,000; and that the value of the wines, since 1846, liable to forfeiture, would reach about \$2,000,000. (See Reports of Committees, Second Session, Thirty-ninth Congress, 1866-67, Report No. 15.)

Collector Goodrich demanded of the firm that it pay \$500,000 restitution to the Government — a sum equivalent to double the duties and interest. Confronted with the most positive evidences of its guilt, the firm dropped its arrogant and injured attitude. It offered the Government \$350,000 in full satisfaction of all duties, fines and forfeitures. This offer was declined. Suddenly, a singular change came over the custom-house officials ; they consented to revise their calculations and recommend the settlement of the Government’s claim for the payment of \$100,000, and that sum was accepted.

The result was a loud public scandal; impatient curiosity was popularly expressed as to why, after declining an offer of \$350,000, the Government had accepted \$100,000. The house Committee on Public Expenditures investigated. This committee, on February 11, 1867, handed in two reports. Both reports agreed upon this fact: That during the firm's negotiations with the Government, Samuel A. Way, a prominent Boston banker, obtained \$31,200 from the Williams firm, whom he represented in the case. What did he do with that sum? The three majority members of the committee reported that there were strong indications that he had bribed custom-house officials to agree to the settlement so favourable to the Williams firm. But as for the complicity of the Williamses, the majority could not entertain the suspicion, it reported, that a firm of such "long-unblemished reputation and wealth" (sic) could be a party to fraud and bribery.

The minority report of two members ridiculed that of the majority. "According to Messrs. Williams' own testimony," it reported:

Way, their agent, represented to them that he must have money with which to bribe Government officials into a more favourable compromise.— And how did these honourable and persecuted wine importers receive the proposition? Were they shocked at it? —Nothing of the kind.—They did precisely what might be expected of men, who, for a long series of years, had systematically defrauded the Government by putting false invoices through the custom house by as long a continued a series of perjuries. They handed to their agent, Mr. Way, at his request during the negotiation, the nice little sum of \$31,200 —to have it used in the bribery and corruption of United States officers (page 28 of the report).

The minority, however, thought that Way had "pocketed the money himself." In reading these reports one is inclined to conclude that the majority sought to whitewash the firm, and the minority to clear the custom-house officials. The firm had, it was clear, testified to its guilt, and considerable testimony showed that the custom-house officials were generally corrupt. The minority report ended by severely denouncing the firm, and spoke of "the immense interest which the foreign importers have in breaking down every honest official who stands between them and the

Treasury.” The practice on the part of capitalists in causing the removal of honest officials who sought to thwart their frauds had been long-prevailing, as we have seen in the cases of John Jacob Astor and others.

No criminal action was brought against the Williams firm; the scandal was soon forgotten ; and they, like many another importing house profiting by such methods, retained their rank and wealth. Of the \$100,000,000 or thereabouts invested in railroads by Massachusetts capitalists at that time, a considerable part of the investment was doubtless made by men who had obtained their wealth by defrauding the Government in customs dues.

If recurring charges are any indication of corruption, the officials of the United States courts were constantly corruptly influenced or bribed to bring no criminal actions against men of wealth, or to cause cases finally to be dismissed, if actions were brought. Even slave traders, the abominations and horrors of whose traffic shocked the whole civilized world, seem to have bought immunity, and this, too, after the Civil War had begun. According to the Duke de Rochefoucault Liancourt, who travelled in the United States in 1795, “nearly twenty vessels from the harbours of the United States are employed in the importation of Negroes to Georgia and the West India Isles.”

In his “**Travels**” (Vol. II, p. 292, English translation) the Duke further told how the merchants of Rhode Island were the conductors of what he described as the “accursed traffic.” United States law prohibited the importation of slaves after the year 1808, and outlawed the traffic as piracy. But the slave traffic continued, and large sums of Northern capital, particularly of New York, Spanish and Cuban capital, were invested in it.

Slaves snatched from Africa were sold in the Spanish colonies in America. “Spain,” wrote Secretary of State Seward to Minister to Spain Koerner, in 1864, “is believed to be the only Christian country in whose dominions African negroes are now introduced as slaves.” Spain, added Seward, had a treaty with Great Britain on the subject, but disregarded it.

