CHAPTER IV.

A Diagnosis of Present Conditions.

Cloten: "Why tribute? Why should we pay tribute? If Caesar can hide the sun from us with a blanket, or put the moon in his pocket, we will pay him tribute for light."

—Shakspere, "Cymbeline."

In what does the industrial injustice of to-day consist? As we have seen, the invention of new machinery has failed to improve to any great extent the condition of the workers,—certainly not to any such extent as might have been expected. Yet wealth has enormously increased. Where has it gone? According to Spahr, "seven-eighths of the families in America hold but one-eighth of the national wealth, while one per cent of the families hold more than the remaining ninety-nine";* and it is easy to see that this inequality is becoming aggravated every year. He would be a venturesome disputant who would claim that this division of wealth is directly in proportion to the value of the families to the community. Fortunes of many millions of dollars are growing common, and at the same time the number of tramps, paupers, criminals, lunatics and suicides becomes larger and larger. The question of the unemployed forces itself persistently upon us, and we are treated to the strange spectacle of one mass of workmen overworked, and another unable to obtain work; while the inability of the poor to buy the necessaries of life is ascribed usually to overproduction, which means that we have so many boots and shoes that people must go barefoot, and so much bread that they must go hungry! These

*"An Essay on the Present Distribution of Wealth in the United States," by Charles B. Spahr. T. Y. Crowell & Co., New York, 1896.

facts are enough to suggest a state of disease, but I will cite one single circumstance as proof positive. The fact that within the period of forty years two men have accumulated fortunes of three hundred millions of dollars each is the *reductio ad absurdum* of our present industrial system. The game which produces such results is not played fair, and it is useless to argue that it is. And furthermore, if it were, we cannot ask rational democrats to submit to it. It means an absolute power in a few hands, an oligarchy, a plutocracy, an autocracy, to which the descendants of Washington and Hampden will never accustom themselves. This wealth cannot but control the government, the schools, the churches. Industrial absolutism is a far more real thing than political absolutism, and if the latter justifies revolution, much more does the former. And this altogether irrespective of the manner in which the wealth was accumulated.

But let us examine cursorily the secret of these accumulations, and let us suppose that they did not transgress the tenets of conventional honesty, for I am considering our system at its best, and not its abuses. Let us pass over once for all the purchase of tariffs from Congress, the manipulation of preferential rates on the railways, the jugglery of charter-making, and the perjury of annual reports. Ignoring all this, let us look only at the lawful sources of these vast estates. One conspicuous example had its origin in the steel and iron industry, the particular child of our protective tariff. The result of this tariff upon this industry is well known. The Iron Age of November 12, 1903, asserts that American steel beams, plates, etc., are sold in Canada at from $9 to $11 a ton less than the home price; and the same journal, under date of December 17, 1903, gives a list of articles sold in South America for less than in the United States, where they are made. Thus a shovel which costs 90 cents in the place of its manufacture in America, brings only 36½ cents in South America. The American

File Association charges Americans more than twice as much as it charges Englishmen for its small files. Some years ago an acquaintance of mine went into a shop in New York to buy a bicycle. He priced one and was about to buy it at the price given, when the salesman ascertained that he wished to take it with him to England on the following Saturday, whereupon he offered to deliver the bicycle on board for about two-thirds of the price, because it was to go out of the country, which offer was promptly accepted. This absurd result of a protective tariff extends to other industries. I saw a large sign on Broadway, New York, in 1905, which read as follows: "Great Protection Sale. Waltham and Elgin watches, bought in England cheaper than in America, and brought back to undersell this market." The writer of an article on the subject in The Free Trade Broadside of the American Free Trade League for January, 1906, reports that he bought a Waltham watch at this place for a third less than the price asked by New York and Boston dealers in the same grade and make of watch. That the people of a country should deliberately make their products dearer to themselves than to foreigners, is past comprehension. From the point of view of the importer, a tariff is still less defensible. Let us suppose that the duty is levied in kind and not in money, for here as elsewhere money complicates and obscures the question. By a 50 per cent duty a government virtually takes away half the goods of the importer. It makes no pretense of giving him anything in return for it, as it does in the case of municipal taxes, school taxes and the like; and the only possible excuse which it can offer for its action is the pretext that the goods will injure the country; in other words, that the introduction of wealth into a community is a bad thing!

