CHAPTER II

HOW THE COMBINERS COMBINE

AMONG the allies, two New York banks—the National City and the First National—stand preëminent. They constitute, with the Morgan firm, the inner group of the Money Trust. Each of the two banks, like J. P. Morgan & Co., has huge resources. Each of the two banks, like the firm of J. P. Morgan & Co., has been dominated by a genius in combination. In the National City it is James Stillman; in the First National, George F. Baker. Each of these gentlemen was formerly President, and is now Chairman of the Board of Directors. The resources of the National City Bank (including its Siamese-twin security company) are about $300,000,000; those of the First National Bank (including its Siamese-twin security company) are about $200,000,000. The resources of the Morgan firm have not been disclosed. But it appears that they have available for their operations, also, huge deposits from their subjects; deposits reported as $162,500,000.

The private fortunes of the chief actors in the combination have not been ascertained. But sporadic evidence indicates how great are the possibilities of accumulation when one has the use of "other people's money." Mr. Morgan's wealth became proverbial. Of Mr. Stillman's many investments, only one was specifically referred to, as he was in Europe during the investigation, and did not testify. But that one is significant. His 47,498 shares in the National City Bank are worth about $18,000,000. Mr. Jacob H. Schiff aptly described this as "a very nice investment."

Of Mr. Baker's investments we know more, as he testified on many subjects. His 20,000 shares in the First National Bank are worth at least $20,000,000. His stocks in six other New York banks and trust companies are together worth about $3,000,000. The scale of his investment in railroads may be inferred from his former holdings in the Central Railroad of New Jersey. He was its largest stockholder—so large that with a few friends he held a majority of the $27,436,800 par value of outstanding stock, which the Reading bought at $160 a share. He is a director in 28 other railroad companies; and presumably a stockholder in, at least, as many. The full extent of his fortune was not inquired into, for that was not an issue in the investigation. But it is not surprising that Mr. Baker saw little need of new laws. When asked:

"You think everything is all right as it is in this world, do you not?"

He answered:

"Pretty nearly."

RAMIFICATIONS OF POWER

But wealth expressed in figures gives a wholly inadequate picture of the allies' power. Their wealth is dynamic. It is wielded by geniuses in combination. It finds its proper expression in means of control. To comprehend the power of the allies we must try to visualize the ramifications through which the forces operate.

Mr. Baker is a director in 22 corporations having, with their many subsidiaries, aggregate resources or capitalization of $7,272,000,000. But the direct and visible power of the First National Bank, which Mr. Baker dominates, extends further. The Pujo report shows that its directors (including Mr. Baker's son) are directors in at least 27 other corporations with resources of $4,270,000,000. That is, the First National is represented in 49 corporations, with aggregate resources or capitalization of $11,542,000,000.

It may help to an appreciation of the allies' power to name a few of the more prominent corporations in which, for instance, Mr. Baker's influence is exerted—visibly and directly—as voting trustee, executive committee man or simple director.

1. *Banks, Trust, and Life Insurance Companies:* First National Bank of New York; National Bank of Commerce; Farmers' Loan and Trust Company; Mutual Life Insurance Company.

2. *Railroad Companies:* New York Central Lines; New Haven, Reading, Erie, Lackawanna, Lehigh Valley, Southern, Northern Pacific, Chicago, Burlington & Quincy.

3. *Public Service Corporations:* American Telegraph & Telephone Company, Adams Express Company.

4. *Industrial Corporations:* United States Steel Corporation, Pullman Company.

Mr. Stillman is a director in only 7 corporations, with aggregate assets of $2,476,000,000; but the directors in the National City Bank, which he dominates, are directors in at least 41 other corporations which, with their subsidiaries, have an aggregate capitalization or resources of $10,564,000,000. The members of the firm of J. P. Morgan & Co., the acknowledged leader of the allied forces, hold 72 directorships in 47 of the largest corporations of the country.

The Pujo Committee finds that the members of J. P. Morgan & Co. and the directors of their controlled trust companies and of the First National and the National City Bank together hold:

"One hundred and eighteen directorships in 34 banks and trust companies having total resources of $2,679,000,000 and total deposits of $1,983,000,000.

