Financial Monopoly: the Road to Socialism

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President Roosevelt, in his message of April 29, 1938, called the attention of the Congress to a growing concentration in this country of private economic power, without equal in history. He said that this concentration is seriously impairing the economic effectiveness of private enterprise as a way of providing employment for labor and capital and as a way of assuring a more equitable distribution of income and earnings among the people of the nation as a whole.

He asked the Congress to come to grips with this problem, not merely as a matter of justice, not as a matter of politics, but as a matter of preserving and improving the functioning of our traditional system of free private enterprise.

From the standpoint of justice, few will deny that disparities in the fortunes of men are far greater than the disparities in their talents or their virtues. And, as a matter of political science, few would doubt that trouble ultimately will come if, in a money economy, we permanently frustrate the hopes of the multitude for a decent standard of living, a fair measure of security, and an opportunity to win self-respecting positions in our society. Injustices and disappointments to uncounted men have often fired discussion of this problem, but the message of the President was not emotional. It was coldly analytical and quite unprecedented in presidential papers.

It is strange that one view of the centralization of wealth and its control is shared by both the intelligent socialist, who wants to remake our society, and by the unenlightened capitalist, who wants shelter from every social control. What the extreme socialist favors, because of his creed, the extreme capitalist favors, because of greed.

The Marxist predicts a ruthless centralization of property, excluding the many from a motive to protect it, as inevitable and as the first step toward communal assumption of control. He points to history and to trends which so far have o'erleaped every governmental obstacle to concentration, as proof that the unbearable point is coming and that socialism will win.

His unconscious ally, the blind capitalist, also says centralization is inevitable. He thinks it a tribute, however, to his own indispensability and a result of his efficiency and initiative. He thinks that only by such centralization of control can his own superior knowledge and wisdom be put to work. He sees centralization as an end and an achievement in itself. After it, the deluge, if one come, is a result not of his philosophy but of a departure from it.

The captain of industry says that the local merchant is doomed — only by concentration in chains can we distribute goods cheaply, swiftly, and effectively.

The socialist says: Yes, the local merchant is doomed; the great reorganizers are doing away with the thousands of units which government could never take over successfully and, in their place, are putting a few chains which easily can be taken over for socialized control.

The capitalist says the mines, the factories, and the utilities must be centralized under great holding-company systems, in the name of efficiency or diversification or for this or that reason.

Fine, says the communist — the easier to handle by a people's commissar.

It is the big businessmen, too, who are furnishing the most persuasive object lessons to overcome the feeling of the American masses that socialism is merely Utopian theory.

Plain and practical people have held to the conviction that businesses could not well be run by absentee control. They have felt that the profit motive was the best stimulus to enterprising management. They have an instinct that a distant and none too well equipped bureaucracy is not an effective or acceptable force to control the mass of detailed transaction necessary to even a simple business. Socialists on soapboxes never could convince them to the contrary.

Where the socialist failed, the businessman and financier have been succeeding. They have been selling absentee ownership, management by salaried agents, and control by distant bureaucracy. They have merged, combined, and consolidated in the name of more efficient — though remote — management; they have subjected important local enterprise to supervision by men who were but employees, without a share in the profits; and they have extended the empire of a financial bureaucracy, none too benevolent, quite self-perpetuating, and often arbitrary. It deals in the jobs of men and the prosperity of communities; it is responsible to no popular electorate; and its accountability is vague.

If these devices of the financier are good and wholesome, then the most effective argument against socialism and against government ownership and control of industries and utilities has been exploded — exploded by the financiers who hate socialism — or what they think is socialism.

If the business details of a distant community can be handled from a high building in New York, they can equally well be handled from a high building in Washington. If a salaried staff is to manage local industry, there is no reason to think government clerks cannot be as honest, as discreet, and as able as those of corporations. And, if a bureaucracy, remote and aloof, is to manage local utilities and plants, it can quite as well be a bureaucracy the citizen can vote out for its sins as one that is entrenched with interlocking financial controls. Every argument that can be used to justify holding-company empires can be turned to justify the socialistic programs. If business organizes itself into a nest of private collectivisms, it will have little argument against establishment of an overriding public collectivism.

II

THE FIGURES used in the President's message to measure the degree of wealth concentration were those of the Bureau of Internal Revenue, for 1935. To trace the growing concentration, it is necessary only to lay these beside similar figures for 1932.

In 1932, 5 per cent of the reporting corporations owned 85 per cent of all wealth owned by corporations, while, in 1935, 5 per cent of them owned 87 per cent of the assets of all of them. The concentration was proceeding at a faster rate in the larger companies. In 1932, 53 per cent of the reported assets of corporations were found in 618 corporations, being 0.2 per cent of the total reporting, while, in 1935, the President reports that 52 per cent of such assets were held by 0.1 per cent of them.

