

Peter Chapman. Lehman Brothers, 1844-2008: The Last of the Imperious.
New York: Penguin Group, 2010, 275 pages.

Reviewed by *Richard B. Carter*, Dean's Professor of Finance, College of Business, Iowa State University.

Subject Areas: Finance; Economics

With an interest in history and finance I found Peter Chapman's treatment of the rise and fall of Lehman Brothers (LB) fascinating. Changes and growth in LB from its birth in 1850 to its death in 2008 are set against a backdrop of the evolution of the U.S. and the world. Besides the motivating element of these changes, another major insight Chapman provides is how the background of the individual founders and the many leaders throughout the years work to mold LB.

As LB rises to financial power, it is juxtaposed against a back ground of world and U.S. history. For example, the influence of the Civil War on LB's entrance into new markets and Herbert Lehman's confrontation with Joseph McCarthy while both were United States Senators in the 1950s. Campbell also explores an element of arrogance and competitiveness in the final leadership that appears to have influenced LBs demise.

Chapter 1 (*Alabama Fever*) introduces us to Henry Lehman who arrives in New York from Bavaria in September of 1844 - during a wave immigration that increased the U.S. population by over 35%. From there he headed to Alabama and to peddling farm and household goods. These were welcomed commodities as many living on farms and plantations were far from any store. By 1850 he had settled in Montgomery and opened a store with brothers Emanuel and Mayer where they traded goods and especially the mainstay of the old south: cotton. LB began.

In Chapter 2 (*It's All Over*) the Lehmans have established themselves as southern democrats, slave owners and large-scale cotton traders. With cotton reserves as collateral, they began a commercial banking business. By 1857 Emanuel opened an office in New York immersing himself in the cultural atmosphere. When the civil war broke out the brothers became blockade runners and sold Confederate bonds in Europe. With the end of the war LB became the fiscal agent for Alabama, managing its finances and raising capital. By the 1870s Mayer had moved to New York, the brothers had taken on partners and had evolved into wealthy commodity brokers. An interesting point that Chapman makes during the early chapters is how LB tends to weather economical and political storms quite well.

Chapter 3 (*Stuff of Dreams*) finds LB at the turn of the century with Phillip Lehman, Emanuel's son, at the helm. Under Phillip's guidance LB transformed from a commodities broker into an investment bank, taking such firms as Sears Robuck and United Cigar public. In Chapter 3, Chapman spends some time discussing the adventures of Herbert, Mayer's son, who left Goldman Sachs to enter politics, eventually becoming Governor of New York and a U.S. Senator.

Chapter 4 (*Flying*) introduces us to Bobbie Lehman a son of Phillip whose life included travel, art and a stint in World War I. He joined the firm in 1919 eventually becoming head of the firm. During this time the firm took on non-family partners and with their help increased their involvement in capital acquisition and began to specialize in certain industries like air travel and

motion pictures – instrumental in the merging of RCA, Keith and Orpheum, the studio known as RKO. They also began operations as an investment trust. Basically investors bought shares in the trust which then invested in other firms an entity. Chapman argues that these trusts, and some questionable practices, had a lot to do with the 1929 stock market crash (page 60).

Chapter 5 (*Crash*) There is little doubt what this chapter is about. As with the 2008 sub-prime debacle, Wall Street became persona non grata. Unlike earlier economic downturns, LB was among the biggest loser – primarily from its investment trusts. However, a stroke of luck, the inability to invest \$100 million in cash, saved them from an even bigger loss (Page 103). In 1933 they joined Joseph Kennedy in "... Wall Street's last legal share pool (Page 115)."

The pool purchased 500,000 shares of Libby-Owens-Ford driving the price up while other less knowledgeable investors followed suit. When the price rose sufficiently, the pool dumped its shares pocketing a profit of \$400 thousand.

Chapter 6 (*A Little News and a Little Noise*) with the advent of World War II, nine of the firm's partners joined the services – two giving their lives. As another current tie-in Chapman mentions Halliburton, a long-timer LB client. During WWII, Halliburton became a military contractor. After the war, LB continued their interest in motion pictures and in the 50s entered the music business with RCA. They were also part of a huge public issue of Ford Motor.

The title of Chapter 7 is *Aristocrat of the Aristocrats* a name often associated with Bobbie Lehman. Under his leadership, LB "... did solid business (Page 165). One area where they excelled was in the financing for oil companies as "... the great success story" with over \$1 billion of financing. Chapman explains that their fees were high (page 163). In the 60s they continued efforts to enter the computer business and expanded into Europe with an office in Paris. Setting the stage for the climax, Chapman explains that "deals were also getting bigger, put(ting) the partner's own wealth at greater risk (Page 171)."

Chapter 8 (*Traders*) After the death of Bobbie Lehman and a short-term successor, Pete Peterson, with foreign affairs experience with the Nixon administration, became CEO. The chapter describes LB at this point as a war between traders (who felt they were the real workhorses of the firm) and the bankers. Head of the traders was Lew Glucksman. For a short time he and Peterson would share the reins of the firm but Peterson soon left leaving leadership to Glucksman. Under Glucksman several partners left or were forced out taking a great deal of capital with them. As a result Lehman was soon looking for an outside partner – one with capital. In 1984 Glucksman sold LB to Sherson/American Express – and soon morphed into Shearson Lehman. According to one executive at the time, "... there is no Lehman anymore (page 200)."

Chapter 9 (*Call me Dick*) In the 1990s American Express decided to separate Shearson and LB – a strained relationship from the start. Dick Fuld, a long-time trader for LB would become LB President. The 1990s also saw LB forced to pay out millions of dollars due to questionable practices. LB also abandoned much of their commodities trading and to concentrate on mortgage related securities. The end of the decade also saw legislation removing market controls.

Chapter 10 (*Sad in Some Respects*) opens with the World Trade Center attacks on 9/11/2001. "Lehman Brothers was the worst affected of the main banks." (page 241) Fuld quickly moved operations to a hotel and "... put his staff on military footing." (page 244) On the surface it looked like LB was recovering and flourishing, winning banking awards. But it was heavily into sub-prime mortgages, mortgage backed securities and its debt was 32 times its capital. Then in

the summer of 2007 LB closed one its major sub-prime mortgage originators – a signal of the collapse of the mortgage market and “...the gravity of the mortgage crisis.” (page 263) Bear Stearns collapsed in March of 2008 but through government help was quickly merged with J.P. Morgan. When it looked like Lehman Brothers was next to fall, Paulson, then Treasury Secretary brought together leading banks “ ...to sort out the Lehman Brothers crisis.” (page 269) Whatever were the exact decisions made at the meeting, none of the banks made any decisive move to rescue LB and it soon filed for bankruptcy and its assets broken up and sold.

If you expect to find the inner workings of a financial empire ... how profits are made through elaborate mathematical formulas or financial engineering ... you will be disappointed. Providing a history of 158 years of a financial giant with all of the related historical background would be impossible in 275 pages. However, what we are given is an interesting story of a firm and the founding family that escaped – not by design - before it was too late. But even as briefly as we are led through the final days of LB, anyone reading the book from the beginning to end – witnessing the weathering of many an economic storm - must feel sad about how it all ended.