Chapter Eight

THE SEVEN FAT YEARS

BETWEEN the autumn of 1922, when the ascent of American business out of the canyon of the postwar depression became swift and convincing, and the autumn of 1929, when it turned abruptly downward into the great abyss, lay a period of approximately seven years. When this period began, the amiable and indulgent Warren Harding was occupying the White House and the Ohio gang were collecting their dubious tribute from the public coffers. When it ended, Harding was long dead, Calvin Coolidge had spent his five-and-a-half unobtrusive years in the Presidency and had slipped away to Northampton, and Herbert Hoover was in his eighth month of authority. Times had changed: of all the men who had sat at the Cabinet table in 1922, only one still occupied the same chair in 1929, though Republican rule had been uninterrupted.

Yet this man typified in striking degree the unifying principle of those seven years. For he was Andrew Mellon, Secretary of the Treasury: banker, super-capitalist, multi-millionaire, suave and gracious exponent of the economic and political philosophy of Wall Street and of the great industrialists of the country. Throughout the seven fat years, business—and especially financial business—was king. The overwhelming majority of the American people believed with increasing certainty that business men knew better than anybody else what was good for the country, and that the government had better keep its hands off their affairs and thus permit economic nature to take its course.

This belief was not, of course, unanimous. There was a prolonged outcry in the farm belt for measures which might alter the course of nature to the extent of rescuing agriculture from the slough of despond, and in 1924 the LaFollette campaign, which to a considerable degree represented hopes for a new economic deal, won nearly five million votes—mostly from the farmers and from labor—out of a total of twenty-nine million.

Nor were all of the defenders of the principle of “hands off business”

consistent in their views and actions. Most of them looked with complete equanimity upon government intervention in business affairs when this took the form of tariffs, subsidies, and other favors of the traditional American sort. Besides, even the ruggedest individualist would leap eagerly upon the train for Washington or for his state capital to support a bill which might increase his profits by restricting his competitors: witness, for example, the attempts of the independent grocers to defeat by law the advance of the chain stores. Washington and the state capitals were thick with lobbies; to a greater extent than ever before in American history, the process of legislation became a tug-of-war of lobbies, each pulling for special advantages for its own group and special disadvantages for other groups; and even though a hundred lobbyists may agree in devotion to the principle of laissez-faire, if each of them proposes an exception to the principle—just one exception—their combined impact upon Congress or upon a state legislature is likely to result in more laws rather than in less. One of the choicest ironies of this period was that many, if not most, of the new measures which interfered with business freedom were passed under the heavy pressure of groups of business men who professed to hate interference.

It must be admitted, furthermore, that the costs of government did not decrease as one might have expected under the circumstances. To be sure, the federal budget shrank, partly as a result of the liquidation of some of the indebtedness incurred during the war; but so rapidly did state and local budgets swell, that by 1929 the *combined* expenditures of federal, state, and local governments had grown to the vast total of nearly eleven and a half billion dollars, as against a little over three and a third billions in 1915—a very large growth even if one makes due allowance for the decline in the purchasing power of the dollar. The lessons of this growth were clear. A country cannot undergo the relentless processes of urbanization and of large-scale economic organization without increasing its need for public services and for public institutions for the defective and the helpless, even if most of its voters prefer, in principle, to keep governmental activity to a minimum. And a people possessed with a lust for ostentatious growth, a boom spirit such as pervaded most of the United States in the nineteen-twenties, cannot resist the temptation to appropriate public funds for magnificent brick school-buildings and four-lane concrete highways. Keeping up with the Joneses meant keeping up the public expenditures and the public debt.

Yet the “hands off business” sentiment had a very real effect upon the relation between government and private enterprise. Not only did some of the new laws which were passed—such as the amendments to the Delaware incorporation laws, for example—give new kinds of freedom to the masters of capital, but there was a subtle change in the spirit in which the old laws were interpreted and administered. Although most of the regulatory legislation of the two preceding decades remained on the books, the public zeal for enforcement had weakened. The officials responsible for enforcement were naturally not always selected for their vigilance. More often they were selected for their party regularity or their pliability. Some were exasperatingly ignorant of the industries which they were supposed to supervise; others, in the process of learning about them, had become so inoculated with the ideas of the men who ran them that they could hardly see the need for any supervision at all. And even truly vigilant officials found that the odds were heavily against the sort of administration which had been hoped for in the early Wilsonian days.

There is no lonelier man than a government official who finds himself confronting, month in and month out, year in and year out, plausible arguments for easy interpretation or lax administration of a statute—to say nothing of temptations to close his eyes for a price—and who hears from a forgetful and indifferent public no word of admonition or support. What was taking place was a very familiar phenomenon: St. George attacks the dragon valiantly and is furiously applauded; but there comes a time when St. George is dead, when the audience has dispersed, and when St. George’s successor finds the dragon a very persuasive fellow and begins to wonder why such a to-do was ever made over dragon-slaying, whether times haven’t changed, and whether there is any need for subjecting the dragon to anything more than the mildest restraint.

Let us see for a moment what became of some of the reform legislation passed in the days of the Counter-Offensive, now that the temper of the country had changed.

The Sherman Act—that venerable relic of the year 1890—stood fast; in fact, during the eight years of the Harding and Coolidge administrations no less than prosecutions were undertaken by the Department of Justice for alleged infractions of it. But the Federal Trade Commission Act and the Clayton Act—the two chief instruments with which the Wilson

administration, at the high tide of the reform era, had hoped to police industry and business and to forestall monopoly—fared somewhat differently. The orders issued by the Federal Trade Commission diminished in number. The Commission devoted most of its energies to the enforcement of that section of the Act which forbade unfair methods of competition: in other words, to acting as umpire in the struggle for commercial advantage. Against the sort of concentration of economic power which had so alarmed the Pujo Committee a few years earlier it played a much less active part. It issued no orders at all against interlocking directorates, it permitted the issue of non-voting stock, and it generally permitted the expansion of financial sovereignties through mergers and through the use of holding companies.

For a time the Federal Trade Commission even permitted, in specific orders, so-called "codes of practice" drawn up by the trade associations in various industries (when these had been approved by the Department of Justice, as over forty of them were). These "codes of practice" were agreements to eliminate objectionable methods of doing business. They were not, of course, approved by the government officials if they contained any clauses which seemed to look toward the fixing of prices or the elimination of competitors. Doubtless many of them were in fact quite innocent of any such intention. But just as the passage of the Webb-Pomerene Act, some years before, by allowing business men to agree on prices to be maintained in their foreign business, had made it easier for them to agree—secretly, this time—on prices to be maintained in their domestic business, just so the approval of the codes of practice facilitated the secret extension of these codes into what were really monopolistic agreements on prices or on the division of markets. And thus, despite the continued existence of the Sherman Act, the way was partly opened for what became a common though well-concealed practice in industry after industry: the fixing of prices by agreement among the most powerful concerns.

Still another example of the way in which the attitude of the government toward big business became relaxed was the gradual whittling down of the reform legislation on the statute books by the United States Supreme Court and other judicial tribunals. In a long series of decisions the Supreme Court gradually restored to business a good deal of the freedom which in the days of the Counter-Offensive had been taken away from it by popular mandate, and simultaneously took away from labor a good deal of the freedom which

had been given to it by popular mandate.