The attempt to justify a protective tariff by the argument that it shuts out the competition of foreign "pauper" labor, and thus prevents our wages from falling to the foreign standard, is fallacious. There is a natural law which already protects us, namely, the cost of transportation from these countries to ours. As for the uncivilized or partly civilized countries where labor is cheapest, it is our own fault that they enter into competition with us. We conquer these countries, set up a stable government, invest our capital in manufacturing plants in them, and then complain of pauper competition. The very instability of the governments of these countries is a natural safeguard against their competition; and by the time they become civilized enough to protect and invite capital, they are also civilized enough to demand high wages. The way in which to prevent the competition of these countries is not to impose a protective tariff against them, but rather to cease to exploit them, and to permit them to develop of themselves, with the assistance of such precept and example as we may be able to give them. I have seen Arab girls of twelve or thirteen years of age standing before rows of tubs manipulating the raw cotton in mills established in the Delta of the Nile by European capitalists. The air was thick with cotton dust, and I was glad to escape in a few minutes. The foreman told me that these girls worked thus from four in the morning to six at night, and received five small piastres (twelve and a half cents) a day. I could hardly believe this, and I asked a friend of mine who was connected with a similar mill if it was true.

"Yes," he said, rather reluctantly. "I didn't quite like it when I came here first, but the girls don't seem to mind it."

"Don't mind fourteen hours' work a day in that atmosphere!" I cried.

"Oh, that's not all," he replied. "When we are busy they stay overtime from six to ten in the evening, and we pay them an extra piastre (two and a half or five cents); and sometimes young mothers come with their babes at their breast, and put them down on the floor in the corner and work with the rest."

In view of such facts it becomes a question whether a stable government, like that established by England in Egypt, does not do more harm than good to the native population, for it makes such exploitation possible. However this may be, it certainly produces that very competition of pauper labor which protective tariffs are supposed to be necessary to prevent. We are trying to do in the Philippines what England has done in Egypt, and we are told that it is to our interest to establish a stable government in those islands. That is precisely what we ought not to do. It is the lack of stable government which prevents capital from going to countries where people are willing to work for starvation wages. It is an automatic arrangement of nature that in such countries capital is afraid to risk itself. It is best to let these beneficent natural laws work themselves out, rather than to interfere with them first by imperialism, and then again by protective tariffs. The one certain result of protection is the building of monopolies. Foreign competition is cut off; domestic manufacturers are thus enabled to combine and form an effective control of the market and fix prices at any figure they choose.

Strange to say, a tariff for revenue only is even less defensible than a protective tariff. The latter at least makes a pretense of being necessary to protect labor, which the importer is supposed to be injuring; while the latter has no excuse except the state's need of money. The government thus takes away my goods without having any special claim to them, without charging me with any injury to the public, and without undertaking to use what they take for my benefit. Surely this is robbery, whether it be practised by a state or by an individual. Tariffs are contrary to natural law, hostile to other nations, fallacious in principle, and injurious in their results. We have always rejected the idea of the continental *octroi*, the municipal custom-house. Over a hundred years ago we abolished custom-houses between our

States. It is high time to show the same wisdom in dealing with foreign states. The custom-house is a relic of barbarism and ought to disappear from the face of the earth.

The Steel Trust and the fortunes due to the steel industry have other subordinate sources besides the protective tariff. It is admitted that the Steel Trust now controls practically all the best ore beds of the country, and thus possesses a monopoly of the raw material. Furthermore, it has undoubtedly made use of its influence over the railways to obtain differential rates in its favor. The monopoly of raw material where this material is localized, and the railway monopoly by its command of the means of access to the locality, are often interwoven with each other.

