Legal Studies Research Paper Series

Research Paper No. 10-30
August 2010

THE MATCH KING, CHAPTER 9: THE AUTHOR'S CUT

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2009 MICH. ST. L. REV. 1207

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INTRODUCTION

In 2007, Mae Kuykendall provocatively argued that narrative in corporate law faced not just dearth, but death.[1] She flayed the enterprise of business narrative, arguing that it was virtually non-existent, overly abstract, and, at its core, doomed. At first, I found her article truly depressing, not

* Substantial portions of Chapter 9 of THE MATCH KING are presented in this Article with permission of the author and publisher, and are not cited independently. *See* FRANK PARTNOY, THE MATCH KING: IVAR KREUGER, THE FINANCIAL GENIUS BEHIND A CENTURY OF WALL STREET SCANDALS 135-55 (2009).

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1. *See* Mae Kuykendall, *No Imagination: The Marginal Role of Narrative in Corporate Law*, 55 BUFF. L. REV. 537 (2007).

only because many of her arguments were persuasive, but because I had spent a large portion of the previous decade writing what I thought—or at least hoped—might become part of a long-standing scholarly strand of book-length business narrative.[2]

But the article, like any good story, works on many levels, and while it is a potentially devastating critique of modern business law scholarship, it also is a kind of open letter to business law scholars about the direction of our enterprise. The article argued that abstract models and empirical analysis have displaced narrative, and in many ways they have. Yet many important business questions simply cannot be addressed with logical or statistical rigor, and increasingly many business law scholars are gravitating to storytelling. Indeed, the number of business law books by academics with substantive narrative components has been increasing,[3] as have been anthologies of business law case narratives.[4]

In this Essay, I want to rebut some of the skepticism about the possibility of business narrative, not directly (by engaging the theory), but obliquely (by giving an example of the practice). I hope to illuminate a few aspects of the utility of business narrative by examining the telling of a prominent, though now largely forgotten, story from the 1920s and early 1930s. The lessons from this incident could not be remembered, or applied to parallel crises, by using theoretical models or statistical analyses. The only way to do it is by telling a story.

Specifically, I describe some of the concerns animating Chapter 9 of my recent book *The Match King: Ivar Kreuger, the Financial Genius Behind a Century of Wall Street Scandals*. That chapter—entitled "Weekend in Germany"—is the climax of the story, and it acts as the fulcrum of a new

2. *See generally* ALFRED D. CHANDLER, JR., THE VISIBLE HAND: THE MANAGERIAL REVOLUTION IN AMERICAN BUSINESS (1977); JOEL SELIGMAN, THE TRANSFORMATION OF WALL STREET: A HISTORY OF THE SECURITIES AND EXCHANGE COMMISSION AND MODERN CORPORATE FINANCE (1982); MARK J. ROE, STRONG MANAGERS, WEAK OWNERS: THE POLITICAL ROOTS OF AMERICAN CORPORATE FINANCE (1994); FRANK PARTNOY, INFECTIOUS GREED: HOW DECEIT AND RISK CORRUPTED THE FINANCIAL MARKETS (2003).

3. *See* JOHN C. COFFEE, JR., GATEKEEPERS: THE PROFESSIONS AND CORPORATE GOVERNANCE (2006); DAVID SKEEL, ICARUS IN THE BOARDROOM: THE FUNDAMENTAL FLAWS IN CORPORATE AMERICA AND WHERE THEY CAME FROM (2005); JONATHAN R. MACEY, CORPORATE GOVERNANCE: PROMISES KEPT, PROMISES BROKEN (2008); LAWRENCE E. MITCHELL, THE SPECULATION ECONOMY: HOW FINANCE TRIUMPHED OVER INDUSTRY (2007); STEVEN M. DAVIDOFF, GODS AT WAR: SHOTGUN TAKEOVERS, GOVERNMENT BY DEAL, AND THE PRIVATE EQUITY IMPLOSION (2009); RICHARD A. POSNER, A FAILURE OF CAPITALISM: THE CRISIS OF '08 AND THE DESCENT INTO DEPRESSION (2009); DAVID A. WESTBROOK, OUT OF CRISIS: RETHINKING OUR FINANCIAL MARKETS (2010).

4. Indeed, since Professor Kuykendall's article was published, several prominent collections of business law narratives have been published, including articles by dozens of leading business law scholars. *See* CORPORATE LAW STORIES (J. Mark Ramseyer ed., 2009); THE ICONIC CASES IN CORPORATE LAW (Jonathan R. Macey ed., 2008).

interpretation of and perspective on Kreuger's life and death. It takes place during October 1929: while the markets collapsed, Kreuger negotiated his capstone deal: a $75 million loan to the German government in exchange for a monopoly on the production and sale of matches there.

I. A NEW VIEW OF IVAR KREUGER'S DOWNFALL

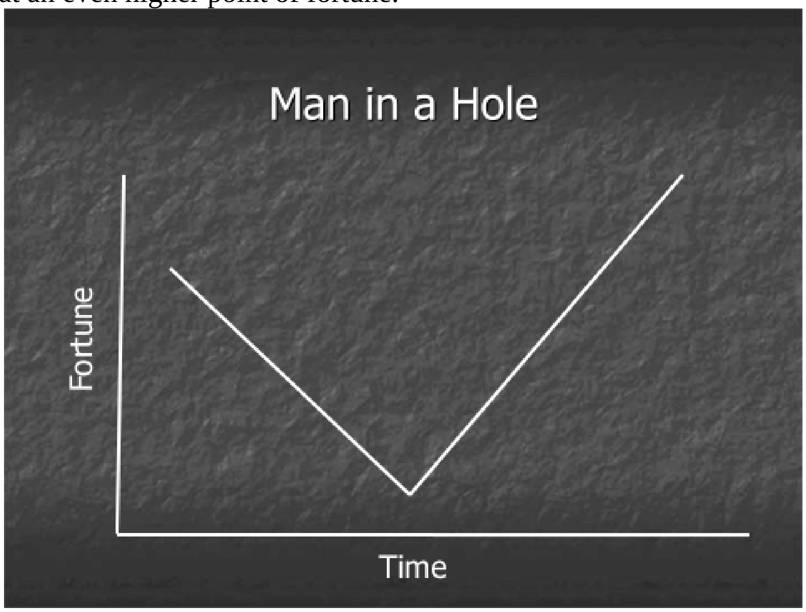
Historians generally have depicted Kreuger from one of two opposing views. At one pole, Kreuger is described as a crook, albeit an attractive one, who perpetrated one of the largest financial pyramid schemes in history. According to this account, the climax of the Kreuger narrative occurred during late 1931, when his lenders and bankers questioned whether there was adequate collateral for some of his loans, and he responded by forging Italian treasury bills. In this narrative, Kreuger's death was clearly suicide, the only escape.

At the other pole, Kreuger is described as a victim, or even a hero, who built one of the largest industrial conglomerates in history. According to this account, the climax of the Kreuger narrative occurred during early 1932, when someone—perhaps a henchman of Jack Morgan—decided that Kreuger could not be allowed to continue to prosper when most people, including leaders of Wall Street, had lost so much money. In this narrative, Kreuger's death was clearly murder, the only explanation for his sudden demise.

In my reinterpretation, the climax of the Kreuger narrative occurs much earlier, in October 1929, when the stock market crash ensured the demise of Kreuger's businesses and sealed his personal fate. If, in modern parlance, Kreuger's assets and liabilities would have been "marked to market," he would have been insolvent in October 1929; the only question was when his investors would have understood the magnitude of his losses, not whether he had incurred those losses. In this narrative, Kreuger's tragic end becomes inevitable more than two years before his reported death; the details of his death are secondary to the narrative and the cause of his death is less clear. (Ironically, there is a strong parallel to the recent crisis: the view that many financial institutions were arguably insolvent during 2007, more than a year before the collapse of Lehman Brothers, which is the event many commentators use to mark the beginning of the crisis.)

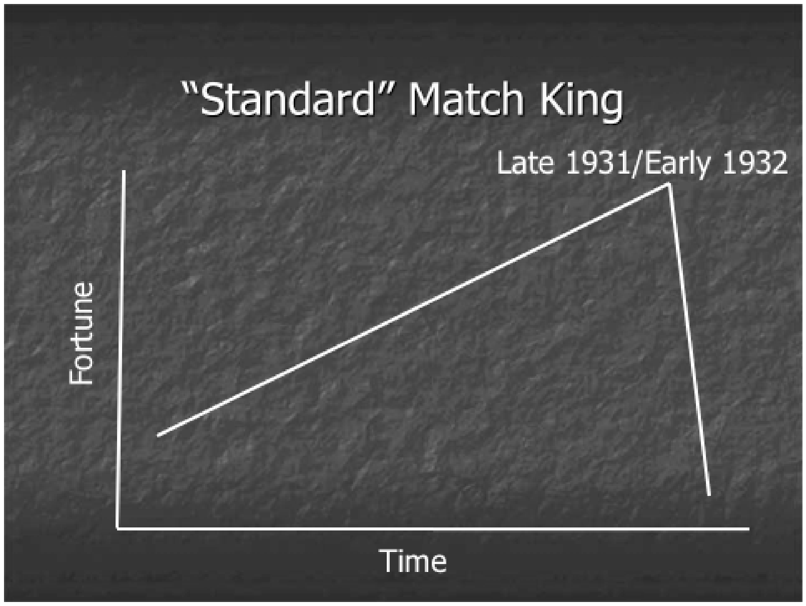
The simplest way to describe how the arc of this chapter differs from previous versions of Kreuger's story is with a picture. Kurt Vonnegut famously drew charts to describe the arc of classic narratives—man in a hole, Cinderella, and Hamlet—and, indeed, it was Vonnegut's lecture (which I saw as an undergraduate math major who hadn't written anything longer than an inductive proof) that first revealed to me some of the science—or at least potentially some of the logic—behind the art of storytelling.