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But these changes in the relation between business and government were a wholly inadequate measure of the change in the public attitude toward business. Legal institutions, legal interpretations, move slowly; ideas sometimes move very rapidly. There had been a striking turn in the intellectual weather.

The economic reformers who a decade or two earlier had fought so hotly for the principle of government regulation were tired, uncertain, disillusioned. The young intellectuals, who in other days might have been exercised over economic issues, were indifferent to them; they were debating about Freud, Jung, Watson, Proust, Hemingway, and Cézanne. They retreated in large numbers to Montparnasse to get away from George F. Babbitt’s moral intolerance, his zeal for standardization of the private lives of Americans, or his crudity in matters intellectual and aesthetic; but they seldom bothered to question his financial practices or his labor policies. If anybody had told them that young men and women much like themselves would in another ten years be turning communist and becoming enamored of the proletariat, they would have been astonished and dismayed: economics and politics were such a bore and the proletariat were such morons!

No longer was organized labor militant and defiant. The American Federation of Labor was becoming an elderly organization, broad-waisted, slow-moving, set in its ways. Its membership declined. Strikes decreased in number. Some labor leaders were now working hand in hand with employers to increase efficiency, some were conducting themselves essentially as conservative bureaucrats or as politicians bargaining for commercial advantages for their constituents, others were managing their unions virtually as profitable rackets—in collusion, sometimes, with gangsters and gunmen. The heart was going out of the radical movement, both within the ranks of labor and without it.

Indeed, so great was the change of temper which these few years wrought that by 1928 the discontent represented by the big LaFollette vote of 1924 seemed to have melted away like snow in April. The sheer figures of the 1928 election are illuminating. The Socialist vote for President sank to a

meagre 267,000 (compared with 897,000 in 1912, when the electorate had been less than half as large!) The Communist candidate had less than 50,000 votes to his credit. Hoover’s only formidable opponent in that election of 1928, Governor Al Smith of New York, took care to suggest in various ways that if he were elected to the Presidency, business would be almost as untrammeled as if Coolidge and Mellon were in power; and even Al Smith was overwhelmed by the landslide of more than twenty-one million votes for Herbert Hoover. Big business and big business men basked in the sunshine of unprecedented public approval.

To some extent this sunshine of approval was an artificial product. In part it was due to the diligent work of publicity men—or, as they were styled in the exalted language of the new era, public relations counsel—who flooded the newspaper city-desks with ingeniously devised news-stories designed to present their clients and their clients’ opinions in a favorable light; who prepared “ghost-written” interviews and magazine articles and brochures and books in which they set forth virtuous principles over these clients’ signatures; and who on occasion directly or indirectly subsidized lecturers, textbook writers, and professors. To cite but a single example of newspaper publicity work, one organization in Oregon prepared “canned” editorials on the iniquity of public ownership of utilities and on similar topics, distributed them to local newspapers all over the country, got thousands of them published, ostensibly as spontaneous expressions of editorial opinion—and for this service was paid $84,000 in four years by interested corporations. It was a frequent experience for magazine editors to be offered an article on some economic topic with a choice of two or three alternative signatures of big industrialists or utility magnates (“Just tell me which man you’d rather have sign it.”) Sometimes supposedly independent writers collected two payments for their work—one from the newspaper or magazine to which they contributed, and another from the company or trade association whose interests they were quietly furthering. The total amount of subsidized reading-matter which was consumed by the American public with hardly a suspicion that it was subsidized was undoubtedly enormous.

The chorus of acclaim for business was also due in part to a form of subsidization much less deliberate and direct but equally efficacious. The profit-seeking newspaper or magazine publisher whose fortunes were dependent upon advertising knew very well that a friendly attitude toward

business executives and financiers and their policies would help in the sale of advertising space, and that a critical or skeptical attitude might have the opposite effect. It was good business, for example, to describe Samuel Insull as having got the utilities "out of politics and speculation and into the realm of service." It was good business to say that "captains of industry are strong, hard-working, modest, square men, who have the qualities common to all of us, but in just a little greater degree." It was good business to print success stories telling how these hard-working, modest men had risen from the ranks, or to set forth observations on the American economic system written for their signatures by still more hard-working and modest ghostwriters. It was such distinctly bad business to offend utility companies, Florida real-estate promoters, and investment banking houses, and thus to run the risk of losing highly remunerative advertising, that there was hardly any critical examination of, let us say, the Insull holding-company pyramid in the days when it was being built to the skies; there was hardly a voice raised against the excesses of the Florida real-estate boom in 1925 or of the stock-market boom in 1928 and 1929—until after they had crashed. So effective, in fact, was this subtle and unformulated censorship of the press and so numerous and loud were the paeans sung in praise of the business man and all his works, that the disinterested publisher or writer was likely, by contrast with the general tone of comment which appeared, to seem by contrast a caustic muck-raker, a destructive and radical fellow. I do not mean to imply that in most respects the press was not quite free, or that outright intimidation of the press by advertisers was common, or even that most publishers did not believe themselves to be independent of business pressure. I mean simply that publishers wanted to make money and found it easier to make money by publishing the sort of thing which their advertisers would like. Mutual back-scratching was the order of the day.

In part, the vast prestige of business was due to the vigorous pressure of majority opinion upon the heretical, a pressure most heavily felt in the small city or town. The orthodox thing to do was to boost the town, to follow the lead of the Rotary and the Chamber of Commerce, to accept without question the policies of the economic masters of the community; the heretic might retain his technical freedom of speech and of action, but there were a hundred ways in which he might be made uncomfortable. To question the soundness of a local real-estate development, to question the rates set by the local

electric-light company, to believe in labor unions, was in many communities to be considered queer, or unreliable, or even "un-American,"—to have trouble, perhaps, in getting credit at the bank, or getting a job, or making sales; to meet opposition when one sought admission to clubs and other organizations; to be looked at askance at social gatherings; to be, in short, at a general disadvantage in the great race for success and prestige.

Yet even the flood of propaganda and the pressure of majority opinion could not have been effective unless most men and women had *wanted* to believe that the business man was the heir to the ages, that independent business was the great American cornucopia of plenty. In part, the chorus of acclaim which we have been analyzing was quite spontaneous. As prosperity advanced, a natural market was created for the flattery of big business. The reason why *The Man Nobody Knows*, which described Christ as "a startling example of executive success," was for two years the best-selling American book in the non-fiction class, was that ordinary men and women had become ready to listen to and to endorse such preposterous doctrine. The business propaganda of those days is not to be thought of as the dark device of a minority to convert or bamboozle a skeptical majority. It merely reflected and intensified the views of the crowd, merely added somewhat to the size and velocity of a snowball which was already rolling downhill.

For seven years the big business man enjoyed a golden age of power and public obeisance. For seven years the public distrust of Wall Street steadily diminished, until by 1928 and 1929 the big financiers, like the big industrialists, had become the objects of a general veneration. Rich men predominated in the Cabinet at Washington; cartoons which depicted the millionaire as a portly gentleman with a greedy face and a huge dollar-mark on his convex waistcoat became a rarity; the dissenting voices of the radicals and the skeptics were drowned in the hosannas of the faithful. It was the rulers of big business who held the golden keys to a golden American future.

