

## Reversals of Fortune in the Tea Industry

*Part XXXIII: The Tea Baron Challenges the Banker*



Thomas J. Lipton's *Shamrock* (right) showing a slight lead over the *New York Yacht Club's* defender, *Columbia*, financed principally by J. Pierpont Morgan.

“**N**ow Lipton moved into the limelight — from being seen as the plucky underdog he was rapidly becoming transformed into almost as great a naval hero as Dewey. In contrast to the snootiness of the *Royal Yacht Club*, it appeared as if the cream of British society had crossed the Atlantic to give Lipton moral support. The Governor-General and Lady Minto; Admiral Lord Charles Beresford and his wife; Sir Henry Burdett; Lady Cunard; the governors or agents-general of New Zealand and Australian colonies and sundry European minor royalty were among those who had sailed in from every part of the globe to watch the fun.”

— James Mackay, *The Man Who Invented Himself*

*Please turn to page 48.*

## *Reversals of Fortune in the Tea Industry, Part XXXIII*

When Thomas Lipton applied for membership in the elite *Royal Yacht Squadron*, with the intent of financing a challenge for the *America's Cup*, his application was overwhelmingly rejected by the RYS membership. Only Prince Edward, commodore of the RYS, supported Lipton's membership, but his attempts to sway other members were fruitless. He was bluntly told that if Lipton was admitted to the RYS, it will "have but two members, you and Sir Thomas."

Undeterred, Lipton presented his challenge to the *New York Yacht Club* via the *Royal Ulster Yacht Club*, which gladly accepted him as a member.

Christopher Pastore (*Temple to the Wind*) describes the reaction among members of the RYS, upon learning of Lipton's game, as follows:

With the announcement, the British yachting fraternity scoffed at Lipton's impertinence. Although Lipton was incredibly rich, when it came to boats he was a hack. In recent years he'd built his business into an empire, but to the British peerage, he was merely a "grocer" attempting yet another shameless display of self-promotion. To an extent they were right. Lipton knew how to bait the press.

Precisely how much clever "marketing" prompted Lipton's foray into yachting is a matter of speculation. For sure, his five failed attempts to capture the *Cup* guaranteed that his image, the same image that appeared on every packet of his tea, would be pictured in every major newspaper in the United States. Lipton became news and his tea sales soared. At the same time, his association with the NYYC vis-à-vis his *America's Cup* challenges also provided entry to a social life that was unattainable for him in England.

Central to the membership of the NYYC at the time of Lipton's challenge was none other than J. Pierpont Morgan, Sr., whose family tree included prominent Morgans in London and America, dating back to early colonial times.



Sir Thomas Lipton aboard *Erin*, photographed in 1903 at the time of his second attempt to capture the *America's Cup*.

The first Morgans to settle in America were three brothers, James, John and Miles, who emigrated from England in 1636. As one of the first settlers of what was to become Springfield, Massachusetts, Miles became a prosperous landowner and farmer. Generations later, entrepreneur Joseph Morgan used some of the family fortune to help organize the *Aetna Fire Insurance Company* in 1819.

In 1835, *The Great Fire of New York* broke out in a five story warehouse on what is now Beaver Street. Fierce winds and freezing temperatures, as low as -17 °F, caused water in fire hoses to freeze solid. Firefighters came from as far away as Philadelphia to help fight the raging fire, but in the end 20 people had died and hundreds of buildings were lost over 50 acres. Many lost buildings were insured by companies whose headquarters had also been destroyed in the fire, and a number of these companies declared bankruptcy.

Based in Hartford, Connecticut, *Aetna's* headquarters was spared, but they were exposed to several policies insuring lost properties. Meeting with other investors, Joseph Morgan argued for prompt payment of all losses, but some *Aetna* investors balked at the proposal. Some wanted to delay settlements, and a few even proposed liquidation.

Joseph seized this opportunity to buy up all shares from recalcitrant investors at distressed prices, thereby relieving them of their fears and allowing him to gain control of the company and proceed with his original plan.

In short order, *Aetna* became the preferred insurance company for rapidly growing New York City. Significantly, *Aetna's* bolstered reputation allowed them to fetch premium rates. The short-term loss was insignificant compared with *Aetna's* long-term prosperity.

Joseph Morgan died in 1847, leaving his estate to his son, Junius Spencer. Shortly thereafter, Junius moved his family to Boston. In 1854, a unique opportunity in international banking lured him to London, where he became a partner in the prestigious London-based American bank, *George Peabody & Co.*, which was renamed *Peabody, Morgan & Co.* When Peabody retired a decade later, Junius was left in charge of the bank, which he subsequently renamed *J.S. Morgan & Co.* Throughout these various incarnations, the firm was the most highly regarded American merchant bank in London.

Meanwhile, Junius Morgan's son, Pierpont, finished high school in Boston, after which Junius arranged for his further education in Switzerland and Germany, grooming him for a career in international banking.

