

# TRIUMPHANT PLUTOCRACY

The Story of  
American Public Life  
from 1870 to 1920

By  
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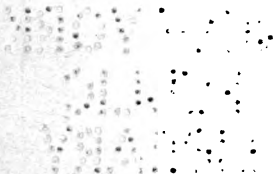
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TILDEN FOUNDATIONS  
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### III. BANKS AND BANKERS

My life in the West taught me the power of the land-grabbers. My experience in the East gave me an insight into the power of the banker. The land-grabber cornered land. The banker corners money and credit. Both are able through their monopolies to plunder the producers of the product of their toil.

We learned, through our experiences with the Eastern bankers, that the institution which can issue money and extend credit holds the key to the whole business world. The banks, under the present laws, can do both, and this fact makes them the dictators of business life.

Perhaps a little story, "The Evolution of a Banker," will help to show what the banker does to his fellow-men.

In 1868 placer gold was discovered high up on the sides of Mount Shasta, in Northern California. The report of this discovery was quickly known in other placer mining camps farther south, and a great stampede occurred. Five or six hundred miners, at one time, went to Shasta, staked out their claims, and commenced mining.

Of course there was every variety of the genus homo, from the saloon-keepers, gamblers and highway-men to miners, speculators and prospectors—a motley crowd. Among the others there was Robert Waite, an educated fellow—a sort of graduate—who could talk on every subject from the Bible to Hoyle. Then there was Silver Jack who, when he was not mining, was shooting up the mining camps or robbing stage-coaches.

When they arrived at Shasta, all of the members of the crowd, with one exception, staked out claims and went to work. The diggings were good. The returns were high.

In the camp lived the usual hangers-on, and among them there was one man who among all of his fellows had staked out no claim. Everybody else worked at something. He never worked. The others were equal and democratic. He held himself aloof. He was

better dressed than the others; he was never about in the daytime, but in the early evening he might be seen loitering about the gambling houses. He neither swore nor drank; he talked but little, and he was known by everybody.

As the weeks went by he opened a little office and began to lend money to miners who had a good claim and who were dissipating their earnings, at four per cent a month. Time passed, and he opened a bank. Because of his personal habits and rather agreeable appearance, the miners deposited their savings with him. He paid the depositors ten per cent a year, and loaned the money to other miners, who were willing to give their claims as security, for four per cent a month. Under these conditions the bank flourished and the banker made money.

But one day he sold the bank and moved to San Francisco, and there opened a bank on a large scale, and became known as one of the great financiers of the Pacific Coast. A few years afterward, when he had become famous, he removed to New York and entered the circle of the great financiers of the world, and became widely known as a manipulator of moneys and credits.

At a banquet which he gave to celebrate the thirtieth year of his entry into the banking business, he grew enthused with wine, and in his speech gave a sketch of his life and told how he was the first banker in Shasta in '68. Thereupon the miners at Shasta—those of the oldtimers who still remained—held a meeting to discuss the question. And they said:

“Why this man is not the man who started the first bank in Shasta; or, if he is, then his name was so-and-so, and we remember him well.”

And they thereupon appointed a committee of three to make an investigation and ascertain how the great banker got his start, and the committee reported that he had gone with the stampede to Shasta, had taken no claim and done no work whatever; but that he slept

days and crawled around at night and stole from each of the miners so little of the day's production that he did not miss it. The committee therefore resolved that he had changed his name but had not changed the methods of doing business which he inaugurated at Shasta in the early days. He was still stealing so little from each of his fellow men that they did not miss it, and had thus accumulated an enormous fortune and become one of the greatest financiers of the world.

The committee further concluded that no person or corporation should be permitted to do a banking business under any circumstances; that the medium of exchange was the life-blood of business and the most important of all public utilities and that, therefore, it should be controlled by the government alone; that every post-office should be a savings bank, and that the government should establish commercial banks everywhere and loan money to the people at just what it cost to do the business above what was paid the depositors who placed their surplus in the Postal Savings Banks, so that if the Postal Banks paid three per cent to depositors, the Government commercial banks would loan this money to the people of the locality where it was deposited for not to exceed three and a half per cent. And thus this great engine of exploitation, now operated to plunder the producers of wealth in the United States, would be turned into a great public benefaction and compel the bankers—parasites on society—to join the ranks of the producing classes.

The banking business is a parasite business; the banker is a member of a parasite class; yet so completely does he dominate the present order of society that, instead of being punished by society and compelled to take a position and earn his living like the masses of the people, through the pursuit of some useful occupation, the banker is generously rewarded; laws are passed in his favor and he is encouraged and assisted in his efforts to pluck his fellow men.

For years, under our National Bank Act, the banker

could subscribe for Government bonds, deposit them in the Treasury, and have the Treasury issue to him the full face value of the bonds in currency. Thus he retained the bonds and at the same time was able to secure an equal amount of money which he could use for his private profit in the banking business. The issue of money was thus made a function of private banking institutions. They could not only lend money; they could actually create it.

During my visit to Japan, I received some interesting sidelights on our banking business as the Japs saw it.

Before going to Japan I talked with the Japanese Minister in Washington, and secured from him all of the books published in English giving the history and the economic development of Japan. I also secured two large volumes on the Japanese banking system written by Soyeda, a Jap educated in England, who was then the Treasurer of Japan. When I arrived Soyeda met me; and he not only entertained me very graciously, but talked with me on many occasions.