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How is this extraordinary change to be explained? The explanations already given in these pages—such as the reaction from governmental regimentation during the war, the reaction against too strong a diet of idealism, the influence of business propaganda, the pressure which business

could exert upon the community—are only partial explanations. There is another and very potent one. The system worked—or, if you prefer, it seemed to work. At the end of these seven years the economic condition of the American people was on the whole better—or again, if you prefer, seemed to be better—than ever before in the history of the country.

That such prosperity could have been achieved when the economic relations between the United States and other countries were highly. abnormal was nothing less than astonishing. Europe owed America huge sums of money. She could make payments on these debts only in goods—for such is the nature of international trade. America refused to give up the idea of receiving such payments. And yet America also stubbornly refused to lower the high tariff barrier which prevented goods from coming into the country in quantity. The effect which any economist would have expected from this combination of circumstances—the seemingly inevitable effect-would have been a forced shrinkage in the exports from America, which would have been very bad for American business. But the shrinkage did not take place. What prevented it was partly the lavish expenditure of money in Europe by Americans traveling abroad in unprecedented numbers, and partly the purchase of vast amounts of foreign bonds by Americans. In other words, most of the money which Europe needed in order to make payments on her debts without ruining the foreign business of American corporations was obligingly lent to her by the American purchasers of European bonds; the rest was spent in the Rue de la Paix and on the Riviera and in London by Americans on vacation. Thus the reckoning was postponed, miraculously and precariously postponed.

That prosperity could have been achieved when agriculture was continuously depressed was no less astonishing. For generations past, the economic health of the farming community had been the foundation upon which the prosperity of the rest of the country was built. In 1879 and in 1897, the turn of the economic tide had been effected by bumper American crops and good prices for them in foreign markets. In 1922, on the other hand, there was no such stimulus to trade. All through the seven fat years, in fact, the growers of staple crops like wheat and corn remained in a very bad way. The foreign markets which they had won during the war had been lost—permanently, it seemed. Meanwhile farming had become more efficient. Production was therefore large, and prices were low. The farmers were

burdened with mortgages and taxes based upon the inflated land values set during the war-time boom, and many of them were burdened also with expensive machinery which could justify its cost only if production were heavy and prices were high. The result was trouble for the farmer. Nothing but an extraordinary prosperity in the cities and towns could have enabled the country as a whole to withstand the depressing effect of prolonged hard times on the farms. Yet to a large extent this effect was successfully withstood. Industry and commerce were strong enough to redress the balance.

There were several reasons for their strength.

One was the emergence of several industries which offered irresistible temptations to spend money in quantity: for example, the automobile industry and the brand-new radio industry.

Another was a prolonged boom in the construction industry: the building of countless suburban developments (due largely to the new popularity of the automobile), big apartment houses, and skyscraper business buildings. All the way from Coral Gables to the Empire State Building the masons and plasterers and riveters were at work, and the financial top-heaviness of many of the structures that they built was shored up by a faith which even the collapse of the Florida land-craze did not weaken for long.

Another reason was that on top of the inflation brought about by the war there was a further large inflation of credit, partly through the purchase of heavily mortgaged houses, partly through the purchase of automobiles and other expensive articles on the installment plan, and partly through the stock-market boom of 1928 and 1929. Of the way in which this stock-market boom was engineered and of its effects upon the country we shall have more to say in a later chapter; for the present it is enough to remark that if a hundred men each buy, let us say, American Can at 87 and sell it at 112, and each purchases a shiny new automobile with his profits, the money for these hundred automobiles goes into circulation and the factories hum—though this money may have come out of thin air and be destined one day to return to it. So long as the debts keep piling up and the stock-market prices climb the steep ascent of a speculator’s heaven, just so long business will boom.

But there were also sounder reasons for the prosperity of the seven fat years. There was an astonishing gain in manufacturing efficiency. New and more ingenious machines were devised; industrial managers were learning the lessons of scientific efficiency which had been taught by Frederick W.

Taylor, Henry Ford, and other pioneers in intelligent factory management; the use of scientific research, the employment of engineers and efficiency experts and economic consultants became widespread; the big executive's desk was littered with blue-prints and charts and scientific reports and graphs, and some of these proved useful. A further aid to quantity production was the growing use of steam power and particularly of electric power. In *Recent Economic Changes*, that encyclopaedia of economic facts produced in 1929 by a committee headed by Herbert Hoover, there is one statistic which presents clearly the result of this increase in efficiency: During the five years 1922–27, the output per man increased in manufacturing establishments by an average of 3.5 per cent *each year*. That adds up to nearly 19 per cent of increase in output per man in five years: it is a striking gain.

We have heard much in recent years about technological unemployment. A new and more complicated machine is put to work in a factory; as a result, the factory can produce with fewer workers the same amount of material which it produced before; the superfluous workers are thereupon thrown out of employment. What about technological unemployment during the seven fat years? The figures available give a fairly clear answer. The increase in the volume of goods produced was almost exactly equal to the increase in the productivity per worker; in other words, the number of workers employed in industry remained just about stationary. Just about as many were taken on—in new factories or in enlarging industries—as were thrown out, by the machine or otherwise. Meanwhile, of course, the country was growing in population, and also the number of women who had jobs was increasing. Industry could not take care of this increase in the working population. But the overflow did not go into bread-lines—it went into selling goods and into all manner of services: the ex-automobile-maker ran a gas station, the ex-textile-worker became a shopgirl, and quantities of young men whose fathers had "begun at the bottom" in the factory became teachers or brokers or insurance salesmen or government employees. In so far as these surplus workers became dependent upon the luxury trades, upon the prosperity of the well-to-do classes, and thus upon the credit inflation of which the well-to-do classes were the immediate beneficiaries, the choice of occupation which was thrust upon them probably increased the economic instability of the country; but for the time being the inroads of technological unemployment were counteracted by the gain in these other occupations, and few of the disastrous

effects so dramatically set forth by the technocrats in 1932 were visible.

Meanwhile, also, those wage-earners who were able to hold their jobs were getting some of the advantage of this new efficiency. Just how much, it is difficult to say positively; on this point there is a conflict of statistics. If we accept the careful estimates in *Recent Economic Changes*, we may say that during the 1922–27 period, while the output of each factory worker was increasing by 3.5 per cent a year, his earnings were increasing by 2.4 per cent a year. A considerable increase; but not quite enough—if these estimates are accurate—to give him the full benefit of the improvements in technique, especially as the cost of living rose slightly in the interval. And it is interesting to note that during the 1923–27 period the profits of industrial corporations increased by as much as 9 per cent a year, which suggests that part of the benefit of these improvements was being drawn off at the top in enlarged dividends. Apparently, too, the drawing-off process was accentuated in 1928–29.

Nor should it be implied, when we speak of the seven fat years as prosperous, that the industrial wage-earner's standard of living, even at the end of this period, was any great credit to the country. According to the estimates in *America's Capacity to Consume*, published by the Brookings Institution, in the year 1929 the wealthy and well-to-do (families with income of over $10,000 a year and unattached individuals with incomes of over $5,000) constituted only 2.4 per cent of the American population; the comfortably and moderately circumstanced (families with incomes of between $3,000 and $10,000 and unattached individuals with incomes of between $1,500 and $5,000) constituted only 19.6 per cent; the remaining 78 per cent of the American population lived on family incomes of less than $3,000 or individual incomes of less than $ 1,500. And of these 78 per cent, *more than half* had family incomes of less than $1, 500 or individual incomes of less than $750 a year.