From May 1, 1852, to May 1, 1862, twenty-six American schooners and brigs were libelled by the Government at the Port of New York, charged with being engaged in the slave traffic. Some were seized at New York, and others on the coast of Africa. Many of these vessels were condemned. (Senate Doc. No. 53, Vol. V, U.S. Senate Documents, Second Session, 1861-62.) On November 28, 1863, Seward wrote officially to Lord Lyons that a steamship had recently landed more than one thousand African Negroes near Cardenas or Sagua, Cuba; that “very prominent and wealthy persons are said to be implicated in the business”; and that it was believed the steamer went to Nassau after landing the Negroes.

Under Spanish law, it was provided that all African Negroes captured by the Spanish Government should be declared *emancipadoes*, and distributed among the planters and others for a monthly compensation, part of which accrued to the Government. But Thomas Savage, U.S. Vice Consul-General at Havana, in describing the system, wrote to Seward: “. —A little gold judiciously distributed among the *cura*, captains of the district, etc., will establish the fact [of the Negro's alleged decease] and the *emancipado*, so reported as dead, remains a slave for life.” (U.S. Senate Ex. Docs., First Session, Thirty-eighth Congress, 1863-64, Part II, Doc. No. 48.)

On June 19, 1861, the bark *Augusta* was seized by United States Marshal Robert Murray at Greenpoint, Long Island, on the charge of being fitted out as a slaver to go to Africa, and was condemned. A party of capitalists, headed by Appleton Oakes Smith and his brother, scions of a well-known family, were financing the expedition. To Murray's amazement, the U.S. District Attorney's office at New York then allowed the vessel to be bonded for an insignificant sum, and licensed her to clear the port. Hastening after her, Murray again seized the *Augusta* at Fire Island. He then formally and circumstantially charged collusion between the slave trade interests and certain officers of the Federal judiciary at New York. The Secretary of the Interior subsequently decided that collusion had not been proved. (U.S. Senate Docs., Second Session, 1861-62, Vol. V, Doc. No. 40.) Horace Greeley's editorials of the day express the greatest indignation at this attempted cheating of justice ; the case was only one

of numerous such cases ; many a time slave traders had succeeded in having actions against them dropped or dismissed.

We have now seen how the most successful capitalists, the founders of great fortunes, piled up their wealth by unrestrained careers of fraud and theft. We have noted how Commodore Vanderbilt pocketed millions by blackmailing competitors, and by leasing or selling worthless vessels to the Government during the Civil War for exorbitant sums. The facts have been set forth how a host of other capitalists swindled the United States Treasury out of hundreds of millions of dollars, and hazarded the lives of the very armies fighting for their cause by bribing Government officials to accept army and navy supplies of shoddy clothing, worthless tents and blankets, good-for-nothing shoes, adulterated, deleterious food, and guns which were frequently more dangerous to the men using them than to the enemy.

Even if the supplies and equipment contracted for were of passable quality, the Government was mulcted out of extortionate sums.

In previous chapters we have had repeated occasions to refer to the huge swindles which Marshall O. Roberts, one of the foremost and highly prized capitalists of those years, successfully worked upon the Government. Some of the vessels that he sold for transport service were so bad that one of them foundered a day or two after leaving port. The crew of this ship — the *Union* — was alone saved, and barely so, at that; the ship and all her army stores were a total loss. Another ship sold by Roberts was so badly damaged on her first voyage as to be hardly able to reach port, although not without much loss of freight. But to give a succinct idea of the greater sums squeezed out of the Government for vessels for which some fair degree of efficiency could be claimed, the case of the steamship *Illinois* need only be cited.

For a few years' lease of this vessel Roberts succeeded in getting a total rental of \$370,700, yet it was appraised by a naval board as worth, all told, cost of construction and equipment included, \$257,187. After the Civil War it was returned to him in a much better condition than when he had

leased it. The transaction was one of many such scandals that Congress deemed it wise to investigate.

Need it be said, however, that Vanderbilt and Roberts were far from being exceptions? One of the greatest frauds of all in the extortion of large sums from the Government was Thomas Clyde, the founder of the Clyde Steamship Line and commonly described in biographical accounts as a capitalist of the greatest probity. According to the court records, Clyde, by fraudulent representations, succeeded in obtaining exorbitant rates for the leasing of vessels for transport service. The Government discovered his frauds in time, and despite his urgent remonstrances, declined to pay the full amount that he claimed.