How has the Steel Trust used its monopoly? We have seen that it sells its products in Europe for much less than it charges for them in America. It was incorporated in March, 1901, in the State of New Jersey, after the laws of that State had been altered to suit it, although its main office is in the State of New York, for the legislature of New Jersey has proved to be more responsive than others to suggestions of trust promoters. The capital of the companies which went to form this trust amounted to $864,000,000, and we may be sure that this already contained a good deal of "water." The new company added $25,000,000 in cash, and capitalized these assets for $1,297,000,000, an increase of $407,000,000—a mere matter of book-keeping, based in part upon the monopoly value of the combination, and in part on the folly of the investing public. The first annual report of this great aggregation showed earnings of $107,000,000, and net profits of over $85,000,000. It appears that the syndicate which advanced the $25,000,000 cash received 40 per cent on that sum, this interest being based upon the sum of $200,000,000, which it promised to supply but which was never called for. One-third of the gross sales of the Trust was net profit, and it paid dividends of fourteen per cent even upon the "water" in its common stock.* It is perfectly clear that the ability to make such immense gains—in other words, to charge so much more for an article than it was worth—was due to monopoly of one kind or another. What is it really that is capitalized when stock is issued for "water," that is, for nothing but prospective gains or speculative chances? It is the willingness of the people to pay tribute, to pass tariff laws facilitating extortion, to place mineral lands and rights of way in the hands of their exploiters. "Water" is a pretty word, suggestive of cleanliness and purity, but when it is applied to shares of stock it means the sweat of other men's brows. We hear much of the wages of ability, but the chief ability of the Steel Trust is not the ability to produce wealth, but the ability to annex other people's earnings, and its promoters became rich, not so much by working themselves as by making others work for them. If one man receives money without earning it, some one else is earning it without receiving it; and how much of the misery of the country may not be ascribed to these swollen profits?

We were led into the consideration of the Steel Trust by the endeavor to explain one of the greatest private fortunes of America. The only other fortune in this country which can equal or surpass it was made by petroleum. The history of this trust is pretty well known, and I need only refer the reader to the works of Mr. Lloyd and Miss Tarbell. The basis of this accumulation was differential railway rates. A railway performs a public function, and in order to obtain its right of way it makes use of the governmental power of eminent domain. It becomes in this way a trustee for the public; but the Standard Oil ring did not scruple, and no combination of American financiers ever has scrupled, to conspire with the

*Mr. Babcock of the House of Representatives, after a careful study of the question, concluded that when steel rails were selling in America for $28, the profit to the trust was $14, or 100 per cent on the cost.

railways to carry their products for a fraction of the price which they charged to others, and often to refuse altogether to carry competing oil, on the false pretense that they had no freight cars available. The facts and figures are given in the books to which I have referred, and are too well known to require repetition. In those days the allowance of differential rates was kept secret and covered up by a plausible system of bookkeeping, but Professor Commons has shown in an article in The Independent that the same kind of discrimination is now obtained from the railways openly, and that the railways are in this way favoring concentration more and more. Thus in 1883 oil shipped in less than carload quantities paid twenty per cent more than oil shipped in carload quantities, while in 1900 it paid 286 per cent more than carload. There can be no justification of such discrimination against small dealers, except the wish of the trust to crush them out.

The railway monopoly has helped to build up almost all the trusts of America, and it has also created a large number of enormous fortunes. The method in which these railways have been organized is really fraudulent, the stock as a rule representing nothing. Mr. Carnegie many years ago in an article on "Trusts" in The North American Review, stated that "the entire capital stock of railways in the West as a rule has cost little or nothing, the proceeds of the bonds issued having been sufficient to build them." And he adds, "The efforts of railway managers to-day are therefore directed to obtain a return upon more capital than would be required to duplicate their respective properties." It is the same old story of "water," the capitalizing of the readiness of a foolish people to pay more for things than they are worth—the exaction of tribute, made possible by monopoly, from those who use the railways. Spahr estimates at over two thousand millions of dollars the amount of railway capital in the United States which represents no investment whatever.

There are other monopolies of rights of way which have produced immense private fortunes, those, for instance, of the telegraph, telephone and electric-trolley railways which now cover the face of the country, and those which operate in cities and towns, making use of the streets, such as street surface and elevated railways, gas and electric light companies and steam heating companies. Any American newspaper reader could make a list of the "magnates" whose wealth comes from each of these sources. In every instance there is a monopoly, competition is practically impossible from the nature of the case, and the managers can charge what they please for their products or services; and this monopoly feature is the main item in their list of assets. Telegrams could be sent at cost to any part of our country for ten cents for ten words. Our present minimum is twenty-five cents, and the maximum a dollar or more; but the Western Union Telegraph monopoly is so strong that any attempt to establish a government system under the Post Office, as is the rule in other countries, is immediately stifled. In the street railway surface system of Manhattan Island it was estimated not long ago that there were from eighty to one hundred millions of "water," paying seven per cent interest per annum. This is supplied of course by excessive fares. Gas can be conveyed to consumers at a profit for less than fifty cents a thousand feet, and probably for far less; yet we consider it a great achievement when we secure legislation reducing the price to one dollar. Our express companies, whose monopoly is dependent on the railways, also charge extortionate rates, and have always succeeded in preventing the establishment of a parcels post.