Vonnegut's narrative model depicted the relationship between the passage of time and the fortune of the story's primary protagonist. For example, the following chart shows the "man in a hole story" common to modern narrative, particularly television dramas, in which the protagonist suffers some setback (falling in a hole) only to claw her way back, typically arriving at an even higher point of fortune.



Likewise, the chart of a Cinderella story starts low and moves high. The chart of Hamlet moves in a straight horizontal line across the bottom, as Hamlet's fortunes begin, continue, and end at a tragically low level. And so on.

According to the prevailing narrative view, the arc of Ivar Kreuger's life followed a path something like that depicted below.



Kreuger's family background was modest, as were his initial successes, first in Sweden and then throughout Europe. He gradually built a construction and real estate business into a sprawling financial empire. In 1922, he returned to America—where he previously had failed—with an intriguing pitch: he would raise money in the booming U.S. markets and lend those funds to the struggling governments of post-war Europe in exchange for national monopolies on the production and sale of matches. With the profits from the match business, plus the interest payments on the sovereign loans, he would be able to deliver double-digit returns to American investors. This pitch succeeded, and Kreuger began to amass global monopolies, first in Poland, then France, and throughout Europe.

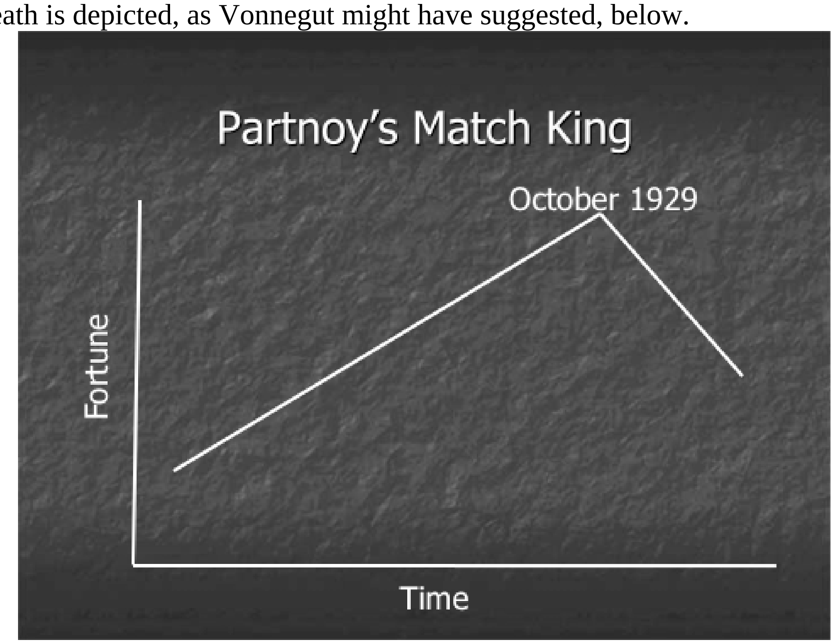
According to many reports, Kreuger's securities were the most widely held in the world. Even within the U.S. markets they were among the most widely held and actively traded issues. For example, there were $335,694,386 of foreign corporate issues floated in the United States in 1929; of that amount, $76,148,339 was issued by Kreuger and Toll, Kreuger's holding company.[5]

Although many scholars assume the 2000s were a period of unprecedented financial innovation, the 1920s also were an innovative time, perhaps even more so than in recent years relative to available technology. It is worth recalling that Professor Adolf A. Berle, Jr. wrote his major study of corporate finance innovation during the mid to late 1920s, when new forms

5. George A. Eddy, *Security Issues and Real Investment in 1929*, 19 THE REV. OF ECON. STAT. 79, 82 (1937).

of securities were proliferating, including non-voting stock, numerous kinds of participating preferred stock with dividends and conversion rights that varied over time, and a variety of convertible obligations.[6] Kreuger invented many of these instruments, including off-balance sheet financing, off-shore subsidiaries, unconsolidated special purpose entities, and numerous types of instruments that today would be labeled "derivatives." Most remarkably, Kreuger continued to raise money and increase profits, not only through the fall of 1929, but throughout 1930 and 1931, even as the world plunged into depression.

Whereas many versions of Kreuger's story built to a climax from 1929 through late 1931/early 1932, and even until March 12, 1932, when his body was discovered in his Paris flat with a bullet in the center of his heart, the climax of my narrative is in October 1929, with the U.S. financial markets on the precipice and Kreuger's loan-for-monopoly deal with Germany still unsigned. In my view, the future collapse of Kreuger's business empire became inevitable during one fateful weekend in Germany, just before Black Monday and Tuesday. As with many popular financial tales, the narrative arc turned down earlier than is popularly believed. The difference between my story and the generally accepted version of Kreuger's life and death is depicted, as Vonnegut might have suggested, below.



6. *See, e.g.*, ADOLF A. BERLE, JR., STUDIES IN THE LAW OF CORPORATION FINANCE 111-13, 131-36 (1928) (describing novel types of hybrid securities issued during the 1920s).

In the remaining portion of this Essay, I set forth and annotate the ten parts to the climactic section of this book's narrative. Part of my goal in the chapter was to set forth previously unappreciated evidence suggesting the importance of this particular weekend. But I also was simply trying to sustain a reader's interest in the narrative. Business narratives tend to disappear, in part because they are uninteresting to many readers.[7] How else could the story of Ivar Kreuger, with equally compelling components of art, architecture, film, politics, and murder/suicide mystery, disappear after a generation?

Accordingly, I hope that articulating the process behind the composition of this chapter can serve as an example of how one might expand the universe of business narrative, to cover stories that might seem inherently uninteresting—or even un-storylike—at first, but can be built into narrative by uncovering secondary facts that are parallel to the narrative, and by using those vignettes to give the story life and push it along.

II. An Example of Business Narrative, in Ten Parts

These are the ten segments of Chapter 9, listed along with the page numbers in the book:

1: Germany (135-36)
2: Ivar and Germany (136-39)
3: Comedy of Jack (139-40)
4: Pre-crash drama (140-43)
5: American Certificates (143-46)
6: Loan climax (146-47)
7: Comedy of Jack II (147-48)
8: Crash drama (148-50)
9: Public Ivar: floating above the fray (150-51)
10: Private Ivar: cracking in two (151-55)

Next, I go through each of these parts. I set forth the excerpts from the chapter, as well as the sources for the material. I introduce each section by describing some of my objectives, as well as the relevant source material. Most of this chapter is based on archival research, primarily from the Kreuger archives in Vadstena, Sweden, the Morgan Library in New York, and Princeton University's Seeley Mudd library, though there also are several secondary sources from the period, including *The New York Times* and

7. Consider the more modern narratives that already are disappearing from popular knowledge: Michael Milken, Ivar Boesky, and even the senior officers of Enron. In seven decades, will anyone remember Kenneth Lay or Jeffrey Skilling?

John Kenneth Galbraith's book, *The Great Crash*: *1929*. These sources are cited in the footnotes accompanying the chapter narrative.

1: Germany

The first section of the chapter sets forth some background regarding the economic and political tensions in Germany at the time. The details are uncontroversial and are here simply for background, and to sketch out some of the detailed challenges—inflation, crushing debt, the Morgans' dominance, Hitler—that surrounded Kreuger's attempts to negotiate a German deal.

As part of the Treaty of Versailles, the Allies had required that Germany pay billions of dollars of reparations from the first world war. But the fragile German economy couldn't handle the burden, and Germany defaulted in 1923. Because of hyperinflation, a dramatic increase in local prices, German currency was virtually worthless by then—a postage stamp had a face value of 50 *billion* marks. According to John Maynard Keynes, the world's leading economist, given the weak financial situation, it would have been impossible for Germany to make all of its reparations payments. The German Weimar Republic could not have printed enough money to meet even one day of interest.

The Dawes Plan, for which Charles G. Dawes, Coolidge's vice president, received the Nobel Peace Prize, was an attempt to ease Germany's burden. In October 1924, the Allies reduced Germany's annual obligations and extended an additional twenty-five year loan of almost $200 million at seven percent interest.[8] The initial payments were low, but stepped up rapidly. The central assumption of the Dawes Plan was that Germany would recover quickly enough to support increased payments.

Although the German economy improved somewhat, it soon became apparent that the tax revenues Dawes had assumed would materialize to cover the increased payments were not coming. Germany could not meet the stepped-up Dawes Plan payments any more than it could have met its previous obligations. By 1928, the Dawes Plan was in shambles.