In the suit that followed in the case of the steamer *Tallaca*, the Government claimed that Clyde was guilty of a fraud ; that in dealing with Quartermaster Ferguson he had fraudulently suppressed certain facts which, had they been known, would have prevented Ferguson from contracting to pay \$115 a day for the vessel. In this case the Court of Claims decided in favour of Clyde.<sup>6</sup> But in the case of the steamer *Rebecca Clyde*, also before the Court of Claims in December, 1869, the court severely denounced Clyde's claim as fraudulent, referred to the "unconscionable and exorbitant rates of transportation," and to the "injustice and extortion" of Clyde's claim, and dismissed his petition.<sup>7</sup> In the appeals in both cases the Supreme Court of the United States reversed both decisions.

### **CONTEMPORANEOUS PHILANTHROPISTS.**

Such of the successful capitalists as were not defrauding in many directions were concentrating schemes of fraud in some one special direction.

The Stevens family, of Hoboken, N.J., was one of the notable examples. They were millionaires before J. Pierpont Morgan had outgrown boyhood; they ranked high among the leading capitalists of the country;

and by donations of a part of their fortunes they became celebrated as philanthropists. They were the principal owners of the Camden and Amboy railroad, then called in New Jersey the "Railroad Monopoly."

In the fifteen years before 1860 they were the most notorious corrupters of the New Jersey Legislature: time after time they bribed bills through, corrupted the elections and the courts, ignored or evaded the laws, and bled the public by an illegal system of transportation charges.

That they and Blair and other railroad magnates were continually debauching the New Jersey Legislature was common understanding, but it was not to be expected that the Legislature would seriously investigate itself. In 1855 a specific bribery scandal inadvertently happened to become public; the Legislature hurriedly appointed a catechising committee which made a pretence of investigation, and then turned in a report which harmed no one.

The Stevenses not only had their direct, but also their indirect, sources of tribute. One of them, Edward A. Stevens, a philanthropist par excellence, was carrying on, it seems, a species of blackmailing akin to that Vanderbilt employed. As the owner of the Hoboken Land and Improvement Company, Stevens had secured a franchise for a branch railroad line from Hoboken to Newark. For many years, up to 1860, he compelled the New Jersey Transportation Company, a competitor in that one section of the State, to pay him an annual subsidy of \$18,000, in order to buy him off from building the branch line.

The New Jersey Transportation Company decided, in 1860, that it would no longer pay this blackmail money. In retaliation, Stevens bribed the New Jersey Legislature to give him a franchise to connect his line with the Morris and Essex Railroad in which he held a large proprietorship. A turbulent scene ensued when the bill was passed on March 1, 1860. Assemblyman Slaight, of Hudson County, charged that an offer of bribery had been made to him to vote for Stevens' bill. Whereupon Peckham, of the same county, rose and announced he had been offered by Stevens' opponents as high as \$3,000 to oppose the bill.

These are but a very few of the many examples of successful capitalists whom the young men were taught to look up to and, if possible, emulate. And what were the business methods of the most conspicuous factory owners? To get an even more correct focus upon the youthful career of J. Pierpont Morgan, it is desirable to consider some of the ways in which the large industrial concerns were rushing into great wealth.

Asa Whitney was one of the important all-round capitalists of the United States; he was a railroad projector, and his firm, Asa Whitney and Sons, owned the largest car wheel factory in the land. He was a very enthusiastic patriot ; so were they all, those commercial men, brave in patriotic talk. The quality of their patriotism was particularly evidenced after John Brown's raid at Harper's Ferry.

War between North and South was generally regarded as unavoidable. The South was busily preparing. What were the Northern factory owners doing? Working their plants day and night to supply the South with equipment. In the first months of 1860 the Whitney works were run to their fullest capacity to provide wheels largely for Southern railroads. In the same months the Baldwin Locomotive Works of Philadelphia turned out fifty-eight locomotives, all but four of which were for Southern railroads. Bement and Dougherty and the firm of William Setters and Company, machine tool builders in Philadelphia, were filling heavy orders for Southern railway and machine shops.

These capitalists, and all who were doing as they were, knew that every indication threatened that this equipment would soon be used in war against the very section to which they belonged, and for the interests and principles of which they professed to be such staunch adherents. In fact, some of them made declamatory patriotic speeches at the very time when they were profiting from equipping what they knew would shortly develop into an openly hostile people, intent upon sustaining their purposes by armed force.

