

CHAPTER V

THE TOOLS OF PRIVILEGE

How has this colossal mass of wealth been acquired? By what means have a few men, unconnected with the fields of industry, and in many instances wholly ignorant of its processes, been able to acquire possession of the railways, the franchise corporations, the protected industries, the mineral resources, and a great part of the land of America, whose increasing earnings, like a mountain, rest on the backs of humanity? For the properties so acquired are the most profitable in the country. By an unfailing instinct the natural monopolies have been appropriated first. How has this been achieved? How has it been possible for a handful of men to acquire possession of wealth in excess of that which the 16,000,000 workers of America, at the current rate of wages, could produce in two long years? By what means has the United States been changed from a country in which opportunity seemed open to all for many generations to come, to the conditions which now confront us?

A short generation ago all this would have seemed impossible. Yet nothing was simpler. We hung our treasures in the streets, and now wonder why

they are gone. Not content with exposing them to the first comer, we created the means for carrying them away. We asked men to appropriate our mineral resources, and then passed tariff laws to make monopoly inevitable and invincible. We turned over the highways to private hands, and now wonder why they are managed as a private business. We encouraged land monopoly, and are now amazed at the growth of a peasant tenantry. Having done these things we then created the most perfectly adjusted financial machinery for completing the process.

In 1896 "the money monopoly" seemed a heated Populistic phrase. Within the past few years the methods of banking have been laid bare. Scattered all over America are savings and trust companies whose deposits range from a few thousands to tens of millions of dollars. In these banks are the savings of the rich and of the poor. In the larger interior cities, like Chicago, St. Louis, Cleveland, and Pittsburg, are banks which are used by the smaller towns for the purpose of clearance. Here the inland banks maintain reserves for the easier transaction of their business. And just as the smaller banks make use of the inland cities as depositaries, so the latter make use of the banks in New York for the same purpose. By this means Wall Street has become the financial reservoir of the nation. Here the money and the available credit of America is gathered, just as the

local bank gathers the pennies, dimes, and dollars of the people.

For years Wall Street has been the centre of foreign exchange. It is the clearing-house of America. These functions it still performs. They are of great value to the complex industrial relations of the modern world. Here, too, is the government sub-treasury. Here are banking institutions whose operations rival in magnitude those of the Bank of England. Here are the trust companies whose powers are more ample than those of any bank in the world. Through these agencies the business of America passes. Through the government sub-treasury, the trust companies, the banks, and the insurance companies, credit transactions circulate to the uttermost extremities of the land. Wall Street is the centre of the circulatory system of the nation.¹

Closely identified with the banks are the great insurance companies, whose agents in every part of the country gather up the savings of the people, precautionary investments for old age or some calamity of nature. These premiums also flow to Wall Street. These premiums together with the reserves likewise run into the hundreds of millions of dollars.

All of these agencies run and ramify into each other. They have the same stockholders, the same directors, the same officers, and the same interests.

¹ The clearances of New York during the year 1909 amounted to one hundred billion dollars.

The trust companies are organized and controlled by the directors of the insurance companies. The same men own the national banks. A few score of men practically control the available money of America. They not only have the use of the local deposits of New York, but of the balances deposited with them by the West. They can increase these deposits at will by putting up the rates of interest on call money to any point they desire. This lures still more deposits from the inland banks. In addition the group of men who have acquired control of the great financial institutions in New York, control or have an interest in banks and trust companies from the Atlantic to the Pacific. This is true even of the banks of the smaller inland towns. Thus the money, and what is more important the credit, of America has been monopolized. Whoever owns the means of credit controls the industrial life of the nation.¹ All industry is subject to its will. Upon the favor of these financial interests great railroad systems are dependent. The richest corporation in the world can no more ignore this combination than

¹This was demonstrated by the panic of 1907. It was a money and not an industrial panic. It was produced by Wall Street speculation. Values had been carried upward and upward by the use of banking loans. They collapsed by their own weight, and caused such a dislocation of credits that the whole industrial world shrank in consequence. The control of the credit of the nation by Wall Street makes it practically impossible to carry through any railway, mining, franchise, or other big project without the consent of those who control the situation.

can the smallest industry or the Western farmer. It can depreciate the price of government bonds or embarrass a transcontinental railway system. This monetary syndicate can win favor by its favors, or wreak vengeance on those who oppose it. The savings of the people, deposited with their local bankers for safe keeping, have thus become the basis of financial transactions the most stupendous the world has ever known. They exceed in size the financing of a great modern war. Penny by penny, and dollar by dollar, the savings of 80,000,000 people have been lodged in the hands of a few men, related by social and business ties, perfectly understanding one another, and bent upon the same common purpose.

