OTHER PEOPLE'S MONEY
AND HOW THE BANKERS USE IT

LOUIS D. BRANDEIS

WITH AN INTRODUCTION BY MELVIN I. UROFSKY

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INTRODUCTION

THERE ARE FEW INDICTMENTS OF THE AMERICAN BANKING SYSTEM AS searing as *Other People's Money ar How the Bankers Use It*, written by Louis D. Brandeis in 1913. Long considered one of the major muckraking exposés of the Progressive period, it still speaks powerfully to our own times. The book led to the establishment of stringent regulations on the banking system, rules that undergirded decad of prosperity and stability for both banks and the American economy after World War II. Weakening those rules led to the great banking meltdown of 2008, when once again the greed and recklessness that Brandeis had warned about triggered a major depression and cost hundreds of thousands of peop their jobs and homes.

Louis Dembitz Brandeis (1856–1941) is known to most people as one of the giants of American constitutional law who, as a justice on the U.S. Supreme Court from 1916 to 1939, played a key role developing the jurisprudence that is the foundation of the modern interpretation of the Constitution and the rights it guarantees. But before then, contemporaries hailed him as one of the nation's leading reformers, the "People's Attorney" who used his formidable legal talents in the public service. Amon Progressives he led the attack against monopolies and what he termed the "curse of bigness," chargin that the large banks, headed by J. P. Morgan, had created a money trust. In 1912 a congressional committee held extensive hearings that uncovered how those banks used their financial power to dominate American industry. Brandeis took these revelations and interpreted them in popular language, first in a series of articles in *Harper's Magazine*, and then in book form.

There are two ways to read *Other People's Money*. One is to focus on the financial ploys used by bankers to stifle competition and to control businesses who relied on the banks for credit. These devices included interlocking directorates, where the price of getting credit included seats for the bankers on corporate boards, and control of stock issues, with large profits derived from both the sale of securities and the money to finance those sales. The reader may be forgiven if he or she thinks tha the stratagems unveiled by Brandeis seem simple compared to the intricacies of securitized mortgage and credit swap deals, but the theme is the same—how bankers, using the money of their depositors, exploit their control over the money supply to secure great profits at the expense of a competitive market and of the political system.

The second way is to realize that for Brandeis and for most Americans of his generation, the marketplace carried not only economic but social and indeed moral implications. The book speaks to those—then and now—who believe that success in one's chosen field, whatever that field may be, ma lead to financial reward but more importantly it will be a validation of the person's character. Succes allows a person to provide for his or her family, perhaps purchase a house and educate one's children When the banks use their power to stifle competition, when they choke off credit to those seeking to establish new businesses, when they stack the deck to help only those companies in which they have vested interest, then it is not only the market but society that suffers as well. And if in their greed the overreach and help pull the economic system down, as they did in the 1920s and in the first decade of the ~~twenty-first century, then the loss of jobs, homes, and opportunities have enormous social an~~d political as well as economic repercussions.

The book, therefore, is about power and its abuses, and while the manner of those abuses has changed over the last century, the essential message that Brandeis preached remains the same. When there is great power in private hands, such as the concentration of capital in a handful of banks, those who control that power will use it to enrich themselves at the expense of the public good, and the results will not only adversely affect individuals, but could well have catastrophic effects on society, the economy, and on government itself.

Bankers and their spokesmen denigrated Brandeis for his alleged ignorance of how the financial system worked. He had, however, been a successful commercial lawyer in Boston for more than thirt years, and through his clients come to know and understand not only how the credit market operated, but *also how* the power brokers had. Reformers, and especially President Woodrow Wilson, took the warnings of *Other People's Money* seriously, and Wilson and his advisors relied on Brandeis' recommendations when they drew up the Federal Reserve Act of 1913. It was a beginning, and like many first efforts had its weaknesses, which bankers exploited in the Roaring Twenties. People forgo Brandeis' warnings and paid no attention as banks used their money to fuel stock speculation, making money both from the loans they made as well as commissions from stock transactions made through their brokerage units. The house of cards they created came crashing down in the fall of 1929, and in March 1933 state governments closed nearly every bank in the country as depositors waited in long lines to withdraw their money.

Brandeis agreed to a new edition of *Other People's Money* in the depths of the Great Depression, and Franklin D. Roosevelt, like Wilson before him, heeded the book's advice as the New Deal impose stricter regulations on the banking system and forced the separation of banking and stock brokerage operations.

In the years after the Second World War, American commercial banking operated under a system o rules which certainly did not prevent individual banks from making money—quite a bit of it—but which did prevent them from exploiting their financial power. In the 1960s and 1970s federal law forced banks to provide credit to women and minorities, allowing them to start businesses and participate in the nation's prosperity.

Starting in the 1980s, however, there were danger signs. A new financial device, the so-called "jun bond," seemed to offer large rewards at low risk, and many of the nation's savings banks, which operated under a different set of rules from commercial banks, over-invested in these worthless piece of paper. The federal government was forced to intervene in order to save depositors' money.

When Ronald Reagan started preaching that government regulation was throttling American enterprise, no voices were louder in his support than the commercial bankers. The regulations that went back more than five decades were too "restrictive," they "hamstrung" American banks that now had to compete in a world market against European and Japanese banks that had no such fetters on them. Congress responded by easing regulations, and before long banks were once again able to establish brokerage units. Stories again began circulating how analysts in these offices plugged stock of companies that just happened to be financed by their parent banks. New and intricate financial instruments such as derivatives that were free of traditional rules regarding transparency and information requirements began to trade, as did securitized mortgages and other devices that most investors knew nothing about.

The result was the great credit expansion of the George W. Bush years, with the administration working hard to do away with as many regulations as possible, while appointing men and women to the Federal Reserve Board and the Securities Exchange Commission who had no interest in reining in bank excesses. Alan Greenspan, the long-time chairman of the Federal Reserve Board presided over this ~~expansion, with only an occasional "tut, tut" at what he termed the "irrational exuberance" o~~f the market. The Fed made the credit expansion possible, keeping interest rates low and encouraging consumers to borrow to buy houses, cars, and the other accouterments of a modern and rich society. Greenspan later said he had not recognized the great role that the greed of the bankers had played in this era until the whole scheme collapsed in 2008, requiring massive governmental intervention to avert a total financial catastrophe. Had Greenspan read *Other People's Money,* he would not have bee surprised.