To talk of the saturation point having been reached in the American public's demand for goods when millions of Americans were living on such a meagre scale is preposterous; to use the word prosperity at all in connection with a period when the workingman remained in such a plight may seem almost equally preposterous. Yet all things are relative; and the fact remains that the workingman, by and large, was better off during the seven fat years than he had been before, and that he had sufficient hope of improving his

condition to be in the main not keenly dissatisfied with the going economic order, so far as he could understand the nature of it. And in certain effectively unionized trades—in the building trades, for example—his wages were so high that many observers, seeing the lines of Fords and Chevrolets, yes, and Buicks, parked beside a construction job, could not believe that labor in general was not actually prosperous far beyond all precedent.

Meanwhile the gain in prosperity for those who were fortunate enough to be neither farmers nor industrial wage-earners was on the whole greater, and at some points was immense. Salaries, profits, and dividends rose. The total national income soared from a little less than 65 billions in 1922 to almost 90 billions in 1928. Unequally as this income was distributed and unstable as were some of its foundations, for the time being it seemed to justify everything that was shouted in the chorus of acclaim for big business. And apparently this new age of plenty was just in its infancy. The day was coming soon—so men and women cheerfully believed—when there would be two cars in every garage—even, perhaps, in the day laborer's garage. If business men were only given continued free rein, the future held the promise of boundless wealth.

4

With the coming of the seven fat years, the movement for which old Pierpont Morgan's formation of the Steel Corporation had struck the keynote back in 1901 went into double-quick. These were conspicuously years of concentration of economic power, of big business becoming bigger business, of vast and dazzling financial operations, of the mighty aggrandizement of capital.

The extent to which business was becoming organized into larger and larger corporate units has been graphically sketched by Berle and Means in *The Modern Corporation and Private Property*. Let us first set down a few of the facts assembled by these students, in order to make the general outlines of the picture clear. (Berle and Means leave out of their analysis the banks, and other financial concerns such as insurance companies; the figures given here are for non-financial corporations only.)

1. In 1929 there were over three hundred thousand non-financial corporations in the country. That is a very large number; clearly, the average

American business was still a small business.

2. But mark this contrasting fact. Among these three hundred thousand corporations there were giants; and the biggest two hundred of these giants controlled nearly half of all the corporate wealth and did over two-fifths of the business in the non-financial field. To put it in another way: for every one of these two hundred giants there were 1500 little corporations—and yet the giants did two-thirds as much business as all the little corporations put together!

3. Furthermore, the giants were growing much faster than their little rivals. In 1909, the assets of what were then the 200 biggest had amounted to 26 billion dollars. Ten years later, in 1919, the figure for the giants had risen to 43.7 billion dollars. In 1929, at the end of the seven fat years, it had almost doubled again, reaching 81 billion dollars. And this growth, according to the compilations of Berle and Means, was *two and a half times as fast, during those twenty years, as that of the smaller corporations. During the years 1924–28, in fact, it was three times as fast*. The giants were crowding out the rest.

Notice also that these giants whose growth was measured by Berle and Means were all non-financial corporations. In addition to them there were financial giants: banks, bank affiliates, insurance companies, and toward the end of the period, investment trusts. The trend toward larger units was marked in finance too. Consider, for example, the banks and the insurance companies.

Up to the depression of 1921, banks had been becoming more plentiful in the United States. Many of these were small-town banks whose business was largely dependent on farming. Many of them would never have been allowed to open, much less to continue in business, if the banking laws in many parts of the country had not been—as we have previously remarked—inexcusably lax. All through the seven fat years these small banks were dying: dying at the incredible rate of something like fifty a month. Meanwhile there was a great increase in bank mergers and in branch banking. (The number of branches in the United States had been only 1,280 in 1920; by 1930 it had risen to 3,516.) The result of these changes was that the number of banks in the country dwindled by over five thousand in the nine years 1920–1929; and that on the other hand the big urban banks, and particularly the metropolitan banks, grew much faster than the other survivors. At the beginning of 1930,

therefore, this was the situation: There were something like 25,000 banks in all. And one per cent of these 25,000—only 250 giant banks—controlled 46 per cent of the total resources.

Meanwhile the giant insurance companies were likewise growing at an astonishing rate: by 1930 there were three companies—the Metropolitan, the Prudential, and the New York Life—each of which had assets greater than all the life-insurance companies of the country combined had had in 1900. Here again, financial decisions involving billions of dollars in all were coming to be made by a few men.

Of the power represented by the investments of the big banks, the big insurance companies, and the big investment trusts there will be more to say later. At this point it need only be noted that, combined with the power exercised by the controlling forces in the 200 non-financial giants, it tended to bring into the hands of a few thousand men the immediate direction of something like half of the corporate business of the United States.

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How was this concentration, which we have been trying to measure, brought about?

One way in which it was brought about, of course, was through the ancient process of the survival of the fittest. The large concern—if efficiently managed and properly decentralized in its operations—was able to make the most of several advantages: it could buy its materials at lower prices than its competitors, it could cut prices and undersell its competitors at critical points, it could spend more money on research, on advertising, and on salaries to able executives.

Another way in which concentration was brought about was by mergers of existing corporations. During the seven fat years there was a positive mania for mergers: it was a dull week that brought no marriage announcements in the financial pages. Over twelve hundred of these weddings were solemnized in the years 1919–1928, involving over four thousand concerns (for some of the alliances were not monogamous). To some extent the merger mania was due to a belief that a large concern with a varied business would be more stable than a smaller one, less subject to ups and downs of fortune. To some extent it was due to a desire to bring about more economical operation: if, for

example, one salesman could sell two lines of goods instead of one, the cost of selling dropped (along with the second salesman). To some extent it was presumably due to a desire for the power that comes with size—the chance of being in some degree able to dictate prices, to approach monopoly.

Another less creditable but potent reason for merging—especially during the feverish days of the big bull market—was that a merger gave the men on the inside a chance to make money in the stock market. Sometimes the terms of the alliance put an extravagant value upon one or the other of the companies, and thus enhanced the immediate value of its stock; and anyhow, speculators had got the idea into their heads that mergers meant prosperity for the concerns involved. Therefore to arrange one of these alliances was to have a beautiful opportunity to push up the prices of the stock of the contracting parties, with easy profits for those who bought early and avoided the rush. And perhaps still another reason for many mergers was sheer vainglory: the blind urge toward bigness, the very human wish to do what everybody else seemed to be doing and do it on a suitably impressive scale.