It is for the use of these savings that the Titans of finance go to war. It was to control the premiums and reserves of the insurance companies that men paid millions for these properties. For the deposits are controlled by the directors and trustees. They can loan or invest them as they wish. The prices of securities are put up or down as the will of the syndicate dictates. Through this control of the ready money of America the stock market is manipulated.

The community of interest which has heretofore existed among the larger financial interests of New York has recently been converted into actual ownership by two single groups. These are the Morgan and the Standard Oil. The "money monopoly" has become a reality. Late in 1909 Wall Street

announced the acquisition by these two groups of two of the largest insurance companies, as well as of a number of the largest banks in New York and the West. Six persons were named, under whose control financial institutions had passed, with capital, surplus, and reserves amounting to over a billion and a half of dollars. Nobody knows the institutions controlled outside of the metropolis, but they include not only those of the larger but of the smaller inland cities as well. It is not too much to say that the banking resources and credit of the country are largely, if not almost wholly, within the control of the Standard Oil and Morgan interests.

This is by far the most portentous fact that could confront any people. The life of the modern world is a financial life. It is carried on by banking and credit transactions. Those transactions have fallen under the dominion of a group of men, who could be enumerated on the fingers of one hand. Through the direct and indirect control of the banks and trust companies of America, all business, all commerce, all transportation, all of the necessities of life, have become subject to their dominion. The daily, weekly, and monthly press must seek their loans from this syndicate. Competing industry must go to it for the right to live. The politics of city, state, and nation are already largely fashioned by its will. Some conception of the extent of its ramifications in the field of industry may be seen

from the fact that prior to the mergers above referred to "the directors of the National City Bank, the head of the Standard Oil group, and of the National Bank of Commerce, the head of the Morgan group, hold over a thousand directorships in transportation, industrial, and other commercial corporations."¹ By means of the financial resources in their hands the railways and industries of the country were brought under monopoly control in the closing years of the last century. Dr. Wm. A. Scott, professor of political economy at the University of Wisconsin, describes the extent to which this has already gone. He says:

"The Morgan, Vanderbilt, Pennsylvania, Gould-Rockefeller, Harriman-Kuhn-Loeb, and Moore groups, and their more recent successors, represent the achievements of high finance in this field, and great achievements they have been, involving the bringing together under the management of less than seven groups of financiers nearly 2,000 railroad corporations, representing more than 200,000 miles of track and a capitalization of about thirteen billions of dollars. (Moody's *The Truth about the Trusts*.)

"In the industrial field the achievements of high finance have been scarcely less remarkable. By January 1, 1904, *seven great industrial trusts* had been developed, controlling 1,528 plants with a capitalization of more than two and a half billion dollars, and 298 *lesser industrial trusts*, controlling more than 3,000 plants, capitalized at over four billion dollars. By January 1, 1908, the great trusts controlled over

¹ *A Decade of High Finance*, p. 7, by W. A. Scott, Ph.D.

1,600 plants capitalized at nearly three billions of dollars, and the lesser ones over 5,000 plants capitalized at over eight billions of dollars. To these should be added the so-called franchise trusts, controlling about 2,500 plants capitalized at over seven and a half billions of dollars.”¹

Control of the banking resources and through them of the stock market has been the means by which the control of industries has been brought about. Through this control the cost of living and the material well-being of the people are influenced.

“The Standard Oil and Morgan federations have well-nigh attained such control. Through the directorate of groups of railroad and industrial corporations they are able almost at will to increase or decrease the earning power now of this enterprise now of that. . . . Through reorganization schemes they can water the stock of a concern until even huge earnings yield only insignificant dividends. Being themselves possessed of great wealth and holding large blocks of securities, they can place so much pressure on either the supply or demand side of the market as to force prices in the direction desired. Through their control of great banks and trust companies they may increase or diminish the amount of funds available for investment and speculation.”²

Upon the savings of the people, gathered together like the rivulets which gradually grow into a mighty stream, has been erected a financial feudalism which is gradually absorbing to itself the industrial wealth

¹ *A Decade of High Finance*, p. 7, by W. A. Scott, Ph.D.

² *Idem*, p. 21.

of America. In the transactions of the directors of these financial institutions there is no breach of trust. No wrong thing has been done in the use of the country's credit. But the result has been the complete subjection of the American people to a power, whose ruthlessness or generosity is only a matter of the wish of those who control the system. Through the control of these funds, railroads, mines, industries, and franchise corporations have been taken over. Syndicates are formed among the banking interests. They make loans to themselves of other people's money. Competing properties are purchased. When ownership is secured the properties are consolidated. Securities are then watered. These in turn are sold to the people whose money has been used to effect the monopoly. No new wealth has come into being in the process. Nothing has been added to the properties. Only the tribute of those who toil has been increased.