"Thirty directorships in 10 insurance companies having total assets of $2,293,000,000.

"One hundred and five directorships in 32 transportation systems having a total capitalization of $11,784,000,000 and a total mileage (excluding express companies and steamship lines) of 150,200.

"Sixty-three directorships in 24 producing and trading corporations having a total capitalization of $3,339,000,000.

"Twenty-five directorships in 12 public-utility corporations having a total capitalization of $2,150,000,000.

"In all, 341 directorships in 112 corporations having aggregate resources or capitalization of $22,245,000,000."

TWENTY-TWO BILLION DOLLARS

"Twenty-two billion dollars is a large sum—so large that we have difficulty in grasping its significance. The mind realizes size only through comparisons. With what can we compare twenty-two billions of dollars? Twenty-two billions of dollars is more than three times the assessed value of all the property, real and personal, in all New England. It is nearly three times the assessed value of all the real estate in the City of New York. It is more than twice the assessed value of all the property in the thirteen Southern states. It is more than the assessed value of all the property in the twenty-two states, north and south, lying west of the Mississippi River.

But the huge sum of twenty-two billion dollars is not large enough to include all the corporations to which the "influence" of the three allies, directly and visibly, extends, for

First: There are 56 other corporations (not included in the Pujo schedule) each with capital or resources of over $5,000,000, and aggregating nearly $1,350,000,000, in which the Morgan allies are represented according to the directories of directors.

Second: The Pujo schedule does not include any corporation with resources of less than $5,000,000. But these financial giants have shown their humility by becoming directors in many such. For instance, members of J. P. Morgan & Co., and directors in the National City Bank and the First National Bank are also directors in 158 such corporations. Available publications disclose the capitalization of only 38 of these, but those 38 aggregate $78,669,375.

Third: The Pujo schedule includes only the corporations in which the Morgan associates actually appear by name as directors. It does not include those in which they are represented by dummies, or otherwise. For instance, the Morgan influence certainly extends to the Kansas City Terminal Railway Company, for which they have marketed since 1910 (in connection with others) four issues aggregating $41,761,000. But no member of J. P. Morgan & Co., of the National City Bank, or of the First National Bank appears on the Kansas City Terminal directorate.

Fourth: The Pujo schedule does not include all the subsidiaries of the corporations scheduled. For instance, the capitalization of the New Haven System is given as $385,000,000. That sum represents the bond and stock capital of the New Haven *Railroad*. But the New Haven *System* comprises many controlled corporations whose capitalization is only to a slight extent included directly or indirectly in the New Haven Railroad balance sheet. The New Haven, like most large corporations, is a holding company also; and a holding company may control subsidiaries while owning but a small part of the latters' outstanding securities. Only the small part so held will be represented in the holding company's balance sheet. Thus, while the New Haven Railroad's capitalization is only $385,000,000—and that sum only appears in the Pujo schedule—the capitalization of the New Haven System, as shown by a chart submitted to the Committee, is over twice as great; namely, $849,000,000.

It is clear, therefore, that the $22,000,000,000, referred to by the Pujo Committee, understates the extent of concentration effected by the inner group of the Money Trust.

CEMENTING THE TRIPLE ALLIANCE

[Care was taken by these builders of imperial power that their structure should be enduring. It has been buttressed on every side by joint ownerships and mutual stockholdings, as well as

sixth of the stock of the First National Bank, and made a $6,000,000 investment in the stock of the National City Bank. Then J. P. Morgan & Co., the National City, and the First National (or their dominant officers—Mr. Stillman and Mr. Baker) acquired together, by stock purchases and voting trusts, control of the National Bank of Commerce, with its $190,000,000 of resources; of the Chase National, with $125,000,000; of the Guaranty Trust Company, with $232,000,000; of the Bankers' Trust Company, with $205,000,000; and of a number of smaller, but important, financial institutions. They became joint voting trustees in great railroad systems; and finally (as if the allies were united into a single concern) loyal and efficient service in the banks—like that rendered by Mr. Davison and Mr. Lamont in the First National—was rewarded by promotion to membership in the firm of J. P. Morgan & Co.

