Louis Brandeis, from *Other People's Money and How Bankers Use It*, 1913

*Louis Brandeis achieved prominence as a lawyer, progressive reformer, and the first Jewish person appointed to the U.S. Supreme Court. Brandeis was greatly concerned over the rise of monopolies in the United States. In his book, Other People's Money and How Bankers Use It, Brandeis questions the role of investment bankers and the consolidation of banks.*

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 of 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 affiliations-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 dependence 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.

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 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 unjust 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 of 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 outstanding stock, his investment amounts to little more than one-half of one per cent of the assets of the company. The fetters which bind the people are forged from the people's own gold.

The fact that industrial monopolies arrest development is more serious even than the direct burden imposed through extortionate prices. But the most harm-bearing incident of the trusts is their promotion of financial concentration. Industrial trusts feed the money trust. Practically every trust created has destroyed the financial independence of some communities and of many properties; for it has centered the financing of a large part of whole lines of business in New York, and this usually with one of a few banking houses. This is well illustrated by the Steel Trust, which is a trust of trusts; that is, the Steel Trust combines in one huge holding company the trusts previously formed in the different branches of the steel business. Thus the Tube Trust combined 17 tube mills, located in 16 different cities, scattered over 5 states and owned by 13 different companies. The wire trust combined 19 mills; the sheet steel trust 26; the bridge and structural trust 27; and the tin plate trust 36; all scattered similarly over many states. Finally these and other companies were formed into the United States Steel Corporation, combining 228 companies in all, located in 127 cities and towns, scattered over 18 states. Before the combinations were effected, nearly every one of these companies was owned largely by those who managed it, and had been financed, to a large extent, in the place, or in the state, in which it was located.

Document Analysis

1. How did Brandeis portray people like J. P. Morgan and the Astor family?
2. What did Brandeis identify as the negative affect of the financial trusts on the U.S. economy?
3. What did Brandeis mean by the “Money Trust”? 