Two examples of concentration, familiar to everyone, will illustrate what mergers and the survival of the fittest did to the American scene during the seven fat years. The first of these is the rise of the chain stores. By 1930, chain stores were doing practically one-fifth of the retail business of the country; in town after town, the local merchants along Main Street were failing one by one under the competition of groceries, cigar stores, drug stores which owed allegiance not to any citizen of the town, but to an office in a city hundreds or even thousands of miles away. The other example is the concentration of the booming automobile business into fewer and fewer big concerns. In 1923, 85 per cent of the sales of cars had been divided among six companies. By 1930, 83.3 per cent—almost the same proportion—was divided among *only three* companies. Ford, General Motors, and Chrysler had taken the middle of the road, and gradually their competitors were being forced off it.

Another way of achieving concentration, perhaps the most effective way of all, was through the use of the holding company—that far-from-ancient device which, as we have seen, had first come into wide popularity during the latter eighteen-nineties. Holding companies were legion now; indeed, to a large extent the economic history of the nineteen-twenties is the history of the holding company.

According to Berle and Means, among the 573 corporations whose stock was active on the New York Stock Exchange during the year 1928—an array of corporations which included most of the biggest in the country—92 were holding companies pure and simple, 395 were holding companies as well as operating companies, and only 86 were definitely outside the holding-company class. If there was a mania for mergers, so also was there a mania for the use of the holding-company device. By 1930, twenty per cent of the total railway mileage of the country had come under the domination of holding companies. (Shades of the Northern Securities Company!) As for the public utilities of the country, holding companies were taking them over so rapidly that by 1930—to quote N. R. Danielian—"about three-quarters of the power resources of the United States were under the aegis of nine holding-company systems."

The most extraordinary device of all for achieving concentration was an extension of the holding-company device: what became known as "pyramiding"—namely, the organizing of holding companies to control holding companies which in turn controlled other holding companies—and so on almost *ad infinitum*. How pyramiding could be used to bring a whole flock of once independent businesses under the control of a single corporation, and could enable a financier to do this with a minimum investment of his own money, may be illustrated by the following simplified example. It offers clues to much of the recent economic history of the United States.

Suppose there are four corporations, known as A, B, C, and D, engaged in independent businesses. They may be electric-light companies in four different localities, for example. Each of these four corporations represents an investment of a million dollars, so divided into bonds (which have no voting power), preferred stock (which has no voting power) and common stock (which alone has the right to vote, and thus to control the management of the corporation), that an investment of $250,000 will enable you to maintain control of the whole million-dollar concern. (All you require, to give you undisputed control, is fifty-one per cent of the common stock, and often much less will serve the purpose; thus it would ordinarily take less than $250,000 to get a firm grip on a million-dollar concern. But let us arbitrarily adopt $250,000 as our figure.)

Let us say that you would like to get control not merely of one of these companies but of all four of them—but this would require four times

$250,000, or a million dollars, and unhappily you do not possess so much money, or you have other uses for it. All you wish to put up is $250,000—enough to buy control of only one of the four.

Confronted by this difficulty, you meet it as follows: You organize Holding Company X. You put your own $250,000 into the purchase of enough stock in X to control it. You sell to the public the bonds and preferred stock of X and the rest of its common stock, thus bringing the total investment in Holding Company X up to a million dollars, of which you yourself have contributed only a quarter, and the outside public has contributed the other three-quarters.

Then with this million dollars, the disposal of which you can now dictate, you can achieve your objective: Holding Company X buys the control of Companies A, B, C, and D, paying $250,000 for each. You have got all four of them, and you have invested only your $250,000.

But this is not enough. You would like to get hold of other companies too. Corporations E, F, G, and H look tempting to you. Let us suppose they are of the same size as A, B, C, and D, which you now have in your domain.

You now organize a super-holding company, which we may call S, also with a capitalization of a million dollars, which an investment of $250,000 will control. You sell to the public the bonds and part of the stock of Super-holding Company S, thus getting $750,000 from the outside. With this money, so cheerfully contributed, you arrange for Super-holding Company S to take over your stock in Holding Company X, while you quickly substitute for this investment of yours in Company X an investment in a controlling share in Super-holding Company S—somewhat as a man doing up a package holds down with one finger the knot which he has just made while he ties another knot.

Now you have your own $250,000 invested in Super-holding Company S; S has $250,000 invested in Holding Company X, whose control of A, B, C, and D is still secure. And notice this. The $750,000 which the public put into Super-holding Company S is still free and clear, ready for investment.

With that $750,000, the disposition of which you can dictate (since you control S), you can easily organize Holding Company Y, which in like manner can take over Companies E, F, G, and H.

So presently you will find yourself in this enviable position: you sit at the top of a pyramid: you, with your $250,000 investment, control S, which in

turn controls X and Y, which in turn control A, B, C, D, E, F, G, and H. You had only money enough to pay for a quarter of the bonds and stock in a single company, yet you now have eight operating companies, two holding companies, and a super-holding company where you can do as you like with them. And you have done nothing which the business community considers in the least irregular. You have merely carried out the holding company principle to its logical conclusion. Or rather, part of the way; for the process can be carried still farther if your confidence and ambition hold out and the banks will favor you by lending you money at the proper moments to hold your knots securely in place while you tie new ones.

This is an arbitrary and over-simplified example, of course. Nevertheless it illustrates the general principle by which a little money could be made to go a long way in building up an economic empire, once pyramiding had been accepted as an orthodox financial device.

If you think it may possibly be an over-elaborate example, consider the elaborateness of the actual device by which the Tidewater Power Company in North Carolina was controlled by the Insull interests. According to Professor Norman S. Buchanan, the Tidewater Power Company was controlled by the Sea-board Service Company, and the Seaboard by the National Public Service Corporation, and the National by the National Electric Power Company, and this National Electric Power Company by Middle West Utilities; and Middle West was controlled jointly by Corporation Securities Company of Chicago and Insull Utility Investments, Inc.—which in turn were controlled by the Insull family and by the banking house of Halsey, Stuart & Co. It was a very long distance from that little power company in North Carolina to Samuel Insull; there were at least six steps to this pyramid; but Insull dominated it nevertheless.

Pyramiding had many advantages to the pyramider, besides that of making a little money go a long way. In another chapter we shall follow the adventures of some noteworthy pyramiders and discover what some of these advantages were. For the present it is enough to remark that if it had not been for the lavish use of this logical extension of the holding-company device, many of the giants of the economic world would never have got their growth.

But we are by no means done with describing the concentration of economic power during the seven fat years when we have measured the growth of the business giants and have listed some of the ways in which they added to their stature. It is just as important to inquire how these giant corporations themselves were owned and controlled. Let us begin at the beginning. Who owned them?

The answer to this question does not suggest concentration of control at all. On the contrary, it suggests wide dispersion of control. The fact is that the ownership of these big concerns was becoming more widely distributed than ever before.

Let us take as familiar examples three of the very biggest of them, three super-giants. First, the United States Steel Corporation. In 1910 it had had about 28,000 stockholders; in 1920, it had had 95,000; by 1930, it had 145,000—a steady increase. Second, let us take the Pennsylvania Railroad. In 1910 it had had 65,000 stockholders; in 1920, it had had 117,000; by 1930, it had as many as 207,000. Third, let us take an even more conspicuous example, the American Telephone and Telegraph Company—the biggest monopoly in the United States. In 1910, its stockholders had numbered 41,000. In 1920, they had more than tripled: the figure was 139,000. By 1930, they had more than quadrupled again, reaching 567,000—over half a million. So rapidly, in fact, were the Telephone stockholders multiplying that the amateur statistician could amuse himself by calculating that at the 1920–1930 rate of multiplication, it would take less than fifty years more for every man, woman, and child in the country to become an owner of Telephone stock.