I had noticed in reading his book on Japanese banking that Japan had at first adopted the American National Banking system, but had abandoned it after four years of trial. I asked Soyeda why this was.

He explained that four years had convinced them that the system was entirely unworkable because under it the bankers could cause an expansion of the currency whenever it was profitable for the bankers to expand, and a contraction of the currency whenever it was profitable for them to contract. The resulting panics benefited the creditor class and ruined the producing class: that in fact our banking system worked in Japan just as it worked here—expanding the currency to gratify the greed of the bankers when expansion was to their profit, and contracting it in the interest of the bankers whenever it was to their advantage to contract the volume of money.

Japan has concluded that all money should be issued by the Government and its volume regulated by index

numbers so as to maintain a steady range of prices; that is, when the volume of money was unduly expanded, it would cause a rise in all prices and lead to the expansion of business and a new credit; that whenever the money was unduly contracted in volume, it would lead to a decline of all prices, cause panics, and allow the creditors to take possession of the property of the producers.

And so the Japanese established a central bank and branches, and the nation issued its own currency. In other words, the Japs discovered a great economic law, well known to some people of the United States, but the officials of Japan had the honesty and character to act upon this law instead of following our example of leaving the issue of money and the control of its volume in the hands of a few manipulators to be used as an engine for exploiting the producing population.

This Japanese situation was interesting to me. I had left the Republican party in 1896 on this very issue.

The Japs with their keen sense of values and their willingness to experiment learned in four years what the American people had not learned in forty—that the banking power in private hands makes the bankers the autocrats of the business world.

This lesson came to me with double force. When I returned to America I found Congress debating the extension of National Bank charters. Aldrich of course was for the extended charters. In the Senate (March 2, 1901), two days before my term as Senator expired, he said:

“The present charters of the National Banks expire from time to time, commencing July 14, 1920. The law is that new plates shall be issued to all banks in extending their charters. The preparation of these plates will take nearly a year, and it is desirable that this bill should be passed at this session. There can be no objection to it. It is simply a matter of form, as certainly the time of the charters will be extended in the next Congress.”

**Mr. PETTIGREW:** "Mr. President, I do not believe that the charters ever ought to have been issued, and I am certainly opposed to their being renewed. I believe the system is a pernicious one and has a tendency to breed panics, to expand the currency when it ought to be contracted, and to contract it when it ought to be expanded. Japan adopted this system, and after thorough investigation repealed the law, and for this very reason.

"Under this system, which is a branch of our financial system, the banks can produce a panic whenever they please, and wreck the property of this country or any other country where the system exists. The subject ought to be studied and thoroughly investigated. These charters never should be renewed, and a remedy should be offered by which we could have an elastic currency rather than one which produces too much when there is already too much and too little when there is already too little, and puts the control of the volume of the money of the country in the hands of a combination of national bankers. I therefore object to the bill."

The bill therefore went over to the next session. Then, after my term of service in the Senate expired, the bill was passed.

The experiences of the American banking system during the great war confirmed my view in every particular. The Federal Reserve Act, passed in 1913, had made possible the centralization of banking power. The war did the work. As Roger Babson recently stated the matter:

"In 1914 we had 30,000 banks, functioning in a great degree in independence of one another. Then came the Federal Reserve Act, and gave us the machinery for consolidation, and the emergency of five-years' war furnished the hammer-blows to weld the structure into one."

Mr. Alexander is right about the strength of the American banking system. Under the Federal Reserve



Act the vast power of the thirty thousand American banks is concentrated in the hands of a little club with headquarters in Wall Street. This club holds in its hands the power to make or to destroy any businessman in the United States; the power to make or wreck financial institutions and inaugurate panics; the power to issue credit, even money. The bankers at the center of the financial web are endowed with the power of government.

The right to issue money is, as I have said, fundamental. This right is exercised by the New York Bankers' Club, thinly disguised as the Federal Reserve Board. On November 3, 1920, the amount of Federal Reserve notes outstanding was \$3,588,713,000.

What was the basis of this huge issue of paper money? Commercial paper!

The member banks were permitted to lend money (or credit) to their patrons; to take commercial paper in exchange for their loans; to deposit this paper under the authority of the Board, and to issue currency against it. This currency was again loaned out, the paper redeposited, etc., so that the Federal Reserve Bank of New York was able to earn, by this pyramiding of credits, over 200 per cent in the frugal year of 1920, in a market where the rate of interest never ran over 8 per cent on standard securities.

Through their authority over money and credit, the bankers thus became the arbiters of the business destiny of the United States. No one elected them. No one can recall them. There is no way in which they can be made the object of public approval or disapproval. They are as far above public responsibility as was William Hohenzollern in Germany before 1914. Self-elected dictators of American life, they make and unmake; they wreck and rule. They are the heart of business America—the center of the exploiting system that sits astride the necks of the people.

The United States emerged from the Great War with the best credit of any of the larger nations. Its wealth

was the greatest; its income the largest, and its bank assets and resources exceeded those of any other country; but this very economic position, centered as it is in the hands of bankers, will be used by them to exploit the peoples of Latin America and Asia as they have during recent years exploited the people of the United States. Exploitation is the profession of the banker, and those in charge of the American banking institutions have the greatest exploiting opportunity that has ever come to the bankers in any of the modern nations.