In response, Owen D. Young, the founder of RCA, assembled a group of businessmen, including Jack Morgan. Jack Morgan was no fan of Germany, but he saw the need to participate in negotiations to reset the country's reparation payments. Small American lenders had been financing Germany's obligations under previous plans, and another German default could bankrupt them and precipitate a financial crisis. In August 1929, as

8. ULLA WIKANDER, KREUGER'S MATCH MONOPOLIES, 1925-1930: CASE STUDIES IN MARKET CONTROL THROUGH PUBLIC MONOPOLIES 167 (Julie Sundquist trans., 1979).

Kreuger was preparing for his first meeting with President Hoover, the group finalized the Young Plan, which reduced Germany's unconditional obligations to roughly $150 million per year, a fraction of the reparations payments that had been called for in the post-war treaty.

Still, Germany's economy remained weak in 1929. Adolph Hitler had become more than just a minor political figure in the fringe Nazi party, and his 1925 autobiography, *Mein Kampf*, which initially sold poorly, had suddenly hit a nerve of discontent among German nationalists. German officials had become desperate for funding and were no longer looking past the next year. Now, they were just trying to come up with the next $150 million payment, which would be due soon.

2: Ivar and Germany

The next section introduces Kreuger's relationship with the Germans, including an early lack of success (notwithstanding an attempted bribe). It also introduces two new tensions: (1) the objections of Kreuger's banker, Donald Durant, to any new issues in the American markets, and (2) the potential challenges from Jack Morgan, whose family had dominated the German loan business for decades. Fortunately for Kreuger's chances in Germany, Jack Morgan—a pale imitation of Pierpont—was not competing for German business at the time. He was dismissive of the Germans, calling them "second-rate people."

During the Young Plan negotiations, Ivar came to Germany to discuss a loan-for-monopoly solution. He had been lobbying German government officials for more than a decade, so they knew him well. Ivar already controlled seventy percent of German match output, and he also held interests in several German banks and three-quarters of the German ball-bearing industry. Many German steel plants depended on buying ore from mines Ivar controlled. He was an important figure in Germany, and held a strong negotiating position.[9]

Ivar's first stab at a match monopoly in Germany had failed several years earlier, even after he offered a substantial "side payment" to one official if a monopoly law were passed within a specified time.[10] More recently, though, the balance of negotiating power was shifting. Cheap imports from Russia, which had large timber reserves, had hurt the Germans. Competition among match producers was increasing, and prices were falling. Germany was running out of options.

9. *German Press Halts Match Monopoly*, N.Y. TIMES, Sept. 29, 1929, at 7.
10. WIKANDER, *supra* note 8, at 172.

Finally, as the Young Plan was materializing, the Germans indicated to Ivar that they might be interested in a deal. The Governor of the Reichsbank, Dr. Hjalmar Schacht, who had rebuffed Ivar's initial efforts five years earlier, said he needed a loan with a low interest rate. Specifically, he needed $150 million to make the first Young Plan payments. Most importantly, Dr. Schacht said he was open to Ivar's request to take over the German factories, sell matches at higher prices, and keep out Russian imports. Now was the time for Ivar to strike. If he really wanted a monopoly deal with Germany, this was his chance.

Unfortunately, the timing could not have been worse. Global stock markets had declined throughout September, and were continuing to fall in October. Although shares of Ivar's companies were holding firm, the declining market was dampening investors' appetite to buy new securities issues. Ivar's strategy required that he raise money from American investors and then lend that money to a government in exchange for a monopoly. By summer 1929, Ivar's outstanding securities already were massive; by comparison, they had a higher market value than the value of the entire loan portfolios of all of Sweden's banks.[11] But American investors were hurting, and his sources of funds were drying up. As stocks fell, it seemed less likely that Ivar would be able to raise the money he would need to fund a German loan.

Nevertheless, Ivar pressed forward. He negotiated with Dr. Schacht as if a new securities issue in America would be easy to sell. The markets had fallen before, and the declines were always temporary. Ivar wasn't about to let a few worries at the New York Stock Exchange stop him from closing a once-in-a-lifetime deal. The German loan would be historic. Ivar ignored the faltering markets and marched ahead.

News of negotiations between Ivar and Dr. Schacht was published prematurely in the German press in early October,[12] forcing the men to rush through an agreement in principle. It remained unclear whether either side ultimately would sign a fleshed-out contract. Yet because of media leaks on October 12, 1929, the world knew the basic terms of the deal the men were contemplating.

Ivar would lend the Reich $125 million at a six percent interest rate for fifty years. The German government would create a new company to run a match monopoly, which the Germans would control. The government and Ivar would split profits equally. The government would exclude Russian imports and fix the price of ten boxes of matches at eight-and-a-half cents, up from six cents.

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11. LARS-ERIK THUNHOLM, IVAR KREUGER: THE MATCH KING 115 (George Thiel trans., 1995).

12. *Match Monopoly Near in Germany*, N.Y. TIMES, Oct. 11, 1929, at 8.

The agreement still needed to be signed by the Finance Minister and it had to pass the Reichstag, where there was opposition from industrial groups that exported to Russia and feared reprisals.[13] Ivar wasn't sure he would sign it, either. He told an assistant that "a large loan to the German government would be a substantial burden on us, so that I do not think we should hesitate to break off negotiations unless we can obtain conditions which are clearly in our favour."[14] Ivar wanted to close the German deal, but he wasn't willing to do it at any cost.

Moreover, Ivar didn't have $125 million to lend. As with previous deals, he would need to raise that money from American investors. Donald Durant had been working on a new securities issue for Ivar—this time, a debenture issue from Kreuger & Toll. But Durant warned Ivar that the markets were slumping, and now was not the time to try to raise such a large amount of money. When Ivar suggested he planned to go ahead with the deal, either in New York or London, Durant warned him to be careful. Durant wrote on October 4 to discourage Ivar from attempting to raise any money:

> Our primary concern is the importance of maintaining the unique goodwill that you have among investors on both continents. A major financial operation, whether undertaken in America or Europe, would do serious damage to this goodwill. We hope that we and our friends will have the opportunity of discussing this with you in person, before you make a final decision to go ahead.[15]

Ivar dismissed Durant's concerns, and told Lee Higginson to press ahead. Durant should tell his sales force to inform the firm's clients that a new deal was coming, backed by a German match monopoly. Ivar may still have had doubts, but he didn't want to show his bankers any weakness.

Ivar clearly had impressed the Germans. During the negotiations, Ivar had spent an entire day answering detailed questions in Berlin without once consulting notes or statistics.[16] Dr. Schacht, the German central bank governor, had solicited other bankers, including Jack Morgan, who was in Europe for the summer. But Jack was less impressive.

Jack was less interested as well. He saw a German loan deal as too risky, and he put off Dr. Schacht while he warned his partners about negotiations with Germany:

> You will remember that our first and only German business was the Dawes Loan, and that was only undertaken at the request of all the allied Governments, our clients. This business is quite different, and the allied Governments are totally indifferent as to who does it, and it would obviously involve us eventually in competing for German business. For my part I should be very reluctant to abandon our

13. *Germans Hear Terms of Match Monopoly*, N.Y. TIMES, Oct. 13, 1929, at N11.
14. WIKANDER, *supra* note 8, at 190.
15. THUNHOLM, *supra* note 11, at 118.
16. GEORGE SOLOVEYTCHIK, THE FINANCIER: THE LIFE OF IVAR KREUGER 22 (1933).

> position, which we have held for five years, that all and any German business was open to anybody in America who wanted to do it, and that we were not interested in it at all. From what I see of the Germans they are second-rate people, and I would rather have their business done for them by somebody else.[17]

When Jack learned that the "somebody else" was going to be Ivar, the publicity seemed to change his mind. Jack dispatched his partner, Tom Lamont, to Berlin to discuss a loan with Dr. Schacht. Jack also wrote directly to Dr. Schacht that,

> Assuming a reasonably decent Bond market here and proper terms and prices upon the proposed issue we can see no reason why we should not be able to arrange a Syndicate for the issuance of $50,000,000 or $75,000,000 in this market of the proposed new German Government Reparations Bonds. This you understand is not in any sense a commitment. It is simply a guess prompted in part by our natural co-operative desires.[18]

On October 16 and 17, Jack and Ivar were both in London, but they were going in different directions. Ivar was moving on a fast track, preparing to go to Berlin to lobby the legislature to approve a deal with him right away. In contrast, Jack was noncommittal and seemed skeptical that the Germans would approve a deal with anyone, including Ivar.

3: Comedy of Jack

Although the Morgan Library archives are voluminous, and finding any reference to Ivar Kreuger would be about as likely as finding the proverbial needle in a million haystacks, I was fortunate enough to be able to target my search at a few sections of the archives and limit the search to just a few dates. Fortunately, there were a handful of cables from Jack Morgan illustrating his state of mind during the precise time when Kreuger was finalizing the German loan. The cables do not show Jack in the most favorable light. As Kreuger negotiated with the German finance ministers, Jack Morgan was fussing about the name of the America's Cup ship, the location of the door on his newest version of another yacht, the Corsair, and his election as Harvard alumni president.

While Ivar frantically cabled various German politicians to arrange meetings, Jack also replied to cables—of a very different kind. These were messages from Jack's son, Junius, who had just attended a luncheon of their

17. Cable from Jack Morgan to J. P. Morgan, Jr. (Aug. 30, 1929) (on file with The Morgan Library, J. P. Morgan, Jr. Papers, Cable Books 1931, ARC 1216, Box 38, Folder 38:30).