In corporation after corporation the same tendency was exhibited. As the company expanded, so did the number of its shareholders expand. Surely, thought many observers, here was the conclusive answer to those who talked about the concentration of economic power. Industry and business were being democratized. The school-teacher with her ten shares of Telephone, the shopkeeper’s widow with her ten shares of Steel, the mechanic with his five shares of Pennsylvania Railroad—these were certainly not capitalists in the traditional sense, yet they were part owners of vast properties, they were voters in growing industrial republics. And there were millions of such little shareholders.

So huge had some of the corporate giants become that no longer was it

possible for any individual to own a majority of the stock. Indeed, in the hugest of them no individual held more than a trifling percentage. In 1929 the twenty largest holders of Steel stock owned together only 5.1 per cent of the total number of shares; the twenty largest holders of American Telephone owned only 4 per cent; the twenty largest holders of Pennsylvania Railroad stock owned still less—a mere 2.7 per cent.

Yet the directors and officers of most of these companies remained securely in the saddle, small as were their collective holdings. How did this happen? Was it simply that their management of the properties was so capable that the numerous owners were continuously pleased?

Hardly that. But a large electorate is easily dictated to. Just as a city population is more easily controlled by political bosses than a village population which can gather in town meeting, so an army of stockholders is more amenable to the policies of the management than a corporal's guard. They cannot readily meet to discuss the affairs of the corporation. If some of them wish to propose a change, the sheer immensity of the task of consulting their thousands or even hundreds of thousands of widely separated fellow-stockholders—to say nothing of the expense—is virtually prohibitive. It is enormously easier to sell one's stock than to fight.

If one objects to the way in which this economic community is administered, one does not have to go on living in it, as one usually would have to go on living in a political community whose administration one disliked. One can move out, as it were, at a few hours' or a few minutes' notice. In nine hundred and ninety-nine cases out of a thousand, the disgruntled stockholder simply sells; and the management continues firmly in office, unless failing revenues or rivalries in the inner circle cause dissension there. The men of this inner circle-directors, executives, bankers—maintain their power by being entrenched at the center of things, somewhat like a political ring—except that political rings are from time to time thrown out by an enraged electorate, and it is not easy to recall a single case during the seven fat years when the electorate of one of the giants threw anybody out (although from time to time they took sides in battles between the big insiders, as in the contest between John D. Rockefeller, Jr., and Colonel Stewart for the control of the Standard Oil Company of Indiana).

If the insiders remained in harmony, the stockholders dutifully and unquestioningly signed their proxies designating certain gentlemen of the

management to vote on their behalf at the annual meeting. The votes of the school-teacher, the shopkeeper’s widow, and the mechanic were thus cast exactly as the gentlemen of the management wished them cast. Dissensions there were, changes of control there were; but seldom if ever did the electorate bring them about.

Not that the electorate was not assiduously wooed and flattered by the management. There was always, of course, the distant possibility that it might discover its latent power. More vital to the management, however, was the fact that the men and women of the electorate were potential buyers of the company’s products, potential allies of the company against political opposition or interference, and—if there were employees among them—potential defenders of its wage and dividend policies. Many big corporations made a point of selling stock to their workers to give them a practical interest in profits, to align them with the interests of capital. Many of the public utilities made a point of selling stock to those who used their electric light or their gas or water, to make these consumers less skeptical about rates, more amenable to large dividends, more enthusiastic about private operation as against public operation. In any case shrewd corporation executives considered it wise to do their best to secure the stockholders’ good will as a prerequisite to securing the good will of the general public.

Thus the purchaser of a few shares of stock would perhaps receive a letter signed (in persuasive facsimile) by the president of the company, welcoming him as one of the “partners in the business,” pointing out that if he patronized the company’s products he would thereby “increase directly the sales and earnings,” and suggesting that he must “feel at liberty to write me personally at any time.” Or he might receive a pamphlet describing the company’s business, with the president’s card neatly attached to it with a clip. The annual reports which came to him were sometimes replete not only with figures but with graphs and attractive photographs of the company’s products or properties. When he sold his stock, he might receive another letter expressing the president’s personal regret at his departure and the hope that the company had not failed him in any way. Forms, all of these, of course; forms devised by ingenious experts in public relations, and distributed by the hundreds of thousands; yet sometimes they were so telling that the small stockholder who received them and then saw a Buick pass on the road or a General Electric fan whirring, would warm momentarily with the sense that

he himself was one of the proprietors of this useful product.

Yet sober second thought must have convinced him that he was hardly that. Only in a very limited sense did he enjoy the prerogatives or responsibilities which usually accompany ownership, and which in the earlier days of corporations had actually accompanied the ownership of shares. The average stockholder realized that the administration of the company was far beyond his reach. If he found the company to be engaged in lawless or nefarious business practices, he did not regard himself as in any way responsible. If he believed that he was not getting his fair share of its profits, he almost never thought of fighting out the issue. He knew, in short, that for practical purposes what he had bought was not a certificate of part ownership, but a certificate of his right to receive such dividends as the directors saw fit to declare, and of his right to take a profit if the price of the stock went up on the market. Not that the average stockholder felt badly about this. What he wanted was the dividends (or the profits). If they failed to come, he could sell out; and of course in those days they usually came. He accepted implicitly the truth that in this supposed corporate democracy an oligarchy reigned securely.

7

The power and responsibility of the stockholder who was not an insider were diminished not only by the sheer size and unwieldiness of the enterprise, but frequently by various specific devices through which the management could effectively shoulder him aside or disfranchise him. Some of these were old devices, some were new; but most of them came into wider and more confident use in the seven fat years than ever before.

Some of them, it must be said, were only incidentally useful in keeping the stockholder in his place; they were primarily invented for other purposes. For instance, some companies had established their nominal headquarters in small villages in order to avoid property taxes which would be levied in a city; but it also was presumably convenient to have to hold the annual meeting of the stockholders in a place so inaccessible that few of them would be likely to attend and ask questions. One chain-store organization, for instance, with over a million shares of stock outstanding, held its annual meeting in the post-office building in the village of Eddyville, New York.

Here—in a small bare room furnished with a couple of wooden benches and a few chairs and a desk—a group of insiders, holding proxies for a million shares or more, could transact the necessary business of the day. Other devices were deliberately invented in order to permit power to be concentrated.

For example, there was the voting trust: an old device by which a small group of men were empowered, by the terms on which the stock was issued, to elect directors annually for a certain term of years, When first used, the voting-trust device had been much criticized as involving virtual disfranchisement of the stockholders. But Morgan the Elder had used it freely—and had defended it strenuously, as you may recall, before the Pujo Committee. It was still in use in the nineteen-twenties, though perhaps not as popular as in previous years.