The President said (and his statement seems justified):

> The statistical history of modern times proves that, in times of depression, concentration of busi-

ness speeds up. Bigger business then has larger opportunity to grow still bigger at the expense of smaller competitors who are weakened by financial adversity.

Statistics alone fail to reflect the true extent of this concentration. They respect the corporate entity. But financial control does not. Statistics do not show the controls by interlocking directors, interlocking bankers, and interlocking dominant stockholders. Nor do they show the groupings of corporations by which competition has been banished and where a real but statistically invisible central control of wage policies, price policies, or trade policies exists.

But the independent businessman can feel such control, even when he cannot see it. The high mortality of small business and the loss of its independent position testify to the smothering of free private enterprise.

It is the custom of some publicists to claim an offset against this menacing and progressing concentration of wealth and earning power.

For example, they cite the wide distribution of automobiles, which do often constitute the major portion of a poor man's worth. But they usually cite the *number* of cars, not the value; and the cars of the lower income class, while they may be many, often are of little monetary value, and many, very many, of them are purchased on time. Moreover, they are rarely income-producing — are quite the opposite, in fact — and the concentration which is especially menacing is the concentration of *productive* assets.

Others cite the large amount of savings accounts. But, on October 4, 1934, 56.5 per cent of such deposits were uninsured by the Federal Deposit Insurance Corporation because they exceeded the insurable maximum. These 56.5 per cent of deposits were held by only 1.5 per cent of the depositors, who also had their maximum of insurable deposits.

Homeownership is perhaps the most legitimate example of a kind of wealth widely distributed. But here too often the ownership is of an illusory equity, and the title on feeble foundations.

But the chief and most misleading argument of the apologists for our present situation is that there is a wide public distribution of securities and that, therefore, concentration of corporate wealth is offset by dispersion of individual ownership of corporate shares. One publicist has claimed 24,000,000 security owners in the United States. Editors, politicians, and writers have made widely varying and often sensational estimates.

What is the truth about the number of holders of shares in American corporations? I have tried, with the aid of the information available from the Bureau of Internal Revenue, to get the answer. Only approximations can be had. But there is information sufficient to show that such high estimates are reckless and unreliable. The enormous number of duplications among corporate stockholders makes corporate records not only inadequate but also misleading sources of information. Yet, often, a total reached by adding stockholders' lists, without allowance for duplication, is proclaimed to show that the country's riches are really owned by the poor.

Probably the banner year for public ownership of stocks was 1929. As we have seen, it was asserted by a widely quoted analyst that in 1929 there were 24,000,000 security owners in the United States. In that year, however, there were only 2,458,049 persons who reported taxable incomes to the United States Government. It would be absurd on the face of it to contend that 90 per cent of the nation's security holders are not taxpayers. Obviously there is a joker somewhere. Not only may we be certain that there were nothing like 24,000,000 individual security owners in the United States in 1929, but it is obvious that any statement as to the aggregate number of individual security owners would be misleading if it did not disclose the great disparity in the value of the securities held by individual security owners. For example, in 1935, 43 large stockholders of the American Telephone and Telegraph Company owned over 250,000 shares more than the combined holdings of nearly 250,000 small stockholders.

In fact, we find that the 3.28 per cent of our population who filed income-tax returns for 1929 reported that they received 83 per cent of all dividends paid to individuals by our corporations. And over 78 per cent of the dividends went to those with taxable net incomes (above exemptions and deductions) of $10,000 or more. They were a little over 0.33 per cent of our population. This shows the overwhelming concentration of stock ownership of our corporations in few hands — when the measure used is *value* instead of *number of shares*.

Another indication of the significance of concentrated stock ownership is to be found in the sources from which income groups derive their income. Of course, Internal Revenue Bureau statistics of income do not include incomes so small as to require no reporting. This leaves us without information as to the overwhelming number of our people. The lowest classification of income sources found in the statistics published by the Bureau is of net incomes under $5,000.

We are here dealing with people of relatively substantial incomes, when we consider that 42 per cent of all American families and single individuals have incomes of less than $1,500 and, of course, do not make income-tax returns.

In the depression year of 1932, those who reported less than $5,000 of net income received 67 per cent of it from wages and salaries and under 5 per cent of it from dividends, while those having net incomes of from $100,000 to $150,000 had only about 17 per cent of it from wages and salaries and 55 per cent from dividends. Those with incomes of $1,000,000 and upwards looked to wages and salaries for less than 2 per cent of their income, while securities yielded them 92 per cent.