18. Cable from Jack Morgan to Schacht (Oct. 16, 1929) (on file with The Morgan Library, J. P. Morgan, Jr. Papers, ARC 1216, Box 37, Folder 37:27).

America's Cup syndicate in New York. Junius had sent word of two matters of apparently more significance to Jack Morgan than a German loan.

First, Junius had asked whether his father had any thoughts about what to name their new boat. The consensus among the America's Cup syndicate members seemed to be that *Aurora* was the best choice. But everyone wanted to be sure Jack was in accord. Did he have any wisdom on this pick, or any new recommendations?

The second matter concerned the plans for the newest version of *Corsair*, the ship Pierpont Morgan had built and rebuilt in sequential models, each larger and more opulent. Jack Morgan scrutinized the plans for the new *Corsair* design and cabled Junius on October 17 with an urgent question.

> Have been over CORSAIR furnishings, etcetera. All I think in good shape. One matter disturbs me a little – there is no way from my room to the deck, without going well forward. Would it be possible make door in place of the after window, of course with raised sill? Should greatly prefer this, if it can be done without causing too much delay . . . In regard to name for our ship, wrote you yesterday suggesting COLUMBIA or SPEEDWELL, but should be quite happy with AURORA, if that appeals to most of them. Father.[19]

Junius, apparently oblivious to Ivar's ongoing efforts to close the German loan, immediately cabled back, to the great relief of Jack:

> Porter tells me door can be arranged direct from your room to deck if you need it. Present arrangement provides for door from your room into vestibule on port side, which in turn opens direct on deck aft. No delay will be caused by this, as window can be converted into door at any stage in the construction.[20]

As the Morgans corresponded, Ivar quietly rushed to Berlin, obtained the preliminary agreement of Finance Minister Rudolf Hilferding, and then quickly returned to London. The cables sent during this time by Jack and his emissary, Tom Lamont, suggest that they were unaware that Ivar had achieved this coup, right under their noses. While Jack Morgan was ensuring that he would have a direct bedroom-to-deck path on his new yacht, Ivar had tiptoed into the deal of the century.

On Tuesday, October 22, as Ivar arrived back in London, Tom Lamont sent Jack a note of congratulations, but not on the German loan. There previously had been some question about whether Jack would renew his appointment as president of his alma mater's alumni society. Lamont cabled,

19. Cable from Jack Morgan to J. S. Morgan, Jr. (Junius) (Oct. 17, 1929) (on file with The Morgan Library, J. P. Morgan, Jr. Papers, Cable Books 1931, ARC 1216, Box 38A, Folder 38A:35.1).

20. Cable from J. S. Morgan, Jr. (Junius) to Jack Morgan (Oct. 17, 1929) (on file with The Morgan Library, J. P. Morgan, Jr. Papers, Cable Books 1931, ARC 1216, Box 38A, Folder 38A:35.1).

"Awfully glad you agreed to be President of Harvard Alumni this year. They are all enormously pleased."[21]

So was Jack, at least for a few days.

4: Pre-crash drama

The comedic aside of Jack Morgan does not last long, and the reader is quickly thrown back into the drama of the October 1929 markets. This period of crisis will be familiar to anyone who followed the 2008 financial crisis: the markets jerked downward in fits and starts and then simply collapsed. One element of the 1929 story that was not present in late 2008 was one man's defiance of the credit crunch. Ivar Kreuger, alone, refused to buckle under the market pressure and headed straight into the storm, increasing his new issues of securities even as the rest of the markets were seized with panic.

Stocks had been up almost $10 billion during the first eight months of 1929, but after the September reversal they were down overall for the year. During the first three weeks of October 1929, stocks continued to plunge. It was a terrible environment for raising money. Corporations were breaking deals, not issuing new securities. Lee Higginson was having an awful month, and Donald Durant was anxious to close Ivar's new securities issue, which would generate one of the handful of investment banking fees anyone would earn during the last quarter of 1929.

When the markets opened on Monday, October 21, so many investors decided to sell that by noon the New York Stock Exchange ticker was a full hour late. Shareholders had to wait until the evening, when the ticker finally caught up, to learn how much their stocks were down. More than six million shares were traded, the third highest volume ever. Even after the markets fell again on Tuesday and Wednesday, the experts insisted it was just a blip. National City's Charles Mitchell observed that "the decline had gone too far."[22] Yale's Irving Fisher described the soft markets as just a "shaking out of the lunatic fringe" and insisted that stocks would go higher.[23]

Throughout this time, Ivar appeared entirely without concern. Although he sensed the increasing panic, along with everyone else, he didn't want anyone in New York to see him falter, particularly given the market's decline. He knew markets reflected emotions and perception. In finance,

21. Cable from T. W. Lamont to Jack Morgan (London) (Oct. 22, 1929) (on file with The Morgan Library, J. P. Morgan, Jr. Papers, Cable Books 1931, ARC 1216, Box 38A, Folder 38A:35.1).

22. JOHN KENNETH GALBRAITH, THE GREAT CRASH: 1929 97 (1997).

23. *Id.*

there was no such thing as reality. There was only, as Pierpont Morgan had intimated, what traders thought of a man's character. If everyone saw Ivar as a shining beacon of confidence, his securities would maintain their value, even if the rest of the market crashed. He still could point to Marcosson's article. And in a few days, the *Time* cover with his photo would be out. He needed to keep up a show of confidence, to persuade American investors to buy the newest issue of Kreuger & Toll's securities.

Wednesday was the deadline for that issue, which was being called Kreuger & Toll "American Certificates." American investors had never seen an investment like this one. It was part bond, part preferred stock, and part profit-sharing option. The certificates enabled them to gain exposure to a foreign company that had been paying dividends of twenty-five percent. It would be backed by the largest loan to a foreign government in history. Even in a sharply declining market, investors went crazy for this kind of exposure. They promised to buy $28 million of the new securities backed by Kreuger & Toll.

There were two major business stories in *The New York Times* on the morning of October 24, 1929, the day that became known as Black Thursday on Wall Street. The smaller headline was "Warner Bros Deal with Paramount Off."[24] The much-anticipated merger between the two major movie studios, Warner Brothers Pictures, Inc. and Paramount Famous Lasky Corporation, would have created the largest entertainment company in the world. Now, the merger was dead. Bankers everywhere wondered if the seven-year rush of corporate deals during the 1920s might be coming to an end.

But the even bigger news was an announcement of the success of Kreuger & Toll's new issue of American Certificates, which miraculously had closed Wednesday in the midst of the growing panic. A half-page panel next to the Warner-Paramount story described the terms of the innovative deal, which Lee Higginson had arranged. Each American Certificate of Kreuger & Toll represented a share of the Swedish company's participating debentures. The Certificates would be denominated in U.S. dollars but would carry rights related to securities in Swedish kronor. Investors had bought the certificates, even though neither Ivar nor the German government had yet approved a monopoly deal. The media coverage of Ivar had been enough to spur them on.

Notwithstanding Ivar's success, when the markets opened on Thursday, the bottom fell out. Within hours, a record number of shares had traded. Panicked crowds gathered outside the Exchange as share prices collapsed. Rumors spread about brokers jumping from buildings downtown. The New York police commissioner sent a special detail to Wall

24. *Warner Bros. Deal with Paramount Off*, N.Y. TIMES, Oct. 24, 1929, at 44.

Street. Eleven well-known speculators killed themselves, and many more were bankrupted.[25]

Just after noon, the New York Stock Exchange closed the gallery, and officials escorted the visitors into the teeming crowds outside. The world's top bankers quickly convened at the offices of J.P. Morgan, down the street at 23 Wall. Jack Morgan was still in London, so Thomas W. Lamont, Jack's senior partner, presided. The bankers decided to pool resources and support the markets. As their buy orders flooded the floor of the Exchange, Lamont met with reporters and blamed "'a technical condition of the market.'"[26] Their support temporarily stopped the free fall, and the ticker, when it finally caught up, showed that stocks had recovered from their mid-day lows.

Both Jack Morgan and Ivar learned by transcontinental cable of the panic and wild price swings. An assistant reported to Jack that:

> At noon today the decline in the Stock Exchange, which for several days has been severe, turned into panic conditions. With no supporting orders whatsoever stocks began to drop many points at a time in a perfectly wild, illogical and uncontrolled manner. We decided to make a sort of faith cure demonstration by purchasing certain pivotal stocks on a scale down, thus attempting to steady the decline.[27]

The New York Stock Exchange announced it would close for the Friday and Saturday trading sessions, and reopen on Monday. The hope was that investors would be calmer then. Littorin cabled to Ivar that:

> As you know, the market has for several days shown symptoms of a threatening collapse, and the sales pressure has today reached hectic proportions. Several of the leading shares have fallen by 25–50%, while our shares have kept up reasonably well with a price drop of only 12% during last week in spite of very little support. Banking circles are very nervous, and there is no doubt, as I see it, that our issue comes at a very bad moment, as banks are being hit right and left. The enthusiasm (for our issue) that we had counted on, has been transformed into a feeling of great scepticism.[28]

Perhaps the most intense panic was from members of Lee Higginson's syndicate for the new Kreuger & Toll issue of American Certificates. That syndicate included nearly all of the major banks except Morgan: Brown Brothers, Clark Dodge, Dillon Read, Guaranty, National City, and Union Trust Company. Investors already were reneging on their promises to buy American Certificates. So many purchasers had backed out that more than one-fourth of the issue was now unsold. Now that investors were refusing to pay, these banks would be on the hook. They were stuck with $28 mil-

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25. GALBRAITH, *supra* note 22, at 98-101.
26. *Id.* at 101-02.
27. Cable from Denkstein to Jack Morgan (Oct. 24, 1929) (on file with The Morgan Library, J. P. Morgan, Jr. Personal Cable File, Morgan Bank European and Argentinean Records, Series 4, ARC 1221, Box 23, Folder 1).
28. THUNHOLM, *supra* note 11, at 122.

lion of American Certificates whose value already had fallen twelve percent, and might fall even more.