Then there was the issuing of non-voting stock. For a considerable period the right of the promoters of a company to issue non-voting preferred stock had been generally recognized, but the frank disfranchisement of common stockholders was a comparative novelty. Yet it was widely resorted to in the seven fat years, though always it was under criticism. For example, when the Dodge Brothers automobile concern was reorganized in 1925, not only the preferred stock but four-fifths of the common was deprived of any vote; the result was that the New York banking house of Dillon Read & Co., which performed the reorganization, was able to control a company representing a total investment valued at 130 millions by taking 2½ million dollars' worth of Class B common stock.

There was the somewhat similar device of vesting a disproportionate voting power in one class of stock. For instance, in 1929 the Cities Service Company (the capstone of a pyramid of utility companies) issued a special class of preferred stock to H. L. Doherty & Company, and this preferred stock *had twenty times the voting power of the common stock;* a fact which enabled Mr. Doherty, as it were, to hold control of Cities Service and its subordinate companies with one hand, although the Doherty concern paid only one dollar a share for its twenty-vote stock, while new common stockholders were paying from twenty to sixty-eight dollars a share for their one-vote stock!

Another device was the outright extension of the legal powers of the directors of a company, by the passage of new incorporation laws which gave

them the right to do things which had hitherto been banned (as infringing upon the rights of the owners of the corporation). It was the State of Delaware, under the political suzerainty of the wealthy duPonts, the powder and munitions manufacturers, which in the seven fat years took a long lead in the race among the states to secure incorporation fees by accommodating their laws to the wishes of company promoters. A generation earlier the rush of promoters had been to New Jersey; it was in Hoboken that the corporations which they formed had preferred to hang their hats. In the latter nineteen twenties the rush was to Delaware, and the corporate hats were hung in Wilmington.

In a single building in Wilmington, the Industrial Trust Building, some ten thousand corporations made their legal homes. It was not a large building; it was only ten stories high and ten windows wide on the front—in New York or Chicago it would be considered rather small. Nor did the ten thousand corporations occupy the whole of it. On the contrary: they all had their headquarters on the tenth floor (though there were stenographers and clerks available for their use on two or three lower floors).

The only readily visible sign of their legal tenancy of these modest offices was in the entrance lobby downstairs, where the visitor, expecting perhaps to see the usual moderate-sized framed panel containing the directory of tenants (with the names in white letters on a black background), saw, instead, panels on every side of him reaching almost from floor to ceiling and containing tier upon tier of names in small print. And what names! The Standard Oil Company of New Jersey, the Radio Corporation of America, the United Corporation, the National Dairy Products Corporation, the Pullman Company, and so on. (Indeed, some of these tenants appeared on the list not singly but in squad formation, followed by their subsidiaries: a visitor to the building in 1934 noted the names of 30 different corporations in the McKesson squad, of 18 in the Warner Brothers squad, of 13 in the Publix squad. The vast General Motors Corporation had its technical residence across the street, in the duPont Building, but a squad of its subsidiaries were listed here.)

Why this eagerness to take up legal residence in Wilmington? Because, in the first place, it need be only a very casual residence. According to the Delaware laws, none of the directors of a Delaware corporation need live in the state; it was not necessary to hold the directors’ meetings or even the

stockholders’ meetings in the state; and the corporation might do its actual business anywhere on the globe. But also because, in the second place, the Delaware laws gave to directors such privileges as these:

They need not own any stock whatever in the company which they directed.

They might issue stock, not only in return for cash or for property, but, if they preferred, in return for “services rendered”—the value of which they would of course fix.

They might arrange the voting rights of various classes of stock as they saw fit.

And, what was more, they might at any time dilute the stockholders’ share in the ownership of the company by issuing new stock without offering it first to the existing stockholders or even getting these stockholders’ permission; and to such new stock they might give such voting privileges as they saw fit.

In short, the stockholders of a Delaware corporation which took full advantage of its legal opportunities were shorn of many of the traditional prerogatives of ownership. (Strong to survive, however, are ancient ways of thought: if you had suggested to one of these stockholders that a Federal incorporation law might be to his advantage, he probably would have opposed such an innovation as “threatening the rights of property.” And of course he would have opposed it as undermining “states’ rights”—that rugged principle of local self-rule which enables New Yorkers to do business in California under the laws of Delaware.)

Still another device was the banker-controlled reorganization. If a company went into receivership or was for some other reason to be reorganized, it had become the custom for bankers not only to put up the money necessary to finance the financial operations which were required, but to dictate the terms of the whole reorganization. In theory such transactions were completely under the supervision of the courts, in order that the bondholders and other creditors and the stockholders and other interests involved might be fairly treated. What sometimes happened in practice has been clearly brought out by Max Lowenthal in his analysis of the reorganization of the St. Paul Railroad, the biggest of all such rearrangements of capital during the seven fat years.

This reorganization was managed by the Wall Street private banking firm of Kuhn, Loeb & Co. This banking firm, seeing that a receivership was

inevitable, selected a “friendly” creditor and suggested that it ask for the receivership. (Incidentally, this creditor was a coal company—and one of the heads of this coal company, on its being selected, at once obeyed a natural impulse and sold a thousand shares of St. Paul short!) The banking firm selected the judge before whom the creditor was to appear; consulted the judge in advance about whom to appoint receivers, and got a satisfactory group of three; selected the heads of the committees who were to represent the various classes of bonds and stock in the negotiations; and selected most of the members of the committees, including, as members, various eminent bankers who owned none of the securities whose interests they were supposed to represent. The banking firm further selected the trustees for the bondholders and the lawyers who were to represent various groups of security holders; and they secured the adoption by these committees of a complicated and lengthy agreement which maintained Kuhn, Loeb’s hold on the situation. Not only did the fees allowed to the banks and trust companies and corporation lawyers and to the firm of Kuhn, Loeb & Co. itself, for their services in reorganizing the railroad, run into the millions—which had to be paid out of the resources of this bankrupt road before the regular creditors got a penny—but naturally the plan of reorganization which was adopted left the control of the road firmly within the sphere of influence of Kuhn, Loeb & Company.

Indeed it was very generally the custom, when reorganizations took place, not only to levy large fees but also to make up the new board of directors in such a way that the control rested wherever the bankers wished it to rest. Once more the investor who was not an insider found himself at the mercy of those who held the reins of power.

Sometimes the bankers and corporation lawyers at the center of things exercised this power of theirs scrupulously and beneficently, sometimes they exercised it scandalously; the point which I am making here is simply that the power was theirs to exercise as they pleased.

There were still other devices by which insiders could acquire or protect their control. For example pyramiding, which we have already discussed, undoubtedly deserves mention here again.

It must be understood that often the men who put these devices to use had no sense that they were wielding power to which they were not entitled. The custom of taking such power had grown up through a long series of

corporation lawyers' inventions, and there were many arguments in favor of these inventions. They made for speed, for efficiency, for harmony; they did away with red tape; and they put the affairs of the corporation in question in what the insiders naturally considered to be the most capable and deserving hands—to wit, their own hands and those of their friends. Seldom did investors protest audibly; as we have seen, the investor, loudly as he might defend his rights of property in the abstract, was quite reconciled to relinquishing many of them in the concrete. And in the enthusiasm of Coolidge prosperity he was inclined to accept anything and everything which the masters of capital chose to do as superlatively wise and right.