Over the years the book has been republished several times, and its reception has usually mirrored both the praise and the criticism it received in 1913. Critics charge Brandeis with ignorance and bias —ignorance of the complicated mechanism of banking and bias against business. His ideas were outmoded even in 1913, they claim, since the industrialization of the country that produced giant corporations such as U.S. Steel and International Harvester needed a banking system of proportional size, able to respond to both national and international needs. During periods of prosperity—or the seeming prosperity of the 1920s—critics called Brandeis' opposition to bigness old-fashioned and irrelevant. The great material benefits enjoyed by the American people derived from large corporations and the powerful banks that made the economy work. Down with all these regulations, they cried, and let the market do what it does best, create wealth for everyone.

Then when things went bad, as they did in 1929, or in the savings-bank fiasco of the 1980s, or in th financial meltdown of 2008, people would pay attention again. It is true that the devices have change that the markets have changed, and that the economy itself is now global in nature. Brandeis, howeve worried about power and its abuses. For that reason *Other People's Money* is once again required reading for those who deal with the systemic problems of the American banking system.

Following the $700 billion bailout enacted in the last months of the Bush regime, and the call for reform that marked the beginning of the Obama administration, commentators began putting forth analysis of what had happened. Some blamed the bankers and stock manipulators; others blamed the relaxation of regulation; and some blamed the system itself. Whether or not they cited Brandeis and his book—and many did—most of them agreed on the need for enacting and implementing stringent regulations to make sure that the excesses that led to 2008 would not be repeated.

But many of them also made a prediction based on the history of the last century. In periods of financial crisis, when the public sees the direct results of the abuse of bankers' powers, rules will be implemented addressing those abuses. Once the nation recovers, however, they forget the reasons those regulations were imposed in the first place. With prosperity comes a renewed faith in the market, and bankers are at the head of the pack calling for doing away with laws that restrict the free operation of the market. A free market, they predict, will provide ample credit to all and prosperity t many. Unfortunately, at least as the examples of our own recent history show, legislators are quick t respond to this call. Everyone is, as John McCain claimed, for deregulation.

Other People's Money is, or at least it should be, a warning against this mindset. Were Brandeis writing today, he would attack the modern instruments of predatory finance, but his basic message would be the same. The concentration of great financial power in private hands and unregulated to protect the public will always lead to abuse of that power, and the ones who will pay the price will b the public.

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Court and Campaign Finance Reform (2005). He is the co-editor of the *Brandeis Letters* and co-autho
of the standard textbook on constitutional history, *A March of Liberty*. His most recent book is a full-
scale biography *Louis D. Brandeis: A Life (2009)*.

PREFACE

WHILE LOUIS D. BRANDEIS' SERIES OF ARTICLES ON THE MONEY TRUST was running in *Harper's Weekly* many inquiries came about publication in more accessible permanent form. Even without such urgence through the mail, however, it would have been clear that these articles inevitably constituted book, since they embodied an analysis and a narrative by that mind which, on the great industrial movements of our era, is the most expert in the United States. The inquiries meant that the attentive public recognized that here was a contribution to history. Here was the clearest and most profound treatment ever published on that part of our business development which, as President Wilson and other wise men have said, has come to constitute the greatest of our problems. The story of our time the story of industry. No scholar of the future will be able to describe our era with authority unless he comprehends that expansion and concentration which followed the harnessing of steam and electricit the great uses of the change, and the great excesses. No historian of the future, in my opinion, will fi among our contemporary documents so masterful an analysis of why concentration went astray. I am but one among many who look upon Mr. Brandeis as having, in the field of economics, the most inventive and sound mind of our time. While his articles were running in *Harper's Weekly* I had amp opportunity to know how widespread was the belief among intelligent men that this brilliant diagnos of our money trust was the most important contribution to current thought in many years.

"Great" is one of the words that I do not use loosely, and I look upon Mr. Brandeis as a great man. In the composition of his intellect, one of the most important elements is his comprehension of figures. As one of the leading financiers of the country said to me, "Mr. Brandeis' greatness as a lawyer is part of his greatness as a mathematician." My views on this subject are sufficiently indicate in the following editorial in *Harper's Weekly*.

ARITHMETIC

About five years before the Metropolitan Traction Company of New York went into the hands of a receiver, Mr. Brandeis came down from Boston, and in a speech at Cooper Union prophesied that tha company must fail. Leading bankers in New York and Boston were heartily recommending the stock to their customers. Mr. Brandeis made his prophecy merely by analyzing the published figures. How did he win in the Pinchot-Glavis-Ballinger controversy? In various ways, no doubt; but perhaps the most critical step was when he calculated just how long it would take a fast worker to go through the Glavis-Ballinger record and make a judgment of it; whereupon he decided that Mr. Wickersham coul not have made his report at the time it was stated to have been made, and therefore it must have been predated.

Most of Mr. Brandeis' other contributions to current history have involved arithmetic. When he succeeded in preventing a raise in freight rates, it was through an exact analysis of cost. When he got

Savings Bank Insurance started in Massachusetts, it was by being able to figure what insurance ough
to cost. ~~When he made the best contract between a city and a public utility that exists in this~~ country,
definite grasp of the gas business was necessary—combined, of course, with the wisdom and originality that make a statesman. He could not have invented the preferential shop if that new idea had not been founded on a precise knowledge of the conditions in the garment trades. When he established before the United States Supreme Court the constitutionality of legislation affecting women only, he relied much less upon reason than upon the amount of knowledge displayed of what actually happens to women when they are overworked—which, while not arithmetic, is built on the same intellectual quality. Nearly two years before Mr. Mellen resigned from the New Haven Railroa Mr. Brandeis wrote to the present editor of this paper a private letter in which he said:

> *When the New Haven reduces its dividends and Mellen resigns, the "Decline of New Haven and Fa of Mellen" will make a dramatic story of human interest with a moral—or two—including the evils of private monopoly. Events cannot be long deferred, and possibly you may want to prepare for their coming.*
>
> *Anticipating the future a little, I suggest the following as an epitaph or obituary notice:*
>
> *Mellen was a masterful man, resourceful, courageous, broad of view. He fired the imagination o New England; but, being oblique of vision, merely distorted its judgment and silenced its conscience. For a while he trampled with impunity on laws human and divine; but, as he was obsessed with the delusion that two and two make five, he fell, at last, a victim to the relentless rul of humble arithmetic.*
>
> *"Remember, O Stranger, Arithmetic is the first of the sciences and the mother of safety."*

The exposure of the bad financial management of the New Haven railroad, more than any other on thing, led to the exposure and comprehension of the wasteful methods of big business all over the country and that exposure of the New Haven was the almost single-handed work of Mr. Brandeis. He is a person who fights against any odds while it is necessary to fight and stops fighting as soon as the fight is won. For a long time very respectable and honest leaders of finance said that his charges against the New Haven were unsound and inexcusable. He kept ahead. A year before the actual crash came, however, he ceased worrying, for he knew the work had been carried far enough to complete itself. When someone asked him to take part in some little controversy shortly before the collapse, h replied, "That fight does not need me any longer. Time and arithmetic will do the rest."