THE PROVINCIAL ALLIES

Thus equipped and bound together, J. P. Morgan & Co., the National City and the First National easily dominated America's financial center, New York; for certain other important bankers, to be hereafter mentioned, were held in restraint by "gentlemen's" agreements. The three allies dominated Philadelphia too; for the firm of Drexel & Co. is J. P. Morgan & Co. under another name. But there are two other important money centers in America, Boston and Chicago.

In Boston there are two large international banking houses—Lee, Higginson & Co., and Kidder, Peabody & Co.—both long established and rich; and each possessing an extensive, wealthy clientele of eager investors in bonds and stocks. Since 1907 each of these firms has purchased or underwritten (principally in conjunction with other bankers) about 100 different security issues of the greater interstate corporations, the issues of each banker amounting in the aggregate to over $1,000,000,000. Concentration of banking capital has proceeded even further in Boston than in New York. By successive consolidations the number of national banks has been reduced from 58 in 1898 to 19 in 1913. There are in Boston now also 23 trust companies.

The National Shawmut Bank, the First National Bank of Boston and the Old Colony Trust Co., which these two Boston banking houses and their associates control, alone have aggregate resources of $288,386,294, constituting about one-half of the banking resources of the city. These great banking institutions, which are themselves the result of many consolidations, and the 21 other banks and trust companies, in which their directors are also directors, hold together 90 per cent. of the total banking resources of Boston. And linked to them by interlocking directorates are 9 other banks and trust companies whose aggregate resources are about 2 1/2 per cent. of Boston's total. Thus of 42 banking institutions, 33, with aggregate resources of $560,516,239, holding about 92 1/2 per cent. of the aggregate banking resources of Boston, are interlocked. But even the remaining 9 banks and trust companies, which together hold but 7 1/2 per cent. of Boston banking resources, are not all independent of one another. Three are linked together; so that there appear to be only six banks in all Boston that are free from interlocking directorate relations. They together represent but 5 per cent. of Boston's banking resources. And it may well be doubted whether all of even those 6 are entirely free from affiliation with the other groups.

Boston's banking concentration is not limited to the legal confines of the city. Around Boston proper are over thirty suburbs, which with it form what is popularly known as "Greater Boston." These suburban municipalities, and also other important cities like Worcester and Springfield, are, in many respects, within Boston's "sphere of influence." Boston's inner banking group has interlocked, not only 33 of the 42 banks of Boston proper, as above shown, but has linked with them, by interlocking directorships, at least 42 other banks and trust companies in 35 other municipalities.

Once Lee, Higginson & Co. and Kidder, Peabody & Co. were active competitors. They are so still in some small, or purely local matters; but both are devoted co-operators with the Morgan associates in larger and interstate transactions; and the alliance with these great Boston banking houses has been cemented by mutual stockholdings and co-directorships. Financial concentration seems to have found its highest expression in Boston.

Somewhat similar relations exist between the triple alliance and Chicago's great financial institutions—its First National Bank, the Illinois Trust and Savings Bank, and the Continental & Commercial National Bank—which together control resources of $561,000,000. And similar relations would doubtless be found to exist with the leading bankers of the other important financial centers of America, as to which the Pujo Committee was prevented by lack of time from making investigation.

THE AUXILIARIES

Such are the primary, such the secondary powers which comprise the Money Trust; but these are supplemented by forces of magnitude.

"Radiating from these principal groups," says the Pujo Committee, "and closely affiliated with them are smaller but important banking houses, such as Kissel, Kinnicut & Co., White, Weld & Co., and Harvey Fisk & Sons, who receive large and lucrative patronage from the dominating groups, and are used by the latter as jobbers or distributors of securities, the issuing of which they control, but which for reasons of their own they prefer not to have issued or distributed under their own names. Lee, Higginson & Co., besides being partners with the inner group, are also frequently utilized in this service because of their facilities as distributors of securities."