One further fact should be made clear. Not all directors of corporations were necessarily insiders in any real sense. A director might concern himself with only some limited phase of the corporation's activities, or he might be ornamentally inactive; he might actually know almost as little as the outside stockholders about what was going on in the enterprise which he was supposed to supervise. When one man held 45 directorships, as did Albert H. Wiggin, chairman of the Chase National Bank, in the heyday of his career—or 52, as did Percy Rockefeller, or even 66, as did Charles Hayden—what were the chances that he would be able to devote time and care to a study of each corporation's work? Many financiers, when blamed in later years for scandals in the companies of which they had been directors, testified quite truly that they had been ignorant of what was happening. Often the real authority was lodged in one or two men. Decisions involving not only the fortunes of stockholders but the livelihood of employees, and affecting the whole economic destiny of an industry or a region, could be made by such men subject to only the flimsiest sort of check from either the ostensible owners of the property or their ostensible representatives.

8

To be an insider could on occasion be very profitable. There were many ways—ranging all the way from the reasonably defensible to the utterly indefensible—of making money by reason of one's inside position. John T. Flynn has remarked that very few Americans have made as much as a million dollars merely by saving their salaries, even by saving hundred-thousand-dollar salaries. It is probable that most of the self-made millionaires and

multi-millionaires—and there were thousands of them—won their fortunes by exercising the prerogatives of insidership: by being awarded stock for services (either with or without quotation marks), or by being awarded bonuses by their fellow-directors, or by using their inside knowledge to speculate in the stock market, or by engaging in personal transactions with their companies, or by investing in concerns to which they threw company business, or by siphoning the money of their companies into holding companies in which they held an interest, or otherwise.

As far back as 1904, Thorstein Veblen had called attention, in *The Theory of Business Enterprise*, to the divergence between the pecuniary interest of the insiders and that of the ordinary stockholders. He had noted, for example, that the easiest way for an insider to make money was to trade in the shares of his own company, buying these shares when he knew the company was doing better than the proxy-signers supposed, and selling them when he knew it was not doing so well; and that, once this insider's position at the center of things was secure, it was less to his pecuniary interest that the enterprise should prosper than that there should be a discrepancy, one way or the other, between the market value of its shares and their real value. As the corporate giants grew and their shares were more generally listed and more actively traded in, and the devices which we have been discussing came into common use, this divergence of interest became a much more widespread and more striking characteristic of American business than it had been in 1904.

The more dubious of the exploits by which insiders took their private profits seldom became widely known. Even if they became widely known they were usually regarded with considerable tolerance in the business world. Indeed, one of the most flagrant of all which came to light during this period —the Continental Trading Company deal, in which a group of officers of various oil companies drew off a profit of over three million dollars on an inter-company sale of oil (a profit which would otherwise have gone to one or more of their companies)—would hardly have caused the removal of Colonel Stewart from his position at the head of the Standard Oil Company of Indiana, if John D. Rockefeller, Jr., had not employed all the voting power of the large blocks of stock which he controlled, and all the great financial and moral influence which he possessed, to push Colonel Stewart out.

There were insiders of the most scrupulous integrity in big corporations, of course, but there were others to whom a position on the inside was a

legitimate opportunity to draw off the gravy from the dish; and for these latter there were opportunities in plenty.

But far more important for our consideration than the profits made by insiders at the expense of other participants in business is the effect which the growing concentration of a large part of American business into the control of a few corporations, and of the power over these corporations into the hands of groups of insiders, had upon the economic organization of the country. It is difficult to escape these three conclusions:

1. Some of the devices which were now permitted and were used on a large scale made for general financial instability. This was conspicuously true of the holding-company pyramid, and to a lesser degree was true of holding-companies in general, of investment trusts, and of other financial superstructures of the new-era model. Companies at the top of holding-company pyramids, for example, could not even pay the interest on their debt—let alone pay dividends—unless the companies in which they held stock could pay common-stock dividends. These financial superstructures were built for fair weather. If a storm should come, they were in danger of outright bankruptcy. They would not be able to afford to let the companies which they controlled pass dividends; in fact, they were under the most severe temptation to milk these companies of funds in order to protect themselves, and the banks which were involved with them, from disaster. The maintenance of prices or of rates was essential to their life; the maintenance of employment was not essential, at least not immediately; thus the almost inevitable thing for them to do under the pressure of fear would be to save money on labor and to try to hold their wobbly financial structures intact. But almost nobody foresaw foul weather then. The skies were clear, confidence ran high, and so capital built its superstructures high and handsome—and not nearly wide enough. The tumble was to come later.

2. The general process of concentration made for irresponsibility of management, because again and again the power which men wielded far outreached their personal stake in the enterprises which they controlled. It must be remembered that the right to form a corporation, with limited liability for those who conduct it, is not a natural right of man, or even a very ancient right of property. It is a privilege extended by the state, under restrictions which have traditionally been designed to assure a responsible exercise of this privilege. The utmost pains were taken, when the corporation

was a comparative novelty, to make sure that those who put money into it were protected, that the directors whom they chose were subject to their control and could do nothing contrary to their wishes; and also, on the other hand, that owners and directors alike were under restrictions as to the sort of businesses in which they could engage and were otherwise limited in power and scope. By the nineteen-twenties, however, it was possible to organize a corporation whose charter permitted it to do almost anything; it was possible for the management to act without the stockholders' consent on vital matters, even to enjoy opportunities to make money at the stockholders' expense, and to do all this without the financial risk which attends ordinary ownership. So complex were these financial structures, furthermore, that nothing less than a battery of accountants and investigators could find out whether the insiders had or had not lived up to their trust. Power without responsibility is dangerous. The men who occupied such favored positions would have had to be extraordinarily disinterested never to take advantage of their opportunities to profit at the expense of others, and extraordinarily far-seeing as well as disinterested not to engage in operations which would add to the instability of the national economy.

3. Finally, the concentration of so much power in a few hands had virtually the effect of setting apart a special economic class—a class of insiders, of economic rulers, almost as far removed, in opportunity and interest, from the ordinary stockholders—the proxy-signers—as the office executives were removed from the day laborers.

Here we must be very careful with our definitions. If we speak of the insiders as forming a class, we must not imply that it was a recognized class—consciously recognized either by itself or by most other people as possessing a well-marked identity of interest—or that it was a homogeneous or hereditary or exclusive class. Some of the members of it inherited their power, others rose from the ranks and seized it. They were scattered all over the country, though a large proportion of them—probably as many as half—were in Wall Street.

Nor must even Wall Street be thought of as representing anything like a united front. There were fierce divergencies of opinion there. There were men wielding large power in Wall Street who had never met one another. No man spoke to the financiers with such authority during the seven fat years as the elder Morgan had spoken to them a generation before; the voice of the House

of Morgan, while it was listened to with deep respect not unmixed with fear, did not now call the tune so definitely as it once had. Indeed, so abundant were the opportunities now open to this class, so easy was it for men of inordinate ambition to carve out for themselves new principalities, that discipline was largely lost. Here was no firm hierarchy, no well-organized general staff for the forces of finance and industry, but rather a confusion of powers.

But enough of such generalizations and reflections. Let us turn to drama. Let us watch some of these insiders as they use the privileges and devices which we have been analyzing. Only if we do this can we fully realize what an age of financial wonders was that span of years from 1922 to 1929.