This grasp of the concrete is combined in Mr. Brandeis with an equally distinguished grasp of bearing and significance. His imagination is as notable as his understanding of business. In those accomplishments which have given him his place in American life, the two sides of his mind have worked together. The arrangement between the Gas Company and the City of Boston rests on one of the guiding principles of Mr. Brandeis' life, that no contract is good that is not advantageous to both parties to it. Behind his understanding of the methods of obtaining insurance and the proper cost of it to the laboring man lay a philosophy of the vast advantage to the fibre and energy of the community that would come from devising methods by which the laboring classes could make themselves comfortable through their whole lives and thus perhaps making unnecessary elaborate systems of sta help. The most important ideas put forth in the Armstrong Committee Report on insurance had been previously suggested by Mr. Brandeis, acting as counsel for the Equitable policy holders. Business a the more important statesmanship were intimately combined in the management of the Protocol in New York, which has done so much to improve conditions in the clothing industry. The welfare of th laborer and his relation to his employer seems to Mr. Brandeis, as it does to all the most competent thinkers today, to constitute the most important question we have to solve, and he won the case, coming up to the Supreme Court of the United States, from Oregon, establishing the constitutionality of ~~special protective legislation for women. In the Minimum Wage case, also from the State of~~ Oregon, which is about to be heard before the Supreme Court, he takes up what is really a logical sequence of the limitation of women's hours in certain industries, since it would be a futile performance to limit their hours and then allow their wages to be cut down in consequence. These industrial activities are in large part an expression of his deep and ever growing sympathy with the working people and understanding of them. Florence Kelley once said: "No man since Lincoln has understood the common people as Louis Brandeis does."

While the majority of Mr. Brandeis' great progressive achievements have been connected with the industrial system, some have been political in a more limited sense. I worked with him through the Ballinger-Pinchot controversy, and I never saw a grasp of detail more brilliantly combined with high constructive ethical and political thinking. After the man who knew most about the details of the Interior Department had been cross-examined by Mr. Brandeis he came and sat down by me and said "Mr. Hapgood, I have no respect for you. I do not think your motives in this agitation are good motives, but I want to say that you have a wonderful lawyer. He knows as much about the Interior Department today as I do." In that controversy, the power of the administration and of the ruling forces in the House and Senate were combined to protect Secretary Ballinger and prevent the truth from coming to light. Mr. Brandeis, in leading the fight or the conservation side, was constantly haunted by the idea that there was a mystery somewhere. The editorial printed above hints at how he solved the mystery, but it would require much more space to tell the other sides, the enthusiasm for conservation, the convincing arguments for higher standards in office, the connection of this conspiracy with the country's larger needs. Seldom is an audience at a hearing so moved as it was by Mr. Brandeis' final plea to the committee.

Possibly his work on railroads will turn out to be the most significant among the many things Mr. Brandeis has done. His arguments in 1910–11 before the Interstate Commerce Commission against th raising of rates, on the ground that the way for railroads to be more prosperous was to be more efficient, made efficiency a national idea. It is a cardinal point in his philosophy that the only real progress toward a higher national life will come through efficiency in all our activities. The seventy-eight questions addressed to the railroads by the Interstate Commerce Commission in December 191 embody what is probably the most comprehensive embodiment of his thought on the subject.

On nothing has he ever worked harder than on his diagnosis of the Money Trust, and when his life comes to be written (I hope many years hence) this will be ranked with his railroad work for its effec in accelerating industrial changes. It is indeed more than a coincidence that so many of the things he has been contending for have come to pass. It is seldom that one man puts one idea, not to say many ideas, effectively before the world, but it is no exaggeration to say that Mr. Brandeis is responsible fo the now widespread recognition of the inherent weakness of great size. He was the first person who s forth effectively the doctrine that there is a limit to the size of greatest efficiency, and the successful demonstration of that truth is a profound contribution to the subject of trusts. The demonstration is powerfully put in his testimony before the Senate Committee in 1911, and it is powerfully put in this volume. In destroying the delusion that efficiency was a common incident of size, he emphasized the possibility of efficiency through intensive development of the individual, thus connecting this principle with his whole study of efficiency, and pointing the way to industrial democracy.

Not less notable than the intellect and the constructive ability that have gone into Mr. Brandeis' work are the exceptional moral qualities. Any powerful and entirely sincere crusader must sacrifice much. Mr. Brandeis has sacrificed much in money, in agreeableness of social life, in effort, and he ha done it for principle and for human happiness. His power of intensive work, his sustained interest and will, and his courage have been necessary for leadership. No man could have done what he has done without being willing to devote his life to making his dreams come true.

~~Nor should anyone make the mistake, because the labors of Mr. Brandeis and others have rece~~ntly brought about changes, that the system which was being attacked has been undermined. The currency bill has been passed, and as these words are written, it looks as if a group of trust bills would be passed. But systems are not ended in a day. Of the truths which are embodied in the essays printed in this book, some are being carried out now, but it will be many, many years before the whole idea can be made effective; and there will, therefore, be many, many years during which active citizens will b struggling for those principles which are here so clearly, so eloquently, so conclusively set forth.

The articles reprinted here were all written before November 1913. *The Failure of Banker Management* appeared in *Harper's Weekly* August 16, 1913; the other articles, between November 22 1913, and January 17, 1914.

NORMAN HAPGOO
MARCH 191

✧ CHAPTER ONE ✧

OUR FINANCIAL OLIGARCHY

PRESIDENT WILSON, WHEN GOVERNOR, DECLARED IN 1911:

> The great monopoly in this country is the money monopoly. So long as that exists, our old variety and freedom and individual energy of development are out of the question. A great industrial natio is controlled by its system of credit. Our system of credit is concentrated. The growth of the nation therefore, and all our activities are in the hands of a few men, who, even if their actions be honest and intended for the public interest, are necessarily concentrated upon the great undertakings in which their own money is involved and who, necessarily, by every reason of their own limitations, chill and check and destroy genuine economic freedom. This is the greatest question of all; and to this, statesmen must address themselves with an earnest determination to serve the long future and the true liberties of men.