5: American Certificates

Historians have ignored the next segment of the narrative: the extraordinary timing of Kreuger's massive issue of American Certificates. Kreuger understood, based on his study of financial history, that finance was a "confidence game," for better and worse. Maintaining the confidence of investors during a time of crisis was critical; losing that confidence would be a self-fulfilling disaster. But Kreuger also saw the crisis as an opportunity: if he was willing to make an audacious, and risky, promise to guarantee the American Certificates against losses, his investors and bankers would believe that he uniquely had the ability to survive a downturn that was threatening nearly every other financial institution. He saw the chance to stand alone.

Ivar saw the next few days as a crucial turning point. Sentiment was turning, as investors fled from stocks. Opinion easily could turn against him as well. He had learned from dealing with Swedish bankers during the early 1920s that he must preserve the confidence of his supporters. Ivar's bankers had to believe in him, even if the markets were crashing. Even if they believed in nothing else. Ivar had to give Durant and his partners good reason to think Ivar was different.

On Friday, as he reflected on the reports of panic in the United States, Ivar spent several hours composing an extraordinary cable to send to Lee Higginson. He needed to say something to persuade the bankers that, although the American markets were collapsing, everything was just fine in Europe. Ivar would show them that his companies were as strong as ever. They might be worried about America, but they didn't need to worry about him.

This is what he wrote:

> I am very sorry that our issue seems to have come at a very unlucky moment. We are very anxious that the syndicate that has taken over . . . our debentures will not have reason to regret their action, and we are also anxious not to overload the American market with our paper. We have therefore arranged with a Swedish syndicate to offer to take over, on December 31, 1930, up to half the amount of such debentures as the American syndicate has acquired. This will be done at the acquisition cost to the American syndicate. We expect to receive notice no later than December 15, 1930, of the extent to which the American syndicate wishes to avail themselves of this offer.[29]

29. *Id.*

This was astonishing news. Ivar was saying he had arranged to guarantee half of the banks' exposure to the American Certificates. If the banks were unable to sell the certificates in one year, Ivar would buy them at cost. In other words, he was giving them the right to "put-back" the certificates to Ivar. And he was doing it for free.

Durant couldn't believe what he was reading. Ivar was bailing out not only him and his partners, but several other major American banks. The tone of Ivar's cable was almost casual, as if he couldn't be bothered with a trifle such as millions of dollars worth of unplaced American Certificates. After all, he was about to close the biggest privately organized government loan in history. What was a little panic in New York compared to his blockbuster deal with Germany?

Ivar's offer to give the banks this "put-back right" was designed to instill confidence in the bankers and investors, and to buy time. They did not need to rush to take any dramatic action, even if the markets continued to free fall. They could take a breath. Indeed, Ivar's bailout package gave them the ability to wait more than a year, until the end of 1930. Then, if any bank ultimately had been unable to sell its allotment of Kreuger & Toll Certificates, Ivar would make up the difference in his rescue package by letting the banks "put" the certificates back to Kreuger & Toll. After Durant read, and then reread, Ivar's cable, he eagerly established a book entry at Lee Higginson for the "Ivar Kreuger Current Account" to keep track of these "put-backs."[30]

Durant reported Ivar's extraordinary guarantee to members of the syndicate. He described the put-back right, "which we believe to be absolutely without precedent, which shows conclusively the breadth of the man."[31] Charles Mitchell, head of National City, told Ivar it was not necessary for him to exercise any "put-back" yet. Mitchell announced that the "industrial condition of the United States is absolutely sound" and that "nothing can arrest the upward movement."[32] Joseph R. Swan, president of The Guaranty Company of New York, heartily agreed. Swan's endorsement reflected the bankers' confidence in Ivar: "He certainly plays up handsomely and, also, I think, wisely."[33] Both National City and Guaranty agreed to hold onto one

30. Letter from Donald Durant to Mr. Quier (May 1, 1930) (on file with Princeton, Kreuger & Toll Archives, Mudd Library #078, Box 9, Exhibit 132).

31. Cable from Donald Durant to Joseph R. Swan (enclosing cable from Ivar Kreuger) (Oct. 25, 1929) (on file with Princeton, Kreuger & Toll Archives, Mudd Library #078, Box 9).

32. GALBRAITH, *supra* note 22, at 94.

33. Cable from Joseph R. Swan to Donald Durant (Oct. 25, 1929) (on file with Princeton, Kreuger & Toll Archives, Mudd Library #078, Box 9).

million American Certificates.[34] No need to put them back to Ivar, or to worry about any paper losses. They would sell them to investors when this panic subsided.

Donald Durant was relieved. Given Ivar's guarantee, it seemed that Lee Higginson would take no risk, the members of its syndicate would take no risk, and yet Durant and his firm would pocket a fee of nearly $1.4 million.[35] The entire banking syndicate earned a fee of 2.5 percent. Given losses from the declining markets and the dearth of deals, that million-dollar fee was indispensable.

Ivar remained cool throughout. He calmly sent Durant a one-sentence cable that was probably the greatest understatement of his life: "I regret very much that our issue seems to have gone at a very unfortunate moment."[36] The put-back right could cost Ivar his entire fortune. Essentially, he had given his bankers a put option—the right to sell him American Certificates—until the end of 1930 at a price of $28. For every dollar the price fell below $28, Ivar would lose a million dollars. That could amount to a lot more than "regret." For now, though, everyone seemed safe. As Kreuger & Toll's 1929 annual report later would state:

> The issue was announced on October 23, 1929. Although a stock market crisis of exceptional severity hit practically all of the world's financial centres immediate thereafter, it is satisfying to note that the whole issue was rapidly subscribed to, so that the underwriting syndicate did not have to absorb any part of the issue.[37]

6: Loan climax

For the climax of the story, I had to speculate, briefly, about what Kreuger was thinking as he considered whether—now that he had set up the confidence of the Americans—he actually should go through with the German deal. There are no contemporaneous records of his thinking, so the best I could do was to speculate based on the evidence. Nonetheless, each of the contingencies set forth is supported at least indirectly in fact, whether or not the thoughts actually ran through Kreuger's mind at the time.

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34. Cable from Donald Durant to Ivar Kreuger (Oct. 22, 1929) (on file with Princeton, Kreuger & Toll Archives, Mudd Library #078, Box 8, Folder: German 6% External Loan).

35. Cable from G. Bergenstrable to Lee Higginson & Co. (Nov. 18, 1929) (on file with Princeton, Kreuger & Toll Archives, Mudd Library #078, Box 8) (calculating total commissions to Lee Higginson of $1,383,802.87).

36. Cable from Ivar Kreuger to Donald Durant (Oct. 25, 1929) (on file with Princeton, Kreuger & Toll Archives, Mudd Library #078, Box 8, Folder: German 6% External Loan).

37. THUNHOLM, *supra* note 11, at 123.

Now that Ivar had agreed to guarantee the American Certificates, he faced an even more difficult question that weekend: should he actually sign the German deal? If he said no, he still could try to salvage his reputation. He could cite the recent market decline as a plausible excuse for him to pull out. And there were good business reasons for him to do so. Although the loan was clearly a good deal for Germany, it wasn't necessarily good for Ivar. Germany's government would lock in a low six-percent interest rate in an environment of rising rates. But Ivar could do better by lending his money elsewhere. Moreover, given the market collapse, and Ivar's "put-back" obligations, it would be much less risky for Ivar to keep the cash he had just raised in America, instead of sending it to Germany. If Ivar abandoned the German loan, he could use the money he had just raised for Kreuger & Toll as a cushion against further stock price declines. His businesses still were profitable and his companies were in a reasonably solid position, at least relative to everyone else. Saying no to Germany was the prudent course.

But if Ivar said yes, he could make history. He could leave a legacy even more permanent than the turrets at Kalmar Slott, the castle nearby his childhood home. Ivar Kreuger, a self-made Swede, would become the largest lender to foreign governments. Acting alone, he would replace the Dawes and Young Plans, which had been negotiated over years by several governments and dozens of officials. He would forever become known as a one-man financier to Europe. He, not Jack, would take over Pierpont Morgan's throne as global banker. And, if Germany's economy recovered, Ivar would earn huge profits from his match monopoly there.

Of course, he would be taking incredible risks, especially if the stock market collapse continued. It wasn't even clear that he could raise the entire $125 million to send to Germany; the money he raised by issuing American Certificates covered less than a quarter of that amount. And even if he did raise the money, the German loan would leave little room for error in his business overall. Ivar would receive interest of just six percent from Germany, but his dividend obligations would remain as high as twenty-five percent. Was Ivar confident he could earn enough profit to make up the difference? Was it worth the risk?