### **THE DEFRAUDING OF INVENTORS.**

The Northern gun manufacturers did the same ; not one of them scrupled to fill Southern orders. They also refused, for the most part, to adopt any



improvements or utilize any of the numerous new inventions. In pleading for the establishment of more Government armouries, and foundries, Representative Wallace of Pennsylvania, in a speech in Congress, on February 28, 1863, said:

When we look at the manner in which our army and Government have been defrauded by speculators, we must shrink from the idea of trusting to private contractors to furnish the necessary means for our national defense. Dependence upon private contractors for arms and munitions of war is too precarious and uncertain in all respects, as well as too costly, upon which to rest such an important and vital interest of the nation. The improvements made of late years in the power and destructiveness of all arms have rendered comparatively useless weapons that were deemed the very best, perhaps not more than a quarter of a century ago. . . . The interest of the private contractor is to discourage all change in the character of arms which his machinery is prepared to make, as machinery is costly, and every material change necessitates a corresponding change in his machinery——

The explanation of the gun manufacturers was that patriotism was not involved; that it was simply “ a case of business.”

Doubtless it was this acute business instinct which led them to steal outright the patents for breech-loading guns. According to the conclusions of a Congressional committee on patents, the inventor of mechanical devices for breech-loading small arms and machine guns was George W. Morse, who took out patents in 1856. The gun manufacturers appropriated his inventions. As in the cases of Goodyear and many another inventors, Morse was cheated out. Thrown into the deepest poverty, he applied, in 1878, to the Government for payment on the score of his invention. In favouring his petition, the Committee on Patents reported, “He is ignored and poor in his declining years, and those who have adopted his inventions without remunerating him are rolling in wealth.”<sup>10</sup>

In the case of another inventor, C.D. Schubarth, a foreigner residing at Providence, R.I., a Government Commission reported these facts : that

he had invented a new type of gun ; that in order to raise the funds he had to take in several capitalists as partners ; that he was informed that to get a contract from the War Department, it was necessary to bribe one of the United States Senators from Rhode Island ; that he was then given a letter of introduction to United States Senator J.F. Simmons by the Providence firm of A.D. and J.Y. Smith “a business house of great wealth and respectability”; and that he arranged to give Simmons five per cent. of the amount of the contract. Schubarth thus obtained a contract for 50,000 Springfield rifles; according to the evidence before the Government Commission, Simmons’ graft amounted to \$50,000.<sup>10a</sup>

Everywhere in the struggle for commercial success obtruded fraud, theft and murder; one or more or a combination of these methods constituted the means by which wealth was largely piled up. Overwork and criminal accidents joined with disease and want and worry and unsanitary housing killed off myriads of workers by sudden or lingering death. Yet not alone in the factories and mines, on the sea and in the tenements did this scourge of death go on as an accompaniment of the rapid growth of private wealth. Out on the primitive plains and in the mountain fastnesses whole tribes of Indians were ruthlessly despoiled, driven off, and then, on some pretext or other, slaughtered so that their lands and the resources on them could be gratuitously seized.<sup>11</sup>

The outbreak of the Civil War gave the mercantile class unsurpassed opportunities for profiting from what amounted to organized murder. However severe this statement seems, it is in reality quite mild in describing the prevailing practices of capitalists.

### PROFITING FROM ORGANIZED MURDER.

It would be quite puerile and a poor extenuation to say that they were not fully conscious of the disastrous consequences to the nation flowing from their acts. They knew the baleful results to the soldiery of imposing fraudulent army and navy supplies upon the Government. Yet, spurred by the certainty of extortionate profits, they went eagerly ahead, and when their frauds were discovered, sought to block every attempt at

investigation. In the one item of shoes alone, the shoe manufacturers sold to the Government from 1861 to 1862 five million pairs of shoes for the army, as to which transaction a Government commission reported that at least \$3,000,000 had been defrauded; that supplies of shoes which were so bad that they could not be sold privately had been palmed off upon the Government.

But the one equipment which the army most urgently needed was rifles. We have already, in a previous chapter, related how Marcellus Hartley and other prominent capitalists swindled the Government, and imperilled the Union Army, by importing the refuse of European arms and unloading them upon the United States Government. Also, we have adverted to the fact that it was greatly because of the great profits made in these transactions that Hartley was able to build enormous factories at Bridgeport, Conn.— factories that his descendants now own.

J. Pierpont Morgan was profiting from the same methods at the same time. He was, in 1861, a robust young man, just turned twenty-four years old. “He inherited from his parents,” says one of his biographers, “their purity of character and exceptional abilities.”<sup>13</sup> Those attributed lofty virtues were not in evidence. At a critical juncture when the Union Government was most in need of soldiers, Morgan chose not only to stay at home, but to profit from the sale of worthless rifles for the arming of the men who responded to the call to arms.