For instance, J. P. Morgan & Co. as fiscal agents of the New Haven Railroad had the right to market its securities and that of its subsidiaries. Among the numerous New Haven subsidiaries, is the New York, Westchester and Boston—the road which cost $1,500,000 a mile to build, and which earned a *deficit* last year of nearly $1,500,000, besides failing to earn any return upon the New Haven's own stock and bond investment of $8,241,951. When the New Haven concluded to market $17,200,000 of these bonds, J. P. Morgan & Co., "for reasons of their own," "preferred not to have these bonds issued or distributed under their own name." The Morgan firm took the bonds at 92 1/2 net; and the bonds were marketed by Kissel, Kinnicut & Co. and others at 96 1/4.

THE SATELLITES

The alliance is still further supplemented, as the Pujo Committee shows:

"Beyond these inner groups and sub-groups are banks and bankers throughout the country who co-operate with them in underwriting or guaranteeing the sale of securities offered to the public, and who also act as distributors of such securities. It was impossible to learn the identity of these corporations, owing to the unwillingness of the members of the inner group to disclose the names of their underwriters, but sufficient appears to justify the statement that there are at least hundreds of them and that they extend into many of the cities throughout this and foreign countries.

"The patronage thus proceeding from the inner group and its sub-groups is of great value to these banks and bankers, who are thus tied by self-interest to the great issuing houses and may be regarded as a part of this vast financial organization. Such patronage yields no inconsiderable part of the income of these banks and bankers and without much risk on account of the facilities of the principal groups for placing issues of securities through their domination of great banks and trust companies and their other domestic affiliations and their foreign connections. The underwriting commissions on issues made by this inner group are usually easily earned and do not ordinarily involve the underwriters in the purchase of the underwritten securities. Their interest in the transaction is generally adjusted unless they choose to purchase part of the securities, by the payment to them of a commission. There are, however, occasions on which this is not the case. The underwriters are then required to take the securities. Bankers and brokers are so anxious to be permitted to participate in these transactions under the lead of the inner group that as a rule they join when invited to do so, regardless of their approval of the particular business, lest by refusing they should thereafter cease to be invited."

In other words, an invitation from these royal bankers is interpreted as a command. As a result, these great bankers frequently get huge commissions without themselves distributing any of the bonds, or ever having taken any actual risk.

"In the case of the New York subway financing of $170,000,000 of bonds by Messrs. Morgan & Co. and their associates, Mr. Davison [as the Pujo Committee reports] estimated that there were from 100 to 125 such underwriters who were apparently glad to agree that Messrs.

Morgan & Co., the First National Bank, and the National City Bank should receive 3 per cent., —equal to $5,100,000—for forming this syndicate, thus relieving themselves from all liability, whilst the underwriters assumed the risk of what the bonds would realize and of being required to take their share of the unsold portion."

THE PROTECTION OF PSEUDO-ETHICS

The organization of the Money Trust is intensive, the combination comprehensive; but one other element was recognized as necessary to render it stable, and to make its dynamic force irresistible. Despotism, be it financial or political, is vulnerable, unless it is believed to rest upon a moral sanction. The longing for freedom is ineradicable. It will express itself in protest against servitude and inaction, unless the striving for freedom be made to seem immoral. Long ago monarchs invented, as a preservative of absolutism, the fiction of "The divine right of kings." Bankers, imitating royalty, invented recently that precious rule of so-called "Ethics," by which it is declared unprofessional to come to the financial relief of any corporation which is already the prey of another "reputable" banker.

"The possibility of competition between these banking houses in the purchase of securities," says the Pujo Committee, "is further removed by the understanding between them and others, that one will not seek, by offering better terms, to take away from another, a customer which it has theretofore served, and by corollary of this, namely, that where given bankers have once satisfactorily united in bringing out an issue of a corporation, they shall also join in bringing out any subsequent issue of the same corporations. This is described as a principle of banking ethics."