The crucial question for Ivar was this: what would the markets do when the New York Stock Exchange opened on Monday? If the markets recovered, he would be able to raise more money, fund the German loan, and continue to pay high dividends. But if the markets continued to crash . . . . Well, he couldn't even think about that. His best guess was that the markets would rise Monday.

On Saturday, Ivar met again with Finance Minister Hilferding in Berlin and finalized terms. As Ivar held the pen, about to sign the loan documents, he considered the two paths his life might follow as a result of his decision. This audacious deal might be the miracle that would reverse the darkening psychology of investors everywhere. Ivar imagined the buzz spreading about his extraordinary weekend feat. When the New York Stock Exchange opened on Monday, his securities would soar in value. The rising tide of optimism would make it possible for him to raise more cash and shift his personal loan obligation to American investors. Those investors would rescue him and buoy stocks overall. With any luck, by the close of trading Monday, the worst would be over.

That was one possibility Ivar could imagine. The alternative—that the crisis would continue, or even deepen—was unthinkable. He couldn't bear to consider what would happen if the market freefall continued. Then, the German loan would plunge him into ignominy, not catapult him to fame.

Ivar decided not to spend the evening alone in his apartment at Pariser Platz, as he normally would on a Saturday night in Berlin. Instead, he walked to the Hotel Adlon nearby, and celebrated with a culinary binge at the restaurant there. In one meal, Ivar violated every dietary rule he had been obeying for more than a decade: he ate all of his favorite dishes at once, from caviar to rich bouillon to ice cream to chocolate soufflé. Back at his apartment, completely stuffed, he phoned Ingeborg Eberth, his neighbor at Villagatan in Stockholm, and asked her to play the piano for him, as she often did when he was home.[38] Ivar tried to savor the moment, and the brief peace. He had made the greatest gamble of his career.

7: Comedy of Jack II

To the best of my knowledge, no writer has referenced the Morgan Library cables from October 1929 that I cite in this section. Indeed, as with the documents noted above in Section 3, I would have missed them had I not decided to visit the library at the very end of this project, when I had a clear sense of the crucial dates from visiting the various Kreuger archives and had formed a thesis about the importance of this October weekend. Only then was it possible to juxtapose the Morgan cables and other cables from the Vadstena archives, and thereby illuminate the differences and tensions between Morgan and Kreuger.

Jack Morgan still didn't believe Ivar really would close a deal with Germany. He knew Ivar had been working with German officials for several years, but he never imagined that Ivar would do a deal on his own, or that Germany and Lee Higginson would agree to exclude Morgan from any participation. Morgan partnered with Dillon Read & Co., another bank, which also had been working on a loan arrangement with German officials. Jack had assumed that either there would be no loan at all or that there would be

38. ROBERT SHAPLEN, KREUGER: GENIUS AND SWINDLER 137 (1960).

a loan on favorable terms, which Morgan would participate in by taking a piece. Jack and his bankers assumed they had plenty of time given the recent turbulence in the markets.

When Ivar told Donald Durant he had secured a preliminary agreement with Germany, Durant and Lee Higginson refused to share the loan with anyone, including Morgan. Durant flatly rejected any joint arrangement with Dillon Read, even after Clarence Dillon offered to increase the size of the deal. Dillon proposed to do a $200 million issue together, with $125 million going to Ivar and $75 million going to Dillon Read.[39] But Germany didn't need $200 million. At least for now, $125 million was plenty, and all of that could come from Ivar.

Lee Higginson sent a "courtesy notice" to Morgan describing the terms of Ivar's deal with the German government.[40] There wasn't any new information, just the same details previously reported in the business papers, along with a note saying the parties had signed a deal. Jack didn't find that notice very courteous. When he learned that Ivar had closed the loan on his own, and that Morgan wouldn't be part of it, he was furious. He angrily cabled home, "Am just advised by telephone from Gilbert that Dr Schacht informs him that Dillon's proposal has been declined by German Government."[41] Parker Gilbert, one of Morgan's partners, said he was "fully alive to the dangers of the situation" and saw a need for secrecy.[42] Gilbert had called Jack by phone, instead of cabling, "so as to leave no record."[43]

In signing the German loan even as the markets were crashing, Ivar was kicking Jack Morgan when he was down. This wasn't the way proper bankers behaved, particularly when a German loan at a low rate of six percent was at risk of losing money. The loan would seriously harm Morgan's business, even if it ultimately hurt Ivar even more. Jack wrote to a colleague,

> I do not see that there is anything else that we can do. I do not want to take any special stand in regard to the way we are being treated, for I think Schacht has been honest in the matter, but that the politicians have been too much for him. It is a horrid mess, isn't it.[44]

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39. Cable from 29/2523 for Jack Morgan (sent at 10 a.m.) (Oct. 24, 1929) (on file with The Morgan Library, J. P. Morgan, Jr. Papers, ARC 1216, Box 37).

40. Cable from 29/5049 for J. P. Morgan (sent at 3:15 p.m.) (Oct. 24, 1929) (on file with The Morgan Library, J. P. Morgan, Jr. Papers, ARC 1216, Box 37, Cable Books, Folder 37:27).

41. Cable from Jack Morgan to 29/5056 (Oct. 25, 1929) (on file with The Morgan Library, J. P. Morgan, Jr. Papers, ARC 1216, Box 37, Cable Books, Folder 37:27).

42. Cable from Jack Morgan to 29/5058 (Oct. 26, 1929) (on file with The Morgan Library, J. P. Morgan, Jr. Papers, ARC 1216, Box 37, Cable Books, Folder 37:27).

43. *Id.*

44. Cable from Jack Morgan to N. Dean Jay (Oct. 24, 1929) (on file with The Morgan Library, J. P. Morgan, Jr. Papers, ARC 1216, Box 37, Cable Books, Folder 37:27).

On Saturday, as the monopoly agreement was being signed in Berlin, Jack was still in London, still accepting congratulations on the Harvard alumni post, most recently from his son, Junius. In Jack's life, the Harvard post really was a high priority. Jack responded to his son, "Thanks very much for your congratulations on my new honor, which is quite impressive. Very well and getting on comfortably, but find myself in the usual rush before sailing."[45]

Many ships were ready to sail that weekend. A crew was putting the finishing touches on Jack's new $3 million yacht, *Corsair III*, which was being readied in Bath, Maine. In Washington, the U.S. Secretary of Commerce was raising $100,000 of public funds for upkeep of the original *Corsair*, which Morgan had just given to the federal government.[46] Donald Durant, the master mariner, was considering a trip to Europe, though he could not sail right away. And Ivar had booked a cabin on *Majestic*, which would soon leave for New York.

8: Crash drama

The crash details are familiar, and I don't dwell on them. I use a few of Jack Morgan's cables to illustrate the unusual nature of Kreuger's apparently solid position. Smart bankers were struggling to understand how Kreuger could have orchestrated a massive German loan during an epic liquidity crisis. If they had known the truth, they would have understood that, in a tragic sense, the story of Ivar Kreuger had ended at this point. Once the markets fell so far and so abruptly, there was no chance for him to recover. Although many of Kreuger's businesses were legitimate, and continued to earn real profits, the collapse ensured that, during the next two years, he would spend most of his time struggling to maintain an illusion.

Ivar's greatest triumph was immediately followed by the most spectacular two-day decline in the history of financial markets. The stock market fell thirteen percent on Monday, and twelve percent on Tuesday. In two days, stocks lost a quarter of their value. This time, there would be no concerted buying effort from the banks. And this time, there would be no recovery.

October 28 and 29 came to be known as Black Monday and Black Tuesday. Twenty-six million shares traded. In forty-eight hours, a full year of gains was wiped out. Goldman Sachs fell from $60 to $35. White Sewing Machine Company fell from a summer high of $48 to $11. Blue Ridge,

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45. Cable from Jack Morgan (London) to Junius Morgan (Oct. 26, 1929) (on file with The Morgan Library, J. P. Morgan, Jr. Papers, Cable Books 1931, ARC 1216, Box 38A, Folder 38A:35.1).

46. GALBRAITH, *supra* note 22, at 94.

an investment company, opened on Tuesday at $10, but closed at $3. It was the most devastating time in the history of stock markets.[47]

By comparison, Ivar's companies were star performers, buoyed, at least at first, by the news of his deal with Germany. A few days earlier, Durant had worried when the price of International Match debentures declined to $33½, still in line with the original issue price. Now, like a single stone refusing to roll downhill, that was where the price remained. International Match's debentures hovered above $33, defying the pull of the market's black hole.

Few people, including Jack and Ivar, could predict just how much the markets and the economy would deteriorate. Before he sailed home, Jack cabled,

> So far as we know, there are no houses in serious difficulty. The banking group had supporting orders in at the opening today but after that the market pursued a natural and vigorous course. Buying came in from all quarters, including some excellent European buying. A public statement which John D. Rockefeller, Sr made today, after his people had talked with us, also helped to improve sentiment.[48]

Jack knew that Ivar's $125 million loan would help Germany stave off a financial crisis, pay down its deficit, and carry out promised reforms. The loan wouldn't help the American markets, though, and it already had angered senior Russian officials, who had opposed a deal and said Germany was favoring a foreign private investor at the expense of Russo-German trade relations. In an official communiqué, Russia's Trade Commissioner in Berlin charged the German government with a "hostile act."