Herein is the machinery by which the wealth of America has been cornered. It was by such methods as these that the great combinations of the last few years have been carried through. By this process the anthracite coal monopoly came into being. Thus the Steel Trust, with its billion and a half of securities, was fastened upon the American people. By these means the beef, the sugar, the tobacco, the copper, and many other trusts were created. According to the census enumeration of 1900 the wealth

of America was \$94,300,000,000. At the same time there were over 440 industrial franchise and transportation monopolies with a total capital of \$20,379,162,000, or more than one-fifth of the total census wealth of America. Most of these combinations had come into existence in the preceding half-dozen years.

Only surviving exceptions give reality to the banking business as described in the books, just as surviving examples of independent coal, iron-ore, sugar, and meat producers give reality to the competitive principles of economic science. To such an extent is the credit of America being used for speculative purposes, for the upbuilding of monopoly interests through pools, corners, and syndicates, that the producing industry of the nation is being starved. Money needed for local industry is being used in Wall Street for purposes of speculation. When call loans command in the East from ten to thirty per cent., banks will not make time loans to their local customers at six per cent. For money flows to the point of highest return almost as readily as water flows to its lowest level.

This is the lamp of Aladdin by which the resources of America have been cornered. The stock exchange is the tool of these money interests. Prices are made at will. So is the news which the speculative world reads with avidity. Day by day the presses are kept busy printing certificates of servitude upon the people. They cost no more than the greenbacks issued

by the government during the Civil War. But they are far more costly. The Treasury notes were issued for labor. And labor could and did retire them. But the inflated securities of monopoly are mortgages in perpetuity upon the labor of mankind.

Even without these tools monopoly would have appeared. It would have been a slower process. The laws of the land make monopoly inevitable. For monopoly is not due to illegal combinations in restraint of trade. Nor is it due to the skill, talent, or great ability of the master-minds of industry. Monopoly is created by law. It is born of law-made privilege. It is not the law-breaker who is at fault, it is the law-maker. The menacing monopolies which have come into being are almost without exception traceable to four sources. The chief of these is the monopoly of the land. To this are traceable the coal and the iron, the oil and the copper, the gas and the timber monopolies. It is the monopoly of the iron ore and coking coal that has given the Steel Trust the control of the markets of America. The same is true of the copper and the anthracite and bituminous coal monopolies. It is true of the oil and the gas. It is not the wells, the refineries, or the furnaces, it is the control of the raw materials that lies at the root of these monster combinations.

The second great source of monopoly is the private ownership of the highways of the nation. The railways are natural monopolies, and the coal, oil, iron,

and steel combinations are affiliated with them. In many instances the ownership is identical. The oil monopoly was born of this intimacy, while the beef, the packing, the warehousing, and scores of minor monopolies have had their inception and continue their control of the market by the ownership of private car lines, by ingenious preferential rates, by privileges of countless kinds which are only possible through the joint control of the railways and the industry itself.

The third great privilege is that of taxation. The tariff is the mother of many trusts. It shields many others which are identified with the railways and the land. In this class are the sugar and the tobacco, the leather and the woollen, the harvester and the cotton, the iron, steel, copper, lumber, paper, and many other combinations.

The fourth source of monopoly is the direct action of the government itself in the creation of exclusive grants, of which the franchises of our cities are the chief. The rights of way which they occupy are exclusive. There is no possibility of competition. The laws have been drafted by the privileged classes. Once granted, franchises cannot be amended or repealed. Upon these franchises billions of securities have been issued, upon which excessive rates and charges are fixed.

Nine-tenths of the monopolies of to-day are the children of our own creation. They have arisen

through no violation of the law. They have been invited by the law itself.

Almost without exception they are identified with the land, or are buttressed by some legislative act, which gives them a monopoly of the market or of the service which they render. The law itself offers a sheltering arm to monopoly from the competition which lies at the life of other business. And the watered securities which spread like a mortgage upon the people of America represent no labor on the part of those who issued them. No new wealth has come into existence through this addition of billions of securities to these corporations. Monopoly does not make the grass to grow, or the wheels of industry to turn. Far from stimulating production, monopoly causes production to die. For monopoly means scarcity. It reduces the output of field and factory, and erects a barrier about the nation by means of a tariff wall for the purpose of limiting the supply of wealth.

Yet, while no wealth has come into being by this process, those who labor are the poorer by reason of it. It cannot be otherwise. The dividends of privilege can only mean cold, hunger, and want for the millions, just as they mean idle luxury for the few. This is the meaning of monopoly; this is part of the cost of the private ownership of the highways and the resources of the earth.