Among other monopolies producing great fortunes may be mentioned the patent monopoly, the monopoly based on the internal revenue and that of mineral deposits. That inventors should be rewarded is indisputable, but it is doubtful if the best way to reward them is to create a monopoly.

The system has greatly strengthened such trusts and combinations as make use of machinery, particularly the telegraph and telephone people. It may be remarked incidentally that the trust system is not favorable to inventions. They are slow to adopt improvements which would require them to destroy their present plant, and they often buy up patents in order to prevent others from using them, and then lay them aside. In one case, I am told that the room in which these patents are stored is called the "grave-yard." The great improvement in transportation afforded by pipe lines was forced upon the Standard Oil Trust in its early days by its rivals, and it is competition and not combination which stimulates the use of inventions. A friend of mine invented a device for use in the production of oil which he was certain would prove valuable. He tried in vain to get the oil people to adopt it, and finally he built his own factory and manufactured it himself. The enterprise was a complete success. An example of the unjust working of our patent laws is shown by a report of the Committee on Patents of the House of Representatives. It states that there were presented to the committee two similar ounce boxes of phenacetin, manufactured in Germany by the same manufacturer. One sold in Canada for fifteen cents, the other in the United States for one dollar. And the difference was entirely due to our patent laws, which permit the patenting of a drug, while the laws of other countries do not permit it.

The monopoly which has its source in our internal revenue laws is not as complete as many others, but it is sufficiently strong. The requirements of this law force those who intend to go into the brewing or distilling business to raise a considerably larger capital than they would otherwise need. This initial difficulty to surmount has a tendency to shut competitors out of the trade, and the most assiduous opposition to the abolition of this tax comes from the brewers and distillers themselves who pay it. The monopoly of mineral deposits exists whenever the mineral lands are limited in quantity. Thus the copper trust, the anthracite coal trust, and, as we have seen, even the steel trust, are monopolies of raw material, and so long as the protective tariff shuts out foreign coal and metal, they have absolute control of prices. This monopoly is closely connected with the railway monopoly, and the profits are often concealed under extortionate freight charges. Thus the charge for hauling anthracite coal to tide-water forms a very large proportion of the selling price of coal, the railway company and the mining company being practically identical, although the law forbids railway companies from engaging in mining.

Another important monopoly is that of banking. The whole question of banking and currency is a most difficult one, and when I confess that the more I study it the less I understand it, I think that the confession differentiates me from other writers rather in the field of honesty than in that of intelligence, for the maze into which we have got ourselves by adhering to foolish precedents which have come down from barbarous times is too intricate for the human mind to unravel. It is pretty safe to say, however, that to future generations it will seem nothing less than insane for us to have undergone all kinds of hardships for the purpose of digging a rather useless metal like gold from under the snow fields of Alaska, and of then storing it under the sky-scrapers of Wall Street, where it is quite as useless as it was before, and this without taking into consideration the fact that the expenses of the migration to the Klondyke were far greater than the value of the gold recovered. There must be some way of managing exchanges without such a manifest waste of effort. If the details of our banking system tend to confuse us, we may at any rate argue *a priori* from the fact that the great accumulations of the trusts have placed the control of finance in the hands of the managers of these trusts, that these ingenious gentlemen are making out of that control all that can be made of it. The surplus in the national treasury is used to assist a list of favored banks, and Professor Commons shows in an article in The Independent that these banks have the power to withhold credits or raise rates of interest or call loans, and thus break down the stock market and buy up the shares at less than their value. The Clearing House Association is the absolute autocrat of the situation, and if it should ever be controlled by a single group of monopolists, as is quite sure to be the case before long, this group could easily crush out all competitors. Our national banking law tends to force banks in small towns to deposit their surplus in the banks of New York, Chicago and St. Louis, instead of loaning it to their customers. The issue of banknotes is also a monopoly, and private individuals should not be allowed to reap benefit from it. The juggling of the money-market affords many ways of making unfair profits, and so long as particular individuals have particular advantages, we may assume that some at least of these profits spring from these advantages.