Jack studied the terms of Ivar's German deal. As with all of Ivar's financial deals, this loan had some unique innovations. Ivar gave Germany the option to pay a floating interest rate if rates fell below six percent, as well as the right to repay the entire loan early. The loan, and the fifty-year match monopoly, were contingent on Germany's ratification of the Young Plan, which was scheduled to occur in a few months. If the Young Plan wasn't ratified, the deal was invalid. Most importantly, International Match and Swedish Match would pay just 93 cents for each dollar of loan obligation. As with the French loan, Ivar would make extra profit, in this case seven cents per dollar, if Germany prepaid the loan.[49]

Bankers everywhere focused on Ivar now, as they tried to figure out exactly how he was making enough money to support his massive dividend payments to investors. The hefty discount on the German loan wouldn't generate any cash to help Ivar meet obligations, and the Germans might not

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47. *Id.* at 109-12.

48. Cable from Jack Morgan to Denkstein (Oct. 30, 1929) (on file with The Morgan Library, J. P. Morgan, Jr. Personal Cable File, Morgan Bank European and Argentinean Records, Series 4, ARC 1221, Box 23, Folder 1).

49. *Reich Match Loan Brings $125,000,000*, N.Y. TIMES, Oct. 22, 1929, at 10.

repay any principal for decades. The match monopoly might produce profits, but the Germans would keep half.

In addition, Ivar was now obligated to send Germany $50 million by August 30, 1930, and $75 million more by May 29, 1931. The first $50 million would come from International Match; the remaining $75 million would be split between Swedish Match and Kreuger & Toll.[50] Did Ivar have that much money to send to Germany? It certainly didn't show up on the balance sheet of International Match. Given the recent market turmoil, it would be virtually impossible even for Ivar to raise that much cash. Jack wired an assistant that he was "much interested in Kreuger & Toll Company arrangement with German Government."[51] He wasn't alone.

9: Public Ivar: floating above the fray

This section relies on a few cables to show what the public, including people who believed they were Kreuger "insiders," believed about Kreuger's businesses. By leaving the dividend decision to his banker, Donald Durant, Kreuger bolstered his continuing solid reputation. He also continued to maintain his popular public persona, hobnobbing with film starlets, advising heads of state, and (on a few rare occasions) sitting for an interview with a prominent journalist.

Ivar was determined to preserve investors' faith in him, even as the markets crashed. He suggested to Durant that they encourage investors and support International Match's securities by increasing the promised dividend payments. Ivar left it to Durant to decide when to increase the dividend, and by how much. He felt that if Durant made the decision, Durant and Lee Higginson would feel more confident about International Match. On November 5, Ivar cabled Durant, "I feel that present conditions make it particularly desirable to increase the dividend now. Kindly therefore take such steps as are necessary to have the increased dividend declared at the moment you consider to be the right one."[52] Three weeks later, at Durant's instruction, International Match increased its annual dividend from $3.20 to $4 per share.[53]

50. SOLOVEYTCHIK, *supra* note 16, at 111-12.

51. Cable from J. P. Morgan to Denkstein (Oct. 31, 1929) (on file with The Morgan Library, J. P. Morgan, Jr. Personal Cable File, Morgan Bank European and Argentinean Records, Series 4, ARC 1221, Box 23, Folder 1).

52. Cable from Ivar Kreuger to Donald Durant (Nov. 5, 1929) (on file with STAB Centralarkiv, Kreuger I, KORRESPONDENS Dondurant II nov-dec 1929, dondurant 1930).

53. *Granesberg Back to 17%*, N.Y. TIMES, Nov. 30, 1929, at 35.

Ivar and Karin Bökman publicized the German deal by sending copies of the agreement to everyone Ivar knew.[54] Isaac Marcosson also helped, not only by chaperoning Ivar's first meeting with President Hoover, as he had promised, but by writing about how both the President and Ivar benefited from the interaction.[55] Ivar thanked Marcosson for the continuing good words. He wrote, "I find your article a brilliant piece of work and feel greatly flattered over the contents of same."[56]

November 1929 was full of surprises. Many investors were destroyed, but others prospered. It wasn't obvious that the stock market decline would have any real impact, and some commentators suggested it was merely a blip. According to The Harvard Economic Society, "[a] severe depression like that of 1920-21 is outside the range of probability. We are not facing protracted liquidation."[57] Bernard Baruch sent a cable to Winston Churchill on November 15 noting, "Financial storm definitely passed."[58]

Just seventeen days after the crash, *The Kiss* opened in New York. The movie, one of the last silent movies in an era of talkies, was not expected to do well. Yet *The Kiss* was a box office smash. Millions of Americans went to see Greta Garbo's "silent swan song," not to mention that kiss.[59] Garbo's popularity soared, and she became widely known as the "Woman of Mystery."[60]

Given the support of increased dividends and good publicity, the crash didn't immediately hurt Ivar's companies either. It took time for crashes to ripple through financial businesses, particularly when those businesses were complex. Although the prices of securities had collapsed, most of the actual losses based on those securities would not be disclosed for several months. Likewise, even after the October crash, Ivar's businesses sustained their value for several months. The persistently high value of Ivar's securities might not reflect economic reality. But it was taking many people, even expert commentators, a long time to learn the truth.

If Ivar could continue to raise enough money, he could meet his obligations and support his companies, perhaps for long enough to weather the aftermath of the crash. The problem was that the market for raising new funds was dry. Ivar could have decided to cut his dividends, instead of rais-

54. Letter from E.C. Oakley, Whinney, Murray, Baguley & Co., Chartered Accountants (Berlin) to Karin Bökman (Nov. 1, 1929) (on file with STAB Centralarkiv, Kreuger I, KORRESPONDENSE frk Bökman, Ar: Bokman).

55. Letter from Isaac F. Marcosson to Ivar Kreuger (Nov. 22, 1929) (on file with STAB arkiv, vol. E XXV g: 23).

56. Letter from Ivar Kreuger to Isaac F. Marcosson (Nov. 5, 1929) (on file with STAB arkiv, vol. E XXV g: 23).

57. *A Storm Unforeseen, Always About to Pass*, N.Y. TIMES, Oct. 12, 2008, at wk5.

58. *Id.*

59. BARRY PARIS, GARBO: A BIOGRAPHY 171 (1994).

60. *Id.* at 169.

ing them, so that he could afford to make payments for a longer period of time. However, such a decision would have forced him to swallow his pride, and it might have raised suspicions. Ivar preferred to do the opposite: increase dividends and gamble that he would be able to get enough money soon enough to pay them. Everything hinged on the continuing ability of Ivar's companies to pay high dividends.

The Young Plan was signed in Paris on January 29, 1930, and the German parliament passed the monopoly law the same day, confirming the validity of Ivar's loan, and his obligation to deliver $50 million in a few months.[61] Instead of backing down, Ivar continued to increase his companies' obligations. Ivar agreed to another deal with Poland in 1930, promising to lend that government $32 million to keep his monopoly there. The odds of Ivar raising enough cash to satisfy all of these obligations seemed slim.

10: Private Ivar: cracking in two

There is evidence that Kreuger suffered from some form of bipolar disorder, and several historians have concluded that he suffered a serious mental breakdown in late 1931. However, there also is evidence of both mania and depression much earlier, in late 1929 and 1930. Kreuger became both more reclusive and more outgoing, in alternating and increasingly focused states.

After the crash, Krister Littorin and Karin Bökman, the two people who were closest to Ivar and saw him the most, began noticing some disturbing changes in Ivar's personality. Increasingly, it seemed, the pressure to raise more money and meet his company's increasing obligations was splitting Ivar in two.

One version of Ivar spent more time alone, either locked in his Silence Room or behind the closed doors of hotel rooms throughout the world. Even when Karin Bökman traveled with Ivar, she might not see him for days. Ivar spent hours memorizing new financial data and economic statistics. He seemed determined to jam all of this information into his brain, presumably so he could impress the world's leaders with his command of the fragile markets.

But a different version of Ivar was suddenly more social than ever. He met periodically with President Hoover, and dined with the prime ministers of leading nations.[62] He addressed the Bond Club at its monthly lunch, where he impressed everyone by citing bond yields from memory. He deli-

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61. WIKANDER, *supra* note 8, at 209-10.

62. *The Presidency: Greeter*, TIME, May 26, 1930, at 13; SOLOVEYTCHIK, *supra* note 16, at 24.

vered major lectures, including a widely publicized address in Chicago advocating that "[w]hat the world hopes from the great creditor countries is no altruism, but only enlightened selfishness."[63]

Ivar continued to charm young women, even while traveling with Karin Bökman.[64] For example, when Ivar sailed *Majestic*, shortly after the October crash, he beguiled Katharine von Rosenberg with what she called a "charming vegetable dinner."[65] She found it memorable and offered to "reciprocate if we will ever be at the same time in the same city," perhaps at one of the hotels he recommended, the Meurice or the Crillon.[66]

However, if a social occasion did not suit Ivar's purposes, or he was not in the mood, he could be rude in response. He refused to attend the Queen of Sweden's funeral because he considered the place offered him in the procession inadequate in view of his international standing.[67] And when Miss Wilma Waite—who, like Katharine von Rosenberg, met Ivar on *Majestic*—asked not only if he would suggest a time and place for them to meet, but added a question about whether he "might be interested in purchase of ninety eight thousand acres pine land in Florida partly owned by our family," Ivar's response was brusque: "Regret not interested in pineland in Florida."[68]

Ivar seems to have understood what was happening to his mind, because he increasingly worried about spending time in person with the people who mattered most to his business, particularly Donald Durant and A.D. Berning. After a brief stay in New York, he left for Europe and avoided these two men for months. Instead, he maintained his relationships through periodic letters and cables. Throughout 1930, nearly all of his dealings with Durant and Berning, including major business decisions, were done in writing, not in person.