The Pujo Committee—appointed in 1912—found:

> Far more dangerous than all that has happened to us in the past in the way of elimination of competition in industry is the control of credit through the domination of these groups over our banks and industries.
>
> Whether under a different currency system the resources in our banks would be greater or less is comparatively immaterial if they continue to be controlled by a small group. . . .
>
> It is impossible that there should be competition with all the facilities for raising money or selling large issues of bonds in the hands of these few bankers and their partners and allies, who together dominate the financial policies of most of the existing systems. . . . The acts of this inner group, as here described, have nevertheless been more destructive of competition than anything accomplished by the trusts, for they strike at the very vitals of potential competition in every industry that is under their protection, a condition which if permitted to continue, will render impossible all attempts to restore normal competitive conditions in the industrial world. . . .
>
> If the arteries of credit now clogged well-nigh to choking by the obstructions created through th control of these groups are opened so that they may be permitted freely to play their important par in the financial system, competition in large enterprises will become possible and business can be conducted on its merits instead of being subject to the tribute and the good will of this handful of

self-constituted trustees of the national prosperity.

The promise of New Freedom was joyously proclaimed in 1913.

The facts which the Pujo Investigating Committee and its able Counsel, Mr. Samuel Untermyer, have laid before the country, show clearly the means by which a few men control the business of America. The report proposes measures which promise some relief. Additional remedies will be proposed. Congress will soon be called upon to act.

How shall the emancipation be wrought? On what lines shall we proceed? The facts, when fully understood, will teach us.

THE DOMINANT ELEMENT

The dominant element in our financial oligarchy is the investment banker. Associated banks, trust companies and life insurance companies are his tools. Controlled railroads, public service and industrial corporations are his subjects. Though properly but middlemen, these bankers bestride as masters America's business world, so that practically no large enterprise can be undertaken successfully without their participation or approval. These bankers are, of course, able men possessed of large fortunes; but the most potent factor in their control of business is not the possession of extraordinary ability or huge wealth. The key to their power is Combination—concentration intensive and comprehensive—advancing on three distinct lines:

First: There is the obvious consolidation of banks and trust companies; the less obvious affiliation—through stockholdings, voting trusts and interlocking directorates—of banking institutions which are not legally connected; and the joint transactions, gentlemen's agreements, and "banking ethics" which eliminate competition among the investment bankers.

Second: There is the consolidation of railroads into huge systems, the large combinations of public service corporations and the formation of industrial trusts, which, by making businesses so "big" that local, independent banking concerns cannot alone supply the necessary funds, has created dependenc upon the associated New York bankers.

But combination, however intensive, along these lines only, could not have produced the Money Trust—another and more potent factor of combination was added.

Third: Investment bankers, like J. P. Morgan & Co., dealers in bonds, stocks and notes, encroached upon the functions of the three other classes of corporations with which their business brought them into contact. They became the directing power in railroads, public service and industrial companies through which our great business operations are conducted—the makers of bonds and stocks. They became the directing power in the life insurance companies, and other corporate reservoirs of the people's savings—the buyers of bonds and stocks. They became the directing power also in banks and trust companies—the depositaries of the quick capital of the country—the life blood of business, with which they and others carried on their operations. Thus four distinct functions, each essential to business, and each exercised, originally, by a distinct set of men, became united in the investment banker. It is to this union of business functions that the existence of the Money Trust is mainly due.[1]

The development of our financial oligarchy followed, in this respect, lines with which the history of political despotism has familiarized us: usurpation, proceeding by gradual encroachment rather than by violent acts; subtle and often long-concealed concentration of distinct functions, which are beneficent when separately administered, and dangerous only when combined in the same persons. It was by processes such as these that Cæsar Augustus became master of Rome. The makers of our own Constitution had in mind like dangers to our political liberty when they provided so carefully for the separation of governmental powers.

The original function of the investment banker was that of dealer in bonds, stocks and notes; buying mainly at wholesale from corporations, municipalities, states and governments which need money, and selling to those seeking investments. The banker performs, in this respect, the function of a merchant; and the function is a very useful one. Large business enterprises are conducted generally b corporations. The permanent capital of corporations is represented by bonds and stocks. The bonds and stocks of the more important corporations are owned, in large part, by small investors, who do no participate in the management of the company. Corporations require the aid of a banker-middleman, for they lack generally the reputation and clientele essential to selling their own bonds and stocks direct to the investor. Investors in corporate securities, also, require the services of a banker-middleman. The number of securities upon the market is very large. Only a part of these securities is listed on the New York Stock Exchange; but its listings alone comprise about sixteen hundred different issues aggregating about $26,500,000,000, and each year new listings are made averaging about two hundred and thirty-three to an amount of $1,500,000,000. For a small investor to make an intelligent selection from these many corporate securities—indeed, to pass an intelligent judgment upon a single one—is ordinarily impossible. He lacks the ability, the facilities, the training and the time essential to a proper investigation. Unless his purchase is to be little better than a gamble, he needs the advice of an expert, who, combining special knowledge with judgment, has the facilities an incentive to make a thorough investigation. This dependence, both of corporations and of investors, upon the banker has grown in recent years, since women and others who do not participate in the management, have become the owners of so large a part of the stocks and bonds of our great corporations. Over half of the stockholders of the American Sugar Refining Company and nearly half of the stockholders of the Pennsylvania Railroad and of the New York, New Haven & Hartford Railroad are women.

Goodwill—the possession by a dealer of numerous and valuable regular customers—is always an important element in merchandising. But in the business of selling bonds and stocks, it is of exceptional value, for the very reason that the small investor relies so largely upon the banker's judgment. This confidential relation of the banker to customers and the knowledge of the customers' private affairs acquired incidentally—is often a determining factor in the marketing of securities. With the advent of Big Business such goodwill possessed by the older banking houses, preeminently P. Morgan & Co. and their Philadelphia House called Drexel & Co., by Lee, Higginson & Co. and Kidder, Peabody, & Co. of Boston, and by Kuhn, Loeb & Co. of New York, became of enhanced importance. The volume of new security issues was greatly increased by huge railroad consolidations the development of the holding companies, and particularly by the formation of industrial trusts. The rapidly accumulating savings of our people sought investment. The field of operations for the dealer in securities was thus much enlarged. And, as the securities were new and untried, the services of the investment banker were in great demand, and his powers and profits increased accordingly.

CONTROLLING THE SECURITY MAKERS

But this enlargement of their legitimate field of operations did not satisfy investment bankers. They were not content merely to deal in securities. They desired to manufacture them also. They became promoters, or allied themselves with promoters. Thus it was that J. P. Morgan & Company formed th Steel Trust, the Harvester Trust and the Shipping Trust. And, adding the duties of undertaker to those of midwife, the investment bankers became, in times of corporate disaster, members of security-holders' "Protective Committees"; then they participated as "Reorganization Managers" in the reincarnation of the unsuccessful corporations and ultimately became directors. It was in this way tha the Morgan associates acquired their hold upon the Southern Railway, the Northern Pacific, the ~~Reading, the Erie, the Père Marquette, the Chicago and Great Western, and the Cincinnati, Hamilton~~ & Dayton. Often they insured the continuance of such control by the device of the voting trust; but even where no voting trust was created, a secure hold was acquired upon reorganization. It was in thi way also that Kuhn, Loeb & Co. became potent in the Union Pacific and in the Baltimore & Ohio.