Banking is a matter of the purchase and sale of credits. Banks do not really lend money, but they give their credit for a price to individuals whose credit is not known. And yet the credit of these banks comes from these very individuals and from the confidence of the public. Middlemen may be necessary in the business of monetizing credits, but middlemen with a monopoly are not. There is a monopoly involved in the exclusive right to issue bank-notes and currency, which are mere expressions of credit. So long as their volume is limited, it is possible for capitalists having large balances in their favor to withdraw them from the banks and lock them up in safe-deposit company vaults and thus "corner" the money market and bring on a panic, and it is asserted on good authority that this is sometimes done. At a meeting of the New York Chamber of Commerce in January, 1906, Mr. Jacob H. Schiff, one of the foremost financiers of Wall Street, pointed out the great dangers arising from an insufficient circulating medium. He showed that during a period of great commercial prosperity, the rates of interest on the "Street" had varied from 10 to 125 per cent. "We have witnessed," he said, "during the past sixty days conditions in the New York money market which are nothing less than a disgrace to any civilized country. . . . The cause is our insufficient circulating medium, or the insufficient elasticity of our circulating medium."* But why should this medium be limited at all? Why should not any individual or company of individuals be allowed to compete with the banks and the government in this field? No one would be obliged to take the private notes who did not wish to, but they would have a chance to prove themselves good. Labor exchanges have been much hampered by the law which prevents them from issuing labor checks as a kind of money. There is a monopoly, too, in the governmental right to coin money, and in the exclusive privilege given to gold and silver to be used as legal tender. These precious metals have a natural commodity value dependent upon their use in the arts, but the artificial demand created for them by making them the sole instruments of legal tender introduces a disturbing element into the world of exchanges, and adds a new power of "cornering" the market to the men who may gain control of the supply of these metals. Why should not a method be found of utilizing other commodities in the same way? The whole subject of money is still clouded by the haze of monarchical privileges, and weighed down by medieval mortmain. Without dogmatizing, it is safe to say that there is plenty of room for greater freedom and a fuller recognition of the right to equality of opportunity in this important department of human relations.

I have left to the last the greatest monopoly of

*The New York Evening Post of January 5, 1906, commenting on Mr. Schiff's address, ascribes the money stringency to which he refers to the action of the banks in allowing speculators to borrow their funds for the purpose of "cornering" the market, instead of reserving them for legitimate business.

all, that of the land, which in fact underlies many of those which precede, such as those of rights of way and of mineral deposits. Perhaps the commonest way of creating great fortunes of the second rank has been by securing the unearned increment of land in our cities and towns, and it is idle to cite instances. There are thousands of lots of land in the City of New York which in a single life-time have increased in value a hundredfold, and it is always possible to place on them small inexpensive buildings sufficient to bring in rent enough to cover taxes and charges, and thus enable the owner to sit still and watch his property grow in value. This practice has been so common that cheap buildings of the kind are called "taxpayers." Money must come from some one, and the man who receives millions in this way without earning it, is taking the money from others who earn it; and the community is drained to just that extent, with the inevitable result of poverty and want.

We have now considered the chief monopoly sources of wealth, and it is not easy to think of an example of great riches without discovering monopoly at the root. The Sugar Trust reposes manifestly upon the tariff, and a peculiarly flagrant abuse of the tariff. The Meat Trust has the same source. Its head, on his return from Europe a year or so ago, was asked if the combination would control the meat industry of this country.

"I think it will," he answered.

"Will it control Europe?"

"No," he replied. "It is impossible for any combination in the United States to control the meat trade of Europe, because of the large shipments of cattle from Argentina and the other South American countries."

No clearer proof of the dependence of the trust on the protective tariff is necessary. Fortunes have been made by publishers of newspapers, but here again we have the Associated Press monopoly, a branch of the monopoly of the telegraph. Socialists assert that great combinations and accumulations arise from the very nature of trade, and as a result of competition, and that monopoly has nothing to do with it; but the facts do not bear them out. It cannot be a mere coincidence that monopoly exists in all these cases to which we have referred, and it is doubtful if there are any exceptions. Those great combinations which have been successful and yet seem to possess no monopoly, will probably upon full examination reveal the existence of one. The large life insurance companies, for instance, are closely connected with railway and banking enterprises and with speculation and investment in urban land; and no one can tell how far differential rates obtained from railways and express companies may be responsible for the big department stores, nor how far they may owe their success to their alliance with manufacturing trusts holding other monopolies of raw material or of patents. The National Biscuit Company tried a few years ago to build up a trust without a monopoly, and they failed utterly until they secured some valuable patent rights. Many other trusts and "pools," such as the shipping trust and wall paper trust, have failed from the lack of monopoly, competition having soon broken them down. It seems to me to be a safe deduction from the facts, that monopoly is the source of vast private fortunes and the resulting inequality in the distribution of wealth.