For example, instead of pressing Durant in person with his plan to increase Kreuger & Toll's dividend—just as they had increased the annual payments by International Match—Ivar merely reported in a letter "a strong feeling with our directors for increasing the Kreuger & Toll dividend to thirty percent."[69] Durant gave Ivar written authorization to sign for him on

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63. SOLOVEYTCHIK, *supra* note 16, at 23.

64. Letter from Svenska Tändsticks Aktiebolaget to the Consulate General of the United States (Apr. 14, 1930) (on file with STAB Centralarkiv, Kreuger I, KORRESPONDENSE frk Bökman, Ar: Bokman).

65. Letter from Katharine von Rosenberg to Ivar Kreuger (Dec. 12, 1929) (on file with STAB arkiv, vol. E XXV g: 23).

66. *Id.*

67. SOLOVEYTCHIK, *supra* note 16, at 25.

68. Letter from Ivar Kreuger to Wilma Waite (Dec. 21, 1929) (on file with STAB arkiv, vol. E XXV g: 23).

69. Cable from Ivar Kreuger to Donald Durant (Mar. 1, 1930) (on file with STAB Centralarkiv, Kreuger I, KORRESPONDENS Dondurant II nov-dec 1929, dondurant 1930).

behalf of Kreuger & Toll, but did so without any in-person discussion.[70] The closest Ivar came to a real personal touch with Durant was handwriting some of his letters. In one note, about the Peruvian monopoly, Ivar's handwriting was in a sprawling and flowery cursive, with large loops at the bottom of his y's and p's.[71]

In early 1930, Donald Durant reported that Ivar's "put-back" guarantee of the Kreuger & Toll American Certificates, one of Ivar's chanciest moves, seemed to be working. More investors had purchased the certificates, although the banks still held millions of dollars' worth. Durant reported to his fellow bankers that, "since October 24th, 1929, the day of the start of the panic, to date the number of holders of American Certificates has increased by 3,645, or in other words, an advance of over 20%."[72] That was good news to Ivar, but not good enough.

Ivar paid Berning even less attention than he gave Durant. When Berning sent Ivar queries about International Match's most recent financial statements, he received a letter indicating that Ivar was away and could not respond. When Berning requested details about the German loan, Ivar eventually responded that:

> I would not like you to give details of the item. I do not want the definite figure of our holdings in Germany to be known at present and I therefore suggest that you group our German holdings with our holdings in some other country and call them Sundry Investments.[73]

The fact that Ivar was rarely available created problems for both Durant and Berning, particularly when American investors pressed them for details about International Match. After several unsuccessful attempts to contact Ivar, they drafted a short memorandum to send to investors, essentially explaining that many of International Match's financial details couldn't be released for political reasons. In the draft, the two men wrote,

> A large part of the corporation's activities are carried on under special concessions or monopolies. In many cases, it is quite in order for such arrangements to be publicly known. In others, however, the political situation is such that it would be most detrimental to both the corporation's interest and also to that of the country involved if these relationships were known to exist. The corporation has therefore used the greatest care and bided the time when it will be proper and in order to announce publicly its position in various countries. It is for this reason that an itemized statement of the countries involved under the items of "ADVANCES FOR

70. Cable from Donald Durant to Ivar Kreuger (Apr. 5, 1930) (on file with STAB Centralarkiv, Kreuger I, KORRESPONDENS Dondurant II nov-dec 1929, dondurant 1930).

71. Letter from Ivar Kreuger to Donald Durant (Aug. 29, 1930) (on file with STAB Centralarkiv, Kreuger I, KORRESPONDENS Dondurant II nov-dec 1929, dondurant 1930).

72. Cable from Donald Durant to John D. Harrison, Guaranty Company of New York (Mar. 21, 1930) (on file with Princeton, Kreuger & Toll Archives, Mudd Library #078, Box 9).

73. Cable from Ivar Kreuger to A.D. Berning (Jan. 25, 1930) (on file with author).

> INVESTMENT IN MATCH CONCESSIONS" and "ADVANCES TO GOVERNMENTS" has never publicly been made. Its relationship with France, Poland, Hungary, Roumania and other countries, and more recently with Germany, has of course been published. There are other countries, however, where conditions do not permit the corporation at this time to disclose its relationship, but there is little doubt that these conditions will change in times as they have in other instances.[74]

Durant and Berning sent this draft to Ivar, but heard nothing for six weeks. When Ivar finally dictated a response to Karin Bökman, he was breezy, noting only that the memorandum was "excellent."[75] He wrote, "I expect to come to America during the month of March and hope then to have the pleasure of seeing you."[76] But when Berning arranged a meeting time in March, Ivar abruptly cancelled his travel plans.[77]

Investors might have wanted to see something more than a generic description of "Sundry Investments," but Ivar was unwilling to give anyone more than a half-page of detail about the sources of International Match's income. Ivar confirmed that there were roughly thirty companies consolidated with International Match, but wouldn't say more than that.[78]

The questions about how Ivar actually made so much money persisted when International Match reported "earnings" from 1929 of $21 million, and Swedish Match reported $15 million. Some of those "earnings" for one company were really just dividends paid by the other company. Those weren't real earnings; they were just movements of cash from one pocket to the other. Still, even excluding those payments, the total reported earnings of Ivar's two match companies was in the range of $30 million.[79]

Many bankers and investors questioned these numbers. Total world consumption of matches was about forty billion boxes. Ivar's factories produced roughly two-thirds of all matches, and the public paid an average price of perhaps one-half cent per box. Basic math suggested that Ivar's total annual revenue from match sales throughout the world would have been less than $150 million. How much profit could Ivar earn on that revenue? Profit margins on matches, even with a monopoly, were narrow. Raw materials were costly and there also were shipping expenses, taxes, duties, and sales costs. Could Ivar really earn $30 million from revenue of $150 million? That was a wide profit margin of twenty percent.

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74. Draft Memorandum of A.D. Berning (Dec. 23, 1929) (on file with author).

75. Letter from Ivar Kreuger to A.D. Berning (Feb. 1, 1930) (on file with author).

76. *Id.*

77. Telegram from A.D. Berning to Ivar Kreuger (Mar. 1, 1930) (on file with author).

78. Memorandum from A.D. Berning to J. I. Spens (June 7, 1930) (on file with author).

79. WILLIAM H. STONEMAN, THE LIFE AND DEATH OF IVAR KREUGER 73 (1932).

According to one banker who asked Ivar this question, Ivar readily admitted that only about half of his companies' profits were from the match business. The rest, Ivar said, was from speculation.[80] But even if Ivar was making large profits from speculation, so that his match companies actually had made $30 million, that amount still wouldn't be nearly enough. Ivar needed to come up with $50 million for the first installment due on the German loan in August. Unless one of his bets paid off quickly, he wouldn't be able to pay Germany. If Ivar breached that agreement, his reputation, and his businesses, would be destroyed.

He needed a rescue, and it came just in time.

CONCLUSION

I began this Essay by suggesting that I would focus on practice, not theory. I want to conclude by suggesting that a close examination of narrative practice and a close examination of narrative theory might arrive at similar destinations. Writers of good business narrative might just be doing the same thing narrative theorists are thinking. As J. David Vellman has argued, "[t]he question how storytelling conveys understanding is inseparable from the question what makes for a good story."[81]

In other words, one way to see how Chapter 9 of *The Match King* conveys understanding is to examine whether and why it is part of a good story. (I am not claiming it is, but merely that this question is the right one to ask.) Conversely, one way to see how and why the chapter fails to convey understanding is to examine its failures as a story. Aristotle famously noted that "[e]ven matters of chance seem most marvellous if there is an appearance of design."[82] The Aristotelian focus on causation is at the center of any theoretical discussion about the power of narrative. It is not merely that events are chronologically ordered or that they relate to a central topic; the storytelling power arises from the appearance that the events are connected by some overarching cause or set of causes.

Mae Kuykendall and others are skeptical about whether business law academia will, should, or can adopt narrative as an accepted scholarly method of illuminating knowledge of causation, on par with theoretical models or statistical analysis. But that skepticism won't stop people from writing business narrative, and without that writing many important questions will go unaddressed. As David Westbrook has noted, "the usual way to approach problematic events, for purposes of both analysis and explication, is

80. *Id.* at 74.

81. J. David Velleman, *Narrative Explanation*, 112 PHIL. REV. 1, 1 (2003).

82. ARISTOTLE: ON THE ART OF POETRY 45 (Ingram Bywater trans., Oxford Univ. Press 1938).

by telling a story."[83] This Essay confronts the skepticism about business narrative, not by directly engaging the critics, but by appealing to current and future practitioners, and hopefully by peeling away a few details about how business narrative might be done.

83. WESTBROOK, *supra* note 3, at xviii.