But the banker's participation in the management of corporations was not limited to cases of promotion or reorganization. An urgent or extensive need of new money was considered a sufficient reason for the banker's entering a board of directors. Often without even such excuse the investment banker has secured a place upon the Board of Directors, through his powerful influence or the contro of his customers' proxies. Such seems to have been the fatal entrance of Mr. Morgan into the management of the then prosperous New York, New Haven & Hartford Railroad, in 1892. When once a banker has entered the Board—whatever may have been the occasion—his grip proves tenacious an his influence usually supreme; for he controls the supply of new money.

The investment banker is naturally on the lookout for good bargains in bonds and stocks. Like othe merchants he wants to buy his merchandise cheap. But when he becomes director of a corporation, he occupies a position which prevents the transaction by which he acquires its corporate securities from being properly called a bargain. Can there be real bargaining where the same man is on both sides of trade? The investment banker, through his controlling influence on the Board of Directors, decides that the corporation shall issue and sell the securities, decides the price at which it shall sell them, an decides that it shall sell the securities to himself. The fact that there are other directors besides the banker on the Board does not, in practice, prevent this being the result. The banker, who holds the purse strings, becomes usually the dominant spirit. Through voting-trusteeships, exclusive financial agencies, membership on executive or finance committees, or by mere directorships, J. P. Morgan & Co., and their associates, held such financial power in at least thirty-two transportation systems, public utility corporations and industrial companies—companies with an aggregate capitalization of $17,273,000,000. Mainly for corporations so controlled, J. P. Morgan & Co. procured the public marketing in ten years of security issues aggregating $1,950,000,000. This huge sum does not include any issues marketed privately, nor any issues, however marketed, of intra-state corporations. Kuhn, Loeb & Co. and a few other investment bankers exercise similar control over many other corporation

CONTROLLING SECURITY BUYERS

Such control of railroads, public service and industrial corporations assures to the investment banker an ample supply of securities at attractive prices; and merchandise well bought is half sold. But these bond and stock merchants are not disposed to take even a slight risk as to their ability to market their goods. They saw that if they could control the security-buyers, as well as the security-makers, investment banking would, indeed, be "a happy hunting ground"; and they have made it so.

The numerous small investors cannot, in the strict sense, be controlled; but their dependence upon the banker insures their being duly influenced. A large part, however, of all bonds issued and of many stocks are bought by the prominent corporate investors; and most prominent among these are the life insurance companies, the trust companies, and the banks. The purchase of a security by these institutions not only relieves the banker of the merchandise, but recommends it strongly to the small investor, who believes that these institutions are wisely managed. These controlled corporate investo are not only large customers, but may be particularly accommodating ones. Individual investors are moody. They buy only when they want to do so. They are sometimes inconveniently reluctant. Corporate investors, if controlled, may be made to buy when the bankers need a market. It was natura that the investment bankers proceeded to get control of the great life insurance companies, as well as of the trust companies and the banks.

~~The field thus occupied is uncommonly rich. The life insurance companies are our leading~~ institutions for savings. Their huge surplus and reserves, augmented daily, are always clamoring for investment. No panic or money shortage stops the inflow of new money from the perennial stream o premiums on existing policies and interest on existing investments. The three great companies—the New York Life, the Mutual of New York, and the Equitable—would have over $55,000,000 of *new* money to invest annually, even if they did not issue a single new policy. In 1904—just before the Armstrong investigation—these three companies had together $1,247,331,738.18 of assets. They had issued in that year $1,025,671,126 of new policies. The New York legislature placed in 1906 certain restrictions upon their growth; so that their new business since has averaged $547,384,212, or only fifty-three percent of what it was in 1904. But the aggregate assets of these companies increased in th last eight years to $1,817,052,260.36. At the time of the Armstrong investigation the average age of these three companies was fifty-six years. *The growth of assets in the last eight years was about half as large as the total growth in the preceding fifty-six years*. These three companies must invest annually about $70,000,000 of new money: and besides, many old investments expire or are changed and the proceeds must be reinvested. A large part of all life insurance surplus and reserves are invested in bonds. The aggregate bond investments of these three companies on January 1, 1913, was $1,019,153,268.93.

It was natural that the investment bankers should seek to control these never-failing reservoirs of capital. George W. Perkins was vice-president of the New York Life, the largest of the companies. While remaining such he was made a partner in J. P. Morgan & Co., and in the four years preceding the Armstrong investigation, his firm sold the New York Life $38,804,918.51 in securities. The New York Life is a mutual company, supposed to be controlled by its policy holders. But as the Pujo Committee finds "the so-called control of life insurance companies by policy-holders through mutualization is a farce" and "its only result is to keep in office a self-constituted, self-perpetuating management."

The Equitable Life Assurance Society is a stock company and is controlled by $100,000 of stock. The dividend on this stock is limited by law to seven percent; but in 1910 Mr. Morgan paid about $3,000,000 for $51,000, par value of this stock, or $5,882.35 a share. The dividend return on the stoc investment is less than one-eighth of one percent; but the assets controlled amount now to over $500,000,000. And certain of these assets had an especial value for investment bankers; namely, the large holdings of stock in banks and trust companies.

The Armstrong investigation disclosed the extent of financial power exerted through the insurance company holdings of bank and trust company stock. The Committee recommended legislation compelling the insurance companies to dispose of the stock within five years. A law to that effect wa enacted, but the time was later extended. The companies then disposed of a part of their bank and tru company stocks; but, as the insurance companies were controlled by the investment bankers, these gentlemen sold the bank and trust company stocks to themselves.

Referring to such purchases from the Mutual Life, as well as from the Equitable, the Pujo Committee found:

> Here, then, were stocks of five important trust companies and one of our largest national banks in New York City that had been held by these two life insurance companies. Within five years all of these stocks, so far as distributed by the insurance companies, have found their way into the hands of the men who virtually controlled or were identified with the management of the insurance companies or of their close allies and associates, to that extent thus further entrenching them.

The banks and trust companies are depositaries, in the main, not of the people's savings, but of the businessman's quick capital. Yet, since the investment banker acquired control of banks and trust companies, these institutions also have become, like the life companies, large purchasers of bonds an stocks. Many of our national banks have invested in this manner a large part of all their resources, including capital, surplus and deposits. The bond investments of some banks exceed by far the aggregate of their capital and surplus, and nearly equal their loanable deposits.