Abraham Lincoln was sending out his proclamations calling for volunteers. The contest was a momentous struggle not merely between sections, but between two kinds of conflicting capitalist institutions. The so-called common people — the factory and shop workers, the slum dwellers, the professionals and the farmers — heroically poured in for enlistment. Hundreds of thousands went forth to the camps and battlefields, never to return.

Although well qualified physically and mentally for military service, Morgan avoided any kind of duty interfering with money making and

comfort. He differed in no wise from almost all the men of position and property. They restricted their exuberant patriotism to talk and the waving of bunting, but took great care to keep away from the zone of personal danger. The rich, for whose interests the Northern armies were at basis fighting, not only as a class evaded enlistment, but proceeded to demoralize, spread disability and sow death among their own armies. While doing this, and at the same time swindling the Government, States and cities out of vast sums in army contracts, they caused the Draft Act to be so amended that it gave men of property the easy opportunity of escaping conscription by permitting them to hire substitutes.

### **MORGAN'S FIRST STROKE OF BUSINESS.**

J. Pierpont Morgan's first ascertainable business transaction was in one of these army contracts; and while it was not on so large a scale as those of older capitalists, it was (judged by prevailing capitalist standards) a very able stroke for a young man of twenty-four. Its success gave promise of much greater things to come, in which respect Morgan's admirers were not disappointed.

In 1857 the army inspecting officers condemned a large number of Hall's carbines as thoroughly unserviceable, and as of obsolete and dangerous pattern. The Government thereupon auctioned off quantities of them from time to time at prices ranging from between \$1 and \$2 each. Five thousand of them, however, still remained in the army arsenal in New York City and were there when the Civil War broke out.

On May 28, 1861, one Arthur M. Eastman, of Manchester, New Hampshire, made an offer to the Government to buy these rifles at \$3 each. Knowing the great frauds going on in the furnishing of army supplies, the Government officials might well have been suspicious of this offer, but apparently did not question its good faith. The rifles were sold to Eastman at \$3.50 each. But either Eastman lacked the money for payment, or had been thrust forward to act as a dummy for a principal in the background. One Simon Stevens<sup>14</sup> then stepped on the scene, agreeing to back Eastman to the extent of \$20,000, which sum was to be applied

for payment for the rifles; as collateral security Stevens took a lien upon the rifles. But from whom did Stevens get the funds? The official and legal records show that it was from J. Pierpont Morgan.

### **A GREAT SCANDAL OF THE TIME.**

The next step in this transaction was in Stevens' telegraphing, on August 5, 1861, a notification to General Fremont, commanding at St. Louis, that he had five thousand new carbines, in perfect condition, and inquiring whether Fremont would take them. From Fremont's headquarters came word to ship them to the army headquarters at St. Louis at once. During all of this time the carbines had remained at the arsenal in New York City. Upon receiving Fremont's order, Morgan paid the Government the sum of \$17,486—at the rate of \$3.50 a carbine. The rifles were shipped direct from the arsenal to St. Louis. And what was the sum charged upon the Government for them? The bill made out to Fremont called for the payment of \$22 apiece for the consignment.

This was one of the many army contracts popularly and officially regarded as scandalous in the highest degree; one of the select Congressional Committees of 1862 lost no time in the investigating of it. After making a full inquiry this committee reported:

Thus the proposal actually was to sell to the Government at \$22 each 5,000 of its own arms, the intention being, if the offer was accepted, to obtain these arms from the Government at \$3.50 each. . . . It is very evident that the very funds with which this purchase was effected were borrowed on the faith of the previous agreement to sell. The Government not only sold one day for \$17,486 arms which it had agreed the day before to repurchase for \$109,912—making a loss to the United States of \$92,426—but virtually furnished the money to pay itself the \$17,486 which it received.

The committee further reported that the rifles were so bad that it was found that they would shoot off the thumbs of the very soldiers using them. But not only did the Government condemn the transaction as a bare-faced swindle; Marcellus Hartley, himself a dealer in arms and a self-confessed

swindler, had declared before the committee, “ I think the worst thing this Government has been swindled upon has been these confounded Hall’s carbines.”<sup>16</sup> The Government refused to pay Morgan the \$22 demanded for each of the five thousand carbines, whereupon Morgan pressed his claim. Thus it was that the case of J. Pierpont Morgan vs. The United States Government came into the public records. It figured as case No. 97. To adjudicate this claim, as well as many other similar claims, the Secretary of War appointed a Commission composed of J. Holt and Robert Dale Owen, son of the famous Robert Owen.