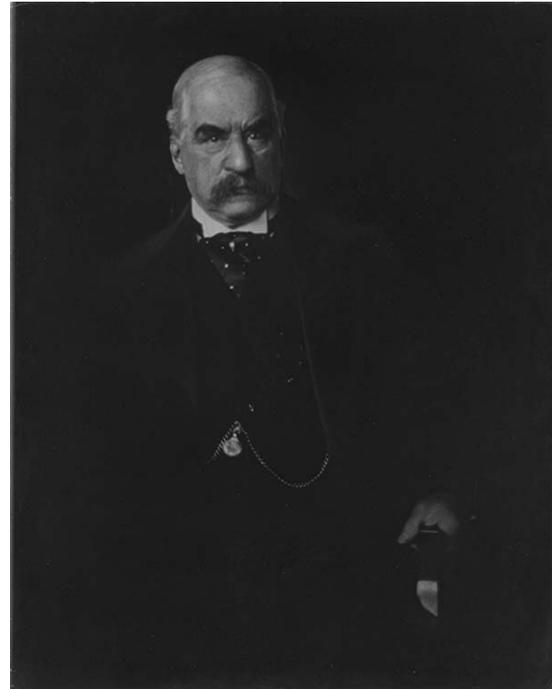
Pierpont's banking profession started in 1857 with a brief apprenticeship at *Duncan, Sherman & Co.*, a relatively new bank in New York City. 1857 proved to be a difficult year for banks. By September, the first worldwide economic "slump" began. Midwest farming states were the first to suffer, as decreased European demand for American agricultural products depressed prices, leading to loan

defaults. Panic ensued when the *Ohio Life Insurance and Trust Company* failed, resulting in a tightening of bank credit.

The apprenticeship with *Duncan, Sherman & Co.* was brief. Pierpont felt stifled by the logy corporate culture at *Duncan, Sherman & Co.*, which was exacerbated by the economic downturn. Morgan believed that calculated risk, with due diligence, was warranted even in difficult times. In fact, he believed that the best opportunities surfaced during economic downturns, and that overheated economies presented the greatest risks.

Morgan was right, of course, but *Duncan, Sherman* partners could not let an ambitious apprentice alter their conservative style. In the words of Ron Chernow (*The House of Morgan*), Pierpont's "supreme confidence petrified the gray men of *Duncan, Sherman.*"

As the economy improved, Pierpont grew more frustrated. Realizing that a partnership



Edward Steichen's famous photograph of J. Pierpont Morgan, taken the same year as Lipton's photo, opposite page. It is believed that Steichen intentionally provoked Morgan to arouse his legendary irascibility.

Note the sharp contrast between the image of the playful, twinkle-eyed Lipton and the stern stare of Morgan, which some likened to the headlight of a freight train thundering at full speed.

was not forthcoming at *Duncan, Sherman & Co.*, Pierpont joined forces with his cousin, James J. Goodwin, and founded *J.P. Morgan & Co.* at 54 Exchange Place. It was 1861, just at the onset of the Civil War. The next decade would be both challenging and formative for the *House of Morgan*.

In the first year of the Civil War, U.S. exports fell by nearly 50%. Southern cotton exports, mostly to the U.K., fell by over 80%. Some imports, such as British iron for railroad construction, essentially halted altogether. Peaking at about 200,000 tons annually around 1860, iron imports in 1862 dropped by 95%.

With the end of the Civil War came a flurry of new railroad construction, as well as industrial development, mining activity, and technological innovation. *J.P. Morgan & Co.* was involved in the largest and most complex financial transactions involving all of these endeavors.

Like his father, Pierpont was scrupulously honest. Although he was not directly involved with the unsavory deception and corruption that was rampant among many “tycoons” of the era, he was often falsely accused of complicity. Pierpont lived among the worst of what Chernow referred to as “Wall Street squalor,” which Pierpont found to be “alternately seductive and repellent.” Chernow elaborates:

Confronted by corruption, he saw himself as a proxy for honorable European and American investors, a tool of transcendent purposes representing the sound men on Wall Street and in the City. But what he saw as a moral crusade others might regard simply as competing self-interest. In his early years, at least, he wasn't always clearly distinguishable from the robber barons he was supposedly contesting.

Health issues plagued Pierpont throughout his life, and at times he needed to escape the pressures of the office. From his perspective, he proclaimed that he could accomplish twelve months of work in nine months, but could not do so in twelve. He needed his breaks to revive his health and his spirits.

In 1882, five years before Lipton's similar inspiration, J. Pierpont Morgan discovered his passion for the sea. Ross MacTaggart (*The Golden Century, Classic Motor Yachts 1830-1930*) explains:

Morgan vacillated between periods of intensive work and, because he faced periodic breakdowns, extensive travel. In 1882, after chartering the British Royal Squadron's *Pandora* for an extended Mediterranean cruise, Morgan observed that “there is no limit to the gymnastics which a ship may go thro' and still be entirely safe.” Upon his return he purchased the 185-foot *Corsair* from Charles J. Osborn (Jay Gould's private banker).

Thus began a lifelong interest in yachting, and the freedom that a private steam yacht provided. For Pierpont, *Corsair* was as useful for business as it was for pleasure, and many important business decisions were made onboard.

Pierpont became an active member of the NYYC, and his financial support and influence over the organization's decisions were substantial.

On August 6, 1898, J. Pierpont Morgan, commodore of the NYYC (1897-1899) and chairman of the *America's Cup* committee, read the formal challenge for *America's Cup* from the *Royal Ulster Yacht Club*. It was always assumed that any *Cup* challenge from Great Britain would come from the *RYS*, sponsored by a big name in “yachting circles,” but Morgan accepted the unusual challenge at face value.

While it was true that Lipton was a novice in the sport of yacht racing, he had done his homework. The highly regarded third generation Scottish yacht designer, William Fife III, would design Lipton's challenger. *John I. Thornycroft & Co.*, “pioneer in the development of high-speed vessels,” was chosen for the construction.

Thus began a quest that would last for more than three decades, while millions of cups of Lipton's tea were consumed daily.

Our series on *Reversals of Fortune in the Tea Industry* will continue in the next issue of the *Upton Tea Quarterly*.