In 1929, those whose incomes were $1,000,000 or more realized over 50 per cent of it from capital gains. Capital gains are, of course, negligible to all individuals of low or moderate incomes. In their very nature, they come only to those who already have; and, the more these persons have, the greater is the chance for such unearned gains.

Thus we find not only that nearly all dividends paid by our corporations are collected by a very small class but also that those who rely mainly on earnings from their work get very little help from dividends and that those to whom compensation for work is insignificant find dividends their chief reliance.

The claim that the benefits of the high concentration of ownership of productive property by our corporations is spread out widely through stock ownership is delusive and unfounded. The President was not deceived thereby, for he pointed out:

> The concentration of stock ownership of corporations in the hands of a tiny minority of the population matches the concentration of corporate assets.

III

WHAT THEN are we headed for?

The President well said in his message:

> No people, least of all a people with our traditions of personal liberty, will endure the slow erosion of opportunity for the common man, the oppressive sense of helplessness under the domination of a few, which are overshadowing our whole economic life.

The demand that both government and business face these realities is insistent.

Conflicting voices will offer remedies.

There will be those who will demand hands off. They will beg for confidence — a confidence that, no matter what they do to others, the government will do nothing to them. They have long arms; they reach for what they want.

There will be the socialist and the communist and those who are half inclined to them, often without knowing it. They will urge that this trend of concentration is inevitable, even desirable, and that the remedy is to accept it and take over the job of piling up combinations, which the businessman has so well started. Some of these will urge outright public ownership of industry — which is at least a candid avowal of the direction in which private collectivism is leading us.

But others, unwilling to recognize state socialism as the final outcome of private socialism, will advocate some kind of regulation of big business by government officials, with a large measure of self-government for industry.

In theory this solution sounds beautifully logical. In practice I have been pessimistic about it simply because it calls for more foresight in recruiting consistently competent minor public servants and giving them adequate pay and security than I think the present state of the American political mind is willing to recognize. The hysterical reaction of last year to the reorganization bill and its civil-service provisions should give thought to anyone who assumes a system of government regulation in which the government regulators would consistently have to be as competent, as secure in tenure, and as personally zealous as the representatives of those who are to be regulated.

For fifty years we have had this theory of government regulation of monopoly working itself out in practice. With a few exceptions which prove the rule, everyone has to admit that American regulatory bodies have not been adequate to match the skill and the persistence of those whom they were supposed to regulate. The oldest field of public regulation, the utility business — a relatively simple subject for regulation — is a perfect case in point. No one denies that we have yet to devise an effective method of forthright regulation of private utilities which can escape frustration in the courts.

And it is even more difficult to discover what sort of public regulation could be made effective in far more complicated industrial fields. So-called self-regulation of industry, whether confined to producers or extended to include their customers and consumers, promises little more than the legal sanctification of the *status quo*. It is naïve and wholly unrealistic to suppose that a few public representatives in an industrial conference, by the sheer force of their moral or intellectual suasion, will be able to stand up against the resourcefulness and power which private enterprise can command.

This is a fundamental problem of man power — which must be taken realistically into account at this stage of American government where frankly the public does not recognize the importance of trained, capable, and fearless man power in government. In practice, regulation means complicated and continuous negotiations or complicated and continuous lawsuits. To attempt a scheme of government regulation of monopoly, on the supposition that now or in the immediate future we have or will get, in government, adequate numbers of adequate men to represent the public interest in those negotiations and lawsuits, is like saying that, if we had some ham, we could have a ham sandwich — if we had some bread.

Then there are others of us who are unwilling to abandon the hope of maintaining in America a system of competitive independent enterprises. We do not fear any size which is the result or the cause of efficiency. We do fear the kind of size which comes of collecting many enterprises under single financial controls; which edges independence out of the business world, slows up enterprise, and introduces the absentee landlord to the factory, the utility, and the mercantile establishment.

It is our belief that these financial bureaucracies are neither efficient nor wholesome. But we do not think it necessary to go into a socialistic regime to curb them. We find in the American Constitution ample power to protect enterprise in most fields if we will but move adequately and in time. We would co-ordinate our governmental policies, now conflicting, to the support of a national policy of private independent enterprise. To its support we would bring the taxing power, the power over interstate commerce, over security issues, over holding companies, and over patents. Governmental power to prevent concentration has not failed. It has never been tried.

Such a program should appeal to those who do not want American industry regimented from Wall Street, which is the first step in regimentation from Washington.

We look to the program laid down by the President, if properly translated into legislation, to restore the enterprising spirit and to release the suppressed energies of our people, so that idle workmen and idle factories may not stare helplessly at each other and so that our underlying economic system may sustain and make possible our democratic system of government.