CONTROLLING OTHER PEOPLE'S QUICK CAPITAL

The goose that lays golden eggs has been considered a most valuable possession. But even more profitable is the privilege of taking the golden eggs laid by somebody else's goose. The investment bankers and their associates now enjoy that privilege. They control the people through the people's own money. If the bankers' power were commensurate only with their wealth, they would have relatively little influence on American business. Vast fortunes like those of the Astors are no doubt regrettable. They are inconsistent with democracy. They are unsocial. And they seem peculiarly unju when they represent largely unearned increment. But the wealth of the Astors does not endanger political or industrial liberty. It is insignificant in amount as compared with the aggregate wealth of America, or even of New York City. It lacks significance largely because its owners have only the income from their own wealth. The Astor wealth is static. The wealth of the Morgan associates is dynamic. The power and the growth of power of our financial oligarchs comes from wielding the savings and quick capital of others. In two of the three great life insurance companies the influence o J. P. Morgan & Co. and their associates is exerted without any individual investment by them whatsoever. Even in the Equitable, where Mr. Morgan bought an actual majority of all the outstandin stock, his investment amounts to little more than one-half of one percent of the assets of the compan The fetters which bind the people are forged from the people's own gold.

But the reservoir of other people's money, from which the investment bankers now draw their greatest power, is not the life insurance companies, but the banks and the trust companies. Bank deposits represent the really quick capital of the nation. They are the life blood of businesses. Their effective force is much greater than that of an equal amount of wealth permanently invested. The thirty-four banks and trust companies, which the Pujo Committee declared to be directly controlled b the Morgan associates, held $1,983,000,000 in deposits. Control of these institutions means the abilit to lend a large part of these funds, directly and indirectly, to themselves; and what is often even mor important, the power to prevent the funds being lent to any rival interests. These huge deposits can, i the discretion of those in control, be used to meet the temporary needs of their subject corporations. When bonds and stocks are issued to finance permanently these corporations, the bank deposits can, i large part, be loaned by the investment bankers in control to themselves and their associates; so that securities bought may be carried by them, until sold to investors. Or these bank deposits may be loaned to allied bankers, or jobbers in securities, or to speculators, to enable them to carry the bonds or stocks. Easy money tends to make securities rise in the market. Tight money nearly always makes them fall. The control by the leading investment bankers over the banks and trust companies is so great, that they can often determine, for a time, the market for money by lending or refusing to lend c the Stock Exchange. In this way, among others, they have power to affect the general trend of prices bonds and stocks. Their power over a particular security is even greater. Its sale on the market may depend upon whether the security is favored or discriminated against when offered to the banks and trust companies, as collateral for loans.

Furthermore, it is the investment banker's access to other people's money in controlled banks and trust companies which alone enables any individual banking concern to take so large part of the annu output of bonds and stocks. The banker's own capital, however large, would soon be exhausted. And even ~~the loanable funds of the banks would often be exhausted, but for the large deposits made~~ in those banks by the life insurance, railroad, public service, and industrial corporations which the bankers also control. On December 31, 1912, the three leading life insurance companies had deposits in banks and trust companies aggregating $13,839,189.08. As the Pujo Committee finds:

> The men who through their control over the funds of our railroads and industrial companies are ab to direct where such funds shall be kept and thus to create these great reservoirs of the people's money, are the ones who are in position to tap those reservoirs for the ventures in which they are interested and to prevent their being tapped for purposes of which they do not approve. The latter i quite as important a factor as the former. It is the controlling consideration in its effect on competition in the railroad and industrial world.

HAVING YOUR CAKE AND EATING IT TOO

But the power of the investment banker over other people's money is often more direct and effective than that exerted through controlled banks and trust companies. J. P. Morgan & Co. achieve the supposedly impossible feat of having their cake and eating it too. They buy the bonds and stocks of controlled railroads and industrial concerns, and pay the purchase price; and still do not part with the money. This is accomplished by the simple device of becoming the bank of deposit of the controlled corporations, instead of having the company deposit in some merely controlled bank in whose operation others have at least some share. When J. P. Morgan & Co. buy an issue of securities the purchase money, instead of being paid over to the corporation, is retained by the banker for the corporation, to be drawn upon only as the funds are needed by the corporation. And as the securities are issued in large blocks, and the money raised is often not all spent until long thereafter, the aggregate of the balances remaining in the bankers' hands are huge. Thus J. P. Morgan & Co. (including their Philadelphia house, called Drexel & Co.) held on November 1, 1912, deposits aggregating $162,491,819.65.

POWER AND PELF

The operations of so comprehensive a system of concentration necessarily developed in the bankers overweening power. And the bankers' power grows by what it feeds on. Power begets wealth; and added wealth opens ever new opportunities for the acquisition of wealth and power. The operations o these bankers are so vast and numerous that even a very reasonable compensation for the service performed by the bankers, would, in the aggregate, produce for them incomes so large as to result in huge accumulations of capital. But the compensation taken by the bankers as commissions or profits is often far from reasonable. Occupying, as they so frequently do, the inconsistent position of being a the same time seller and buyer, the standard for so-called compensation actually applied, is not the "Rule of reason" but "All the traffic will bear." And this is true even where there is no sinister motive The weakness of human nature prevents men from being good judges of their own deservings.

The syndicate formed by J. P. Morgan & Co. to underwrite the United States Steel Corporation too for its services securities which netted $62,500,000 in cash. Of this huge sum J. P. Morgan & Co. received, as syndicate managers, $12,500,000 in addition to the share which they were entitled to receive as syndicate members. This sum of $62,500,000 was only a part of the fees paid for the servic of monopolizing the steel industry. In addition to the commissions taken specifically for organizing the United States Steel Corporation, large sums were paid for organizing the several companies of which it is composed. For instance, the National Tube Company was capitalized at $80,000,000 of stock; $40,000,000 of which was common stock. Half of this $40,000,000 was taken by J. P. Morgan & ~~Co. and their associates for promotion services; and the $20,000,000 stock so taken became la~~ter exchangeable for $25,000,000 of Steel Common. Commissioner of Corporations Herbert Knox Smith found that:

> More than $150,000,000 of the stock of the Steel Corporation was issued directly or indirectly (through exchange) for mere promotion or underwriting services. In other words, nearly one-seventh of the total capital stock of the Steel Corporation appears to have been issued directly or indirectly to promoters' services.

The so-called fees and commissions taken by the bankers and associates upon the organization of the trusts have been exceptionally large. But even after the trusts are successfully launched the exactions of the bankers are often extortionate. The syndicate which underwrote, in 1901, the Steel Corporation's preferred stock conversion plan, advanced only $20,000,000 in cash and received an underwriting commission of $6,800,000.