Reporting on July 1, 1862, this commission stated that one hundred and four cases, involving demands upon the National Treasury to the extent of \$50,000,000 had been referred to it, and that it had cut Out \$17,000,000 of claims as extravagant and fraudulent. In passing upon Morgan’s claim it declared that General Fremont had no authority to contract for the rifles, but that it, the committee, recognized a legal obligation on the part of the Government arising from the fact that the arms passed into the service of the army. As the best way out of a bad bargain it decided to pay Morgan at the rate of \$13.31 a carbine, and it pointed out that even at this price Morgan and Stevens stood to make \$49,000 above the price at which the rifles had been sold to them by the United States.<sup>19</sup> Under this ruling a total of \$55,550 was paid to Morgan by the Government, which sum was accepted on account only.

This settlement, however, was not satisfactory to the claimants; the full pound of blood was demanded. Suit was brought in the Court of Claims at Washington for \$58,000 more. This time the case was entitled Simon Stevens vs. The United States Government.<sup>20</sup> In the statement of the case before the court the fact was emphasized that, according to the Government, the carbines had been inspected and pronounced unserviceable by the Government ordnance officer. In delivering his decision Judge Peck said: “By an arrangement between Stevens and one J. Pierpont Morgan the voucher for the first two thousand and five hundred carbines delivered was to be made out in the name of Morgan, which was done ; the said voucher was signed by F. D. Cadwallader, Captain of Ordnance, United States Army, and was for the sum of \$55,550. By

further arrangement this voucher went into the hands of Messrs. Ketchum, Son and Company.” This voucher was paid on or about September 10, 1861. The other twenty-five hundred rifles, the court said, had also been received by Fremont.

These are the facts as set forth in unimpassioned court records.

### **COURTS MAKE THE GOVERNMENT PAY.**

Did Morgan and his associates get their full demands from the Government? They did. Judge Peck held that when Fremont had agreed to buy the rifles he had entered into a contract which bound the Government, and that a contract was a contract. The court took no cognizance of the fact that the worthless, condemned rifles had been represented as new, nor did it consider the fact that the money with which they had been bought from the Government was virtually Government money. It gave Stevens a judgment against the Government for \$58,175.

It was this particular decision which assured the open sesame for the holders of what were then cynically called “dead horse claims” to collect the full amount of their swindling operations. The Government could now plead itself defenceless against the horde of contractors who had bribed officials to accept decayed ships and defective armour, worthless arms and shoddy clothing, flimsy tents, blankets and shoes, and haversacks which came to pieces, adulterated food and similar equipment and supplies. As for criminal action, not a single one of these defrauders went to prison, or stood any danger of it ; the courts throughout the land were perennially busy rushing off petty defrauders to imprisonment and employing the full punitive power of their machinery against poor, uninfluential offenders.<sup>22</sup>

This was the real beginning of J. Pierpont Morgan’s business career; the facts are there immovable and unassailable in the public records. This was the brand of “patriot” he and his fellow capitalists were; yet ever since,

and especially so to-day, clergy and politicians and shallow, obsequious writers saturate the public with myths all designed to prove Morgan's measureless benevolence and lofty patriotism.<sup>2</sup>

**1** Under this title, an article by a "popular writer" appeared in "Pearson's Magazine," issue of February, 1908.

**2** This newspaper has always enjoyed the reputation of being of an extremely careful and accurate character : it has remained one of the very best newspapers in the United States.

**3** This article was also published in the New York "Times," issue of October 31, 1866. "We have in this country," wrote Cloud in his "Monopolies and the People," published in 1873, " a moneyed aristocracy, composed mainly of men who speculated in their country's misfortunes during the late Civil War, and who under pretence of aiding the Government, made their twenty, fifty and one hundred per cent. and amassed large fortunes by taking advantage of the tide of war as it submerged a nation's hopes."—p. 227.

**4** Regarding another of Peabody's transactions, however, certain definite facts are embodied in official documents. From these documents it would conclusively appear that Peabody had been long carrying on methods somewhat similar to those that he was accused of profiting by during the Civil War.