The "Ethical" basis of the rule must be that the interests of the combined bankers are superior to the interests of the rest of the community. Their attitude reminds one of the "spheres of influence" with ample "hinterlands" by which rapacious nations are adjusting differences. Important banking concerns, too ambitious to be willing to take a subordinate position in the alliance, and too powerful to be suppressed, are accorded a financial "sphere of influence" upon the understanding that the rule of banking ethics will be faithfully observed. Most promi-

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and connections. They are accorded an important "sphere of influence" in American railroading, including among other systems the Baltimore & Ohio, the Union Pacific and the Southern Pacific. They and the Morgan group have with few exceptions preëmpted the banking business of the important railroads of the country. But even Kuhn, Loeb & Co. are not wholly independent. The Pujo Committee reports that they are "qualified allies of the inner group"; and through their "close relations with the National City Bank and the National Bank of Commerce and other financial institutions" have "many interests in common with the Morgan associates, conducting large joint-account operations with them."

THE EVILS RESULTANT

First: These banker-barons levy, through their excessive exactions, a heavy toll upon the whole community; upon owners of money for leave to invest it; upon railroads, public service and industrial companies, for leave to use this money of other people; and, through these corporations, upon consumers.

"The charge of capital," says the Pujo Committee, "which of course enters universally into the price of commodities and of service, is thus in effect determined by agreement amongst those supplying it and not under the check of competition. If there be any virtue in the principle of competition, certainly any plan or arrangement which prevents its operation in the performance of so fundamental a commercial function as the supplying of capital is peculiarly injurious."

Second: More serious, however, is the effect of the Money Trust in directly suppressing competition. That suppression enables the monopolist to extort excessive profits; but monopoly increases the burden of the consumer even more in other ways. Monopoly arrests development; and through arresting development, prevents that lessening of the cost of production and of distribution which would otherwise take place.

Can full competition exist among the anthracite coal railroads when the Morgan associates are potent in all of them? And with like conditions prevailing, what competition is to be expected between the Northern Pacific and the Great Northern, the Southern, the Louisville and Nashville, and the Atlantic Coast Line; or between the Westinghouse Manufacturing Company and the General Electric Company? As the Pujo Committee finds:

"Such affiliations tend as a cover and conduit for secret arrangements and understandings in restriction of competition through the agency of the banking house thus situated."

And under existing conditions of combination, relief through other banking houses is precluded.

"It can hardly be expected that the banks, trust companies, and other institutions that are thus seeking participation from this inner group would be likely to engage in business of a character that would be displeasing to the latter or would interfere with their plans or prestige. And so the protection that can be afforded by the members of the inner group constitutes the safest refuge of our great industrial combinations against future competition. The powerful grip of these gentlemen is upon the throttle that controls the wheels of credit, and upon their signal those wheels will turn or stop."

Third: But far more serious even than the suppression of competition is the suppression of industrial liberty, indeed of manhood itself, which this overweening financial power entails. The intimidation which it effects extends far beyond "the banks, trust companies, and other institutions seeking participation from this inner group in their lucrative underwritings"; and far beyond those interested in the great corporations directly dependent upon the inner group. Its blighting and benumbing effect extends as well to the small and seemingly independent business man, to the vast army of professional men and others directly dependent upon "Big Business," and to many another; for

1. Nearly every enterprising business man needs bank credit. F.R.? The granting of credit involves the exercise of judgment of the bank officials; and however honestly the bank officials may wish to exercise their discretion, experience shows that their judgment is warped by the existence of the all-pervading power of the Money Trust. He who openly opposes the great interests will often be found to lack that quality of "safe and sane"-ness which is the basis of financial credit.

2. Nearly every enterprising business man and a large part of our professional men have something to sell to, or must buy something from, the great corporations to which the control or influence of the money lords extends directly, or from or to affiliated interests. Sometimes it is merchandise; sometimes it is service; sometimes

they have nothing either to buy or to sell, but desire political or social advancement. Sometimes they want merely peace. Experience shows that "it is not healthy to buck against a locomotive," and "Business is business."

Here and there you will find a hero,—red-blooded, and courageous,—loving manhood more than wealth, place or security,—who dared to fight for independence and won. Here and there you may find the martyr, who resisted in silence and suffered with resignation. But America, which seeks "the greatest good of the greatest number," cannot be content with conditions that fit only the hero, the martyr or the slave.