The exaction of huge commissions is not confined to trust and other industrial concerns. The Interborough Railway is a most prosperous corporation. It earned last year nearly 21 percent on its capital stock, and secured from New York City, in connection with the subway extension, a very favorable contract. But when it financed its $170,000,000 bond issue it was agreed that J. P. Morgan Co. should receive three percent, that is, $5,100,000, for merely forming this syndicate. More recentl the New York, New Haven & Hartford Railroad agreed to pay J. P. Morgan & Co. a commission of $1,680,000; that is, 2½ percent, to form a syndicate to underwrite an issue at par of $67,000,000 20-year 6 percent convertible debentures. That means: The bankers bound themselves to take at 97½ any of these six percent convertible bonds which stockholders might be unwilling to buy at one hundred. When the contract was made the New Haven's then outstanding six percent convertible bonds were selling at 114. And the new issue, as soon as announced, was in such demand that the public offered and was for months willing to buy at 106 bonds which the Company were to pay J. P. Morgan & Co. $1,680,000 to be willing to take at par.

WHY THE BANKS BECAME INVESTMENT BANKERS

These large profits from promotions, underwritings and security purchases led to a revolutionary change in the conduct of our leading banking institutions. It was obvious that control by the investment bankers of the deposits in banks and trust companies was an essential element in their securing these huge profits. And the bank officers naturally asked, "Why then should not the banks and trust companies share in so profitable a field? Why should not they themselves become investment bankers too, with all the new functions incident to 'Big Business'?" To do so would involv a departure from the legitimate sphere of the banking business, which is the making of temporary loans to business concerns. But the temptation was irresistible. The invasion of the investment banke into the banks' field of operation was followed by a counter invasion by the banks into the realm of th investment banker. Most prominent among the banks were the National City and the First National o New York. But theirs was not a hostile invasion. The contending forces met as allies, joined forces to control the business of the country, and to "divide the spoils." The alliance was cemented by voting trusts, by interlocking directorates and by joint ownerships. There resulted the fullest "cooperation"; and ever more railroads, public service corporations, and industrial concerns were brought into complete subjection.

CHAPTER TWO

How the Combiners Combine

Among the allies, two New York banks—the National City and the First National—stand preeminent. They constitute, with the Morgan firm, the inner group of the Money Trust. Each of the two banks, like J. P. Morgan & Co., has huge resources. Each of the two banks, like the firm of J. P. Morgan & Co., has been dominated by a genius in combination. In the National City it is James Stillman; in the First National, George F. Baker. Each of these gentlemen was formerly president, an is now chairman of the board of directors. The resources of the National City Bank (including its Siamese twin security company) are about $300,000,000; those of the First National Bank (including its Siamese twin security company) are about $200,000,000. The resources of the Morgan firm have not been disclosed. But it appears that they have available for their operations, also, huge deposits from their subjects; deposits reported as $162,500,000.

The private fortunes of the chief actors in the combination have not been ascertained. But sporadic evidence indicates how great are the possibilities of accumulation when one has the use of "other people's money." Mr. Morgan's wealth became proverbial. Of Mr. Stillman's many investments, only one was specifically referred to, as he was in Europe during the investigation, and did not testify. Bu that one is significant. His 47,498 shares in the National City Bank are worth about $18,000,000. Mr. Jacob H. Schiff aptly described this as "a very nice investment."

Of Mr. Baker's investments we know more, as he testified on many subjects. His twenty thousand shares in the First National Bank are worth at least $20,000,000. His stocks in six other New York banks and trust companies are together worth about $3,000,000. The scale of his investment in railroads may be inferred from his former holdings in the Central Railroad of New Jersey. He was its largest stockholder—so large that with a few friends he held a majority of the $27,436,800 par value of outstanding stock, which the Reading bought at $160 a share. He is a director in twenty-eight othe railroad companies; and presumably a stockholder in, at least, as many. The full extent of his fortune was not inquired into, for that was not an issue in the investigation. But it is not surprising that Mr. Baker saw little need of new laws. When asked:

"You think everything is all right as it is in this world, do you not?"

He answered:

"Pretty nearly."

RAMIFICATIONS OF POWER

But wealth expressed in figures gives a wholly inadequate picture of the allies' power. Their wealth is dynamic. It is wielded by geniuses in combination. It finds its proper expression in means of control. To comprehend the power of the allies we must try to visualize the ramifications through which the forces operate.

Mr. Baker is a director in twenty-two corporations having, with their many subsidiaries, aggregate resources or capitalization of $7,272,000,000. But the direct and visible power of the First National Bank, which Mr. Baker dominates, extends further. The Pujo report shows that its directors (includin Mr. Baker's son) are directors in at least twenty-seven other corporations with resources of $4,270,000,000. That is, the First National is represented in forty-nine corporations, with aggregate resources or capitalization of $11,542,000,000.

It may help to an appreciation of the allies' power to name a few of the more prominent corporations in which, for instance, Mr. Baker's influence is exerted—visibly and directly—as votin trustee, executive committee man or simple director.

1. *Banks, Trust, and Life Insurance Companies*: First National Bank of New York; National Ban of Commerce; Farmers' Loan and Trust Company; Mutual Life Insurance Company.
2. *Railroad Companies*: New York Central Lines; New Haven, Reading, Erie, Lackawanna, Lehigh Valley, Southern, Northern Pacific, Chicago, Burlington & Quincy.
3. *Public Service Corporations*: American Telegraph & Telephone Company, Adams Express Company.
4. *Industrial Corporations*: United States Steel Corporation, Pullman Company.

Mr. Stillman is a director in only seven corporations, with aggregate assets of $2,476,000,000; but the directors in the National City Bank, which he dominates, are directors in at least forty-one other corporations which, with their subsidiaries, have an aggregate capitalization or resources of $10,564,000,000. The members of the firm of J. P. Morgan & Co., the acknowledged leader of the allied forces, hold seventy-two directorships in forty-seven of the largest corporations of the country

The Pujo Committee finds that the members of J. P. Morgan & Co. and the directors of their controlled trust companies and of the First National and the National City Bank together hold:

> One hundred and eighteen directorships in thirty-four banks and trust companies having total resources of $2,679,000,000 and total deposits of $1,983,000,000.
>
> Thirty directorships in ten insurance companies having total assets of $2,293,000,000.
>
> One hundred and five directorships in thirty-two transportation systems having a total capitalization of $11,784,000,000 and a total mileage (excluding express companies and steamshi lines) of 150,200.
>
> Sixty-three directorships in twenty-four producing and trading corporations having a total capitalization of $3,339,000,000.
>
> Twenty-five directorships in twelve public utility corporations having a total capitalization of $2,150,000,000.
>
> In all, 341 directorships in 112 corporations having aggregate resources or capitalization of $22,245,000,000.