In 1839 the Chesapeake and Ohio Canal Company found occasion to complain bitterly of Peabody's methods as its financial representative in London. The stock of this company was secured by bonds issued by the State of Maryland as pledge for its debt. Peabody sold these bonds in Europe at ruinous discounts, and with large sums of money belonging to the company in his possession, refused to honour its bills. By this process he made large profits. His excuse was the critical condition of the European money markets. The directors of the company formally approved his action, probably to let him out gracefully, but were glad to accept his resignation.—U.S. Senate Documents, First Session, Twenty-sixth Congress, 1839-40, Vol. viii, Doc. No. 610. This document contains the full correspondence between the company and Peabody.



5 See Executive Documents, Second Session, Thirty-ninth Congress, 1866-67, Vol. x, Document No. 65.

6 Court of Claims, v : 134-140.

7 Ibid., 140-155.

8 Report of the Special Committee in Reference to Alleged Attempts at Bribery.— New Jersey Senate Journal, 1855 : 707 to 715, 841 to 862, etc. The bill was one authorizing the building of bridges over the Passaic River and Newark Bay.

9 “ The Congressional Globe, Thirty-seventh Congress, Second Session, 1862-63, Part II, Appendix : 136.

10 House Reports. First Session, Forty-fifth Congress, 1878-79, Vol. i, Report No. I : 3.

10a Report of Commissioners Joseph Holt and Robert Dale Owen to Secretary of War Stanton, June 21, 1862, U.S. Senate Documents, Second Session, Thirty-seventh Congress, 1861-62, Vol. 1, Doc. No. 64.

11 “These are a few extracts from the annual report of the United States Commissioner of Indian Affairs, 1859 :“We have substantially taken possession of the country [the Western Territories] and deprived them [the Indians] of their accustomed means of support. “ Numbers of them are compelled to sustain life by using for food reptiles, insects, grass, seeds and roots. “They have at times been compelled to either steal or starve.“

Many of the numerous depredations have doubtless been committed by them in consequence of their destitute and desperate condition.”

Report after report of the United States Commissioner of Indian Affairs showed that many Indian tribes were in a state of absolute destitution, and Congress was called upon to pass appropriations for their support. The Pawnees and other tribes that Astor had debauched and swindled for so long a period, were in a starving condition. Document No. 27, United States Senate Documents, Second Session, 1875, reveals that British and American traders had long since introduced among the Chilcats, Sitkas and other Indian tribes in Alaska, the methods so successfully exploited by Astor of getting the Indians drunk and swindling them of furs.

12 Reports of Committees, Thirty-seventh Congress, Second Session. 1861-62, Vol. 2:lxii-lxiv.

13 “America’s Successful Men,” i:452.

14 The House Investigating Committee on Government Contracts in 1862 reported to Congress that Simon Stevens was one of a clique involved in custom-house frauds. Before 1859, the New York Collector of the Port had employed the laborers and cartmen in the appraiser’s store to haul goods to the Government bonded warehouses. In August, 1859, Collector Schell (a corrupt Tammany politician) made a contract by which the hauling was turned over to some of his political associates. They were paid \$123,000 a year. “Upon this contract,” reported Chairman Van Wyck, “the parties made from fifty to seventy-five thousand dollars yearly.” The committee showed how the contract had been corruptly obtained, and stated that Stevens had a one-eighth share of the profits. Stevens also caused any of the custom-house clerks who said anything against the contract to be removed from office.—The Congressional Globe, Third Session, Thirty-seventh Congress, 1862:, Part II, Appendix : 118.

15 Reports of Committees, Second Session, Thirty-seventh Congress, 1861-62, Vol. ii: lxiv-lxxii.

The frauds at Fremont’s headquarters, at St. Louis, were particularly enormous. Major McKinstry, quartermaster of the U.S. army at that place, was tried by a court martial on sixty-one specifications of corrupt practices, and was found guilty on twenty-six. The testimony showed the grossest frauds, by collusion, in all kinds of army supplies. The Morgan rifle transaction, however, was not brought out in the specifications. McKinstry was discharged from the army.—House Reports, Committees and Court of Claims, Third Session, Thirty-seventh Congress, 1862-63, Report No. 49: 1-24.

That the bribery of certain Union officers was a fact was revealed by this communication sent by Major-General Frederick Steele, on July 26, 1864, from Little Rock, Ark., to Major-General E.R.S. Canby, commanding the Military Division of West Mississippi :“General: Your communication in regard to bribery among the officers of my command is just received. If bribes had been taken it must have been by agents. I am satisfied that

the officers know nothing about it. General Marcy, Inspector-General, is at Fort Smith investigating the matter. Carr is chief-quartermaster of my corps and a lieutenant-colonel. Brig.-Gen. J.W. Davidson has slandered Carr on all occasions. . . He could have had affidavits in regard to the corruption of his own disbursing officers if he had wished them. I have seen such affidavits.”— House Miscellaneous Documents, Second Session, Fifty-second Congress, 1892-93 (Rebellion Record Series I, Vol. xli), p. 401.

16 Reports of Committees, Second Session, Thirty-seventh Congress, 1861-62, Vol. ii: 200-204.

17 Ibid., 64-72.

18 Ibid., lxxvii.

19 Ibid., lxxv. The Commission stated that there was a legal obligation on the part of the Government to pay, but that this obligation arose not from Fremont’s contract, but because the arms did pass into army service.

20 Court of Claims Reports, ii : 98, etc.

21 Ibid., 99. In arguing for the Government the U.S. Assistant Solicitor said to the court :

“The arms were purchased by Arthur M. Eastman, *from* the United States, at *three and one-half dollars each*, because they had been inspected and pronounced unserviceable by the ordnance officer. They were sold by Eastman to the claimant for twelve and one-half dollars each, and the claimant at once sold to General Fremont at *twenty-two dollars each*. The Government price for new arms of this pattern, of good quality and fit for service, was seventeen and one-half dollars.”—Ibid., 98.

22 In reporting to Congress, on March 3, 1863, the House Select Committee on Government Contracts, after submitting its great amount of testimony regarding the frauds on every hand, concluded: “Many frauds have been exposed, the Government relieved from many unconscionable contracts, and millions of dollars saved to the treasury. Yet it is a matter of regret that punishment has not been meted out to the basest class of transgressors. They to whom this duty belonged seemed sadly to have neglected it. *Worse than traitors in arms are the men pretending loyalty to the flag, who feast and fatten on the misfortune of the nation, while*

*patriot blood is crimsoning the plains of the South, and bodies of their countrymen are mouldering in the dust.* The leniency of the Government towards these men is a marvel which the present cannot appreciate, and history never explain.” — House Reports, Committees and Courts of Claims, Third Session, Thirty-seventh Congress, 1862-63, Report No. 50:47.—But history can explain. It was not to be expected that the very class controlling Government—the capitalist class—was to be proceeded against by its creature.

23 For example, an article entitled “Cleveland’s Opinion of Men,” in “McClure’s Magazine,” issue of April, 1909. The writer of this article quotes Cleveland, for several terms President of the United States, as saying of Morgan’s conduct when a bond issue was under way in 1894 :

“I saw, too, that with him it was not merely a matter of business, but of clear sighted, far-seeing patriotism. He was not looking for a personal bargain, but sat there, a great patriotic banker, concerting with me and my advisers as to measures to avert a peril, determined to do his best in a severe and trying crisis.”



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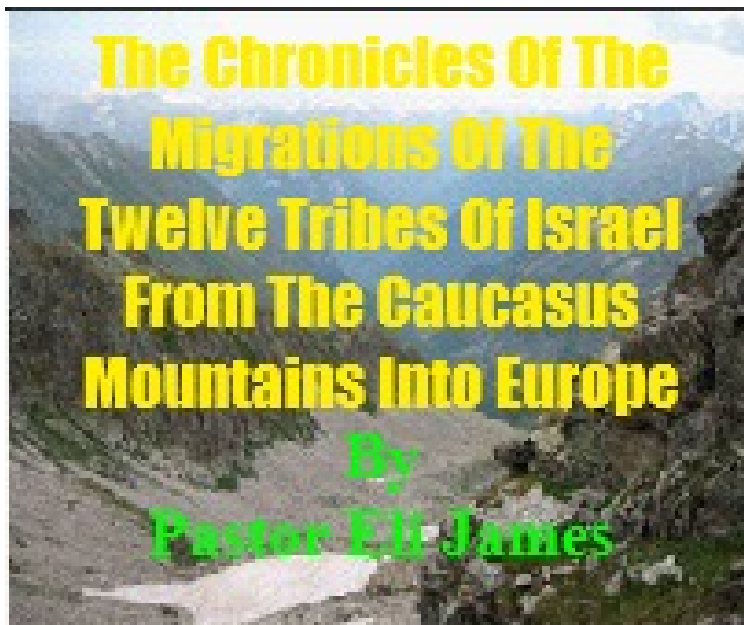
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