TWENTY-TWO BILLION DOLLARS

"Twenty-two billion dollars is a large sum—so large that we have difficulty in grasping its significance. The mind realizes size only through comparisons. With what can we compare twenty-two ~~billions of dollars? Twenty-two billions of dollars is more than three times the assessed valu~~e of all the property, real and personal, in all New England. It is nearly three times the assessed value of a the real estate in the City of New York. It is more than twice the assessed value of all the property in the thirteen Southern states. It is more than the assessed value of all the property in the twenty-two states, north and south, lying west of the Mississippi River.

But the huge sum of twenty-two billion dollars is not large enough to include all the corporations t which the "influence" of the three allies, directly and visibly, extends, for

First: There are fifty-six other corporations (not included in the Pujo schedule) each with capital o resources of over $5,000,000, and aggregating nearly $1,350,000,000, in which the Morgan allies are represented according to the directories of directors.

Second: The Pujo schedule does not include any corporation with resources of less than $5,000,000 But these financial giants have shown their humility by becoming directors in many such. For instance, members of J. P. Morgan & Co., and directors in the National City Bank and the First National Bank are also directors in 158 such corporations. Available publications disclose the capitalization of only thirty-eight of these, but those thirty-eight aggregate $78,669,375.

Third: The Pujo schedule includes only the corporations in which the Morgan associates actually appear by name as directors. It does not include those in which they are represented by dummies, or otherwise. For instance, the Morgan influence certainly extends to the Kansas City Terminal Railway Company, for which they have marketed since 1910 (in connection with others) four issues aggregating $41,761,000. But no member of J. P. Morgan & Co., of the National City Bank, or of the First National Bank appears on the Kansas City Terminal directorate.

Fourth: The Pujo schedule does not include all the subsidiaries of the corporations scheduled. For instance, the capitalization of the New Haven System is given as $385,000,000. That sum represents the bond and stock capital of the New Haven *Railroad*. But the New Haven *System* comprises many controlled corporations whose capitalization is only to a slight extent included directly or indirectly i the New Haven Railroad balance sheet. The New Haven, like most large corporations, is a holding company also; and a holding company may control subsidiaries, while owning but a small part of the latters' outstanding securities. Only the small part so held will be represented in the holding company's balance sheet. Thus, while the New Haven Railroad's capitalization is only $385,000,000— and that sum only appears in the Pujo schedule—the capitalization of the New Haven System, as shown by a chart submitted to the Committee, is over twice as great; namely, $849,000,000.

It is clear, therefore, that the $22,000,000,000, referred to by the Pujo Committee, understates the extent of concentration effected by the inner group of the Money Trust.

CEMENTING THE TRIPLE ALLIANCE

Care was taken by these builders of imperial power that their structure should be enduring. It has bee buttressed on every side by joint ownerships and mutual stockholdings, as well as by close personal relationships; for directorships are ephemeral and may end with a new election. Mr. Morgan and his partners acquired one-sixth of the stock of the First National Bank, and made a $6,000,000 investmen in the stock of the National City Bank. Then J. P. Morgan & Co., the National City, and the First National (or their dominant officers—Mr. Stillman and Mr. Baker) acquired together, by stock purchases and voting trusts, control of the National Bank of Commerce, with its $190,000,000 of resources; of the Chase National, with $125,000,000; of the Guaranty Trust Company, with $232,000,000; of the Bankers' Trust Company, with $205,000,000; and of a number of smaller, but important, financial institutions. They became joint voting trustees in great railroad systems; and finally ~~(as if the allies were united into a single concern) loyal and efficient service in the banks~~—lik that rendered by Mr. Davison and Mr. Lamont in the First National—was rewarded by promotion to membership in the firm of J. P. Morgan & Co.

THE PROVINCIAL ALLIES

Thus equipped and bound together, J. P. Morgan & Co., the National City and the First National easil dominated America's financial center, New York; for certain other important bankers, to be hereafter mentioned, were held in restraint by "gentlemen's" agreements. The three allies dominated Philadelphia too; for the firm of Drexel & Co. is J. P. Morgan & Co. under another name. But there are two other important money centers in America, Boston and Chicago.

In Boston there are two large international banking houses—Lee, Higginson & Co., and Kidder, Peabody & Co.—both long established and rich; and each possessing an extensive, wealthy clientele of eager investors in bonds and stocks. Since 1907 each of these firms has purchased or underwritten (principally in conjunction with other bankers) about one hundred different security issues of the greater interstate corporations, the issues of each banker amounting in the aggregate to over $1,000,000,000. Concentration of banking capital has proceeded even further in Boston than in New York. By successive consolidations the number of national banks has been reduced from fifty-eight i 1898 to nineteen in 1913. There are in Boston now also twenty-three trust companies.

The National Shawmut Bank, the First National Bank of Boston and the Old Colony Trust Co., which these two Boston banking houses and their associates control, alone have aggregate resources $288,386,294, constituting about one-half of the banking resources of the city. These great banking institutions, which are themselves the result of many consolidations, and the twenty-one other banks and trust companies, in which their directors are also directors, hold together 90 percent of the total banking resources of Boston. And linked to them by interlocking directorates are nine other banks an trust companies whose aggregate resources are about 2½ percent of Boston's total. Thus of forty-two banking institutions, thirty-three, with aggregate resources of $560,516,239, holding about 92½ percent of the aggregate banking resources of Boston, are interlocked. But even the remaining nine banks and trust companies, which together hold but 7½ percent of Boston banking resources, are not all independent of one another. Three are linked together; so that there appear to be only six banks in all Boston that are free from interlocking directorate relations. They together represent but 5 percent of Boston's banking resources. And it may well be doubted whether all of even those six are entirely free from affiliation with the other groups.

Boston's banking concentration is not limited to the legal confines of the city. Around Boston proper are over thirty suburbs, which with it form what is popularly known as "Greater Boston." Thes suburban municipalities, and also other important cities like Worcester and Springfield, are, in many respects, within Boston's "sphere of influence." Boston's inner banking group has interlocked, not onl thirty-three of the forty-two banks of Boston proper, as above shown, but has linked with them, by interlocking directorships, at least forty-two other banks and trust companies in thirty-five other municipalities.

Once Lee, Higginson & Co. and Kidder, Peabody & Co. were active competitors. They are so still some small, or purely local matters; but both are devoted cooperators with the Morgan associates in larger and interstate transactions; and the alliance with these great Boston banking houses has been cemented by mutual stockholdings and co-directorships. Financial concentration seems to have foun its highest expression in Boston.

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