

CHAPTER I

TYPES OF PRINCES OF PRIVILEGE

THAT great individual fortunes proceed from the privilege of appropriation of the bounty of nature may be proved by shining examples. The huge Astor fortune is conspicuous.

An American citizen born, Mr. William Waldorf Astor has voluntarily expatriated himself to become a British subject. Few British nobles are in riches so powerful. As part owner of New York, he could, did he care to do so, call about him an escort of liveried men a hundred times as numerous as the body of six hundred retainers that the king-making Earl of Warwick had attend him as he went to and from Parliament.

John Jacob Astor, the founder of the family, was the son of a jovial, improvident retail butcher. He was born in Waldorf, in the Duchy of Baden, Germany, in 1763. An older brother, George Peter Astor, had gone to London, and there later established the firm of Astor & Broadwood, makers and sellers of musical instruments. When John Jacob was perhaps eighteen he went to London and into his brother's employ. But he longed to join another brother in America, Henry Astor, who had a small butcher business in New York City. In November, 1783, with one good suit of Sunday clothes, seven flutes, and about five pounds sterling of money, all his worldly possessions,¹ John Jacob Astor took steerage passage for Baltimore, which he reached on the following March. He

¹ Parton's "Life of John Jacob Astor," p. 28.

at once repaired to New York. He had learned from a fellow steerage passenger something about the fur trade. This interested the young man, who obtained a humble position with a Quaker, named Robert Browne, who was in that line of business. Young Astor was painstaking, frugal and moral, and he rapidly rose from the simple duty of beating furs to that of purchasing them. With a pack on his back he traveled all over the State of New York. Within three years he set up in the fur business for himself. He had a little shop in Water Street, New York. It was furnished with only a few toys and trinkets used for trading with the Indians for furs. The use of furs in Europe and America was common at that time, so that there was an extraordinary demand. Young Astor soon established connections in London, and in turn became agent in New York for his brother's musical instrument firm of Astor & Broadwood. He moved into a large store in Gold Street, and hung out a sign bearing the words "Furs and Pianos." The fur trade increased until, in 1794, Astor owned a vessel that carried his skins to London and brought various merchandise back. In 1800 he extended his trade to China, sending furs and fetching teas. He was a man of unsleeping energy, a large organizer, a hard bargainer and singularly close with all save the members of his family. In 1800, after approximately fifteen years in business, Astor was, says Parton, computed to be worth about a quarter of a million dollars.

Had Mr. Astor left to his heirs only his fur and carrying trade there would probably be no Astor millions to-day. For, as is well attested, the large majority of industrial and commercial enterprises sooner or later fail. What the founder of the Astor family did was to invest his fortune in a form of privilege. He bought land in New York City.

Says Mr. Parton, "Having an unbounded faith in the destiny of the United States, and in the future commer-

cial supremacy of New York, it was his custom, from about the year 1800, to invest his gains in the purchase of lots and lands on Manhattan Island." He occasionally went into land speculation elsewhere, as in the case of acquiring title to about one third of the County of Putnam, New York State, in 1809, for \$20,000. He sold his interest in 1827 for about half a million dollars. He also made money in other ways. For instance, on the outbreak of the brief War of 1812, he bought United States bonds at 80, which a year later stood at 120. But from 1800 to the end of his life, in 1847, Astor's chief pursuit was land speculation in Manhattan Island. As has been observed, he had in mercantile pursuits acquired a quarter of a million dollars. When he died, forty-seven years later, he was believed to be worth \$20,000,000. This great increase had come mainly through increase in the value of his landed possessions. And he exacted the last dollar of his rents, too, even up to the time when he had become physically so feeble that he had to be nourished like an infant at a woman's breast, and, unable to ride in a carriage, had to be daily tossed in a blanket for exercise.

It is difficult to learn the precise extent and value of the Astor holdings to-day. They are scattered and held under various names. It is, moreover, the policy of the Astors, as with all the great estate owners, to shroud in darkness all information relative to their possessions. Yet it seems tolerably certain that the combined Astor estates in New York City are worth above \$400,000,000. Mr. Burton J. Hendrick, in *McClure's Magazine* for April, 1905, writing on some of the aspects of this subject, has observed that while at Astor's death his real estate was worth \$20,000,000, it had increased to \$100,000,000 in 1876, when William B. Astor died; was in 1890 estimated by competent authorities to be worth \$250,000,000; and now amounts, including the various Astor holdings, distributed among several branches of the family, to at least \$450,000,000.

Since the first Astor made his original investments, a hundred years ago, Manhattan Island has grown from 60,000 to 2,000,000 inhabitants. Its environs also have grown immensely. The Astors had to do nothing save to allow New York's increasing population to roll up a fortune for them. The Persian in the old tale found that the more he ate the more there was to eat. So with the Astors. They have spent the amount of their primal land investment many scores of times over, yet to-day they have, in real estate values in America's greatest city, what perhaps exceeds 2000 times the sum that John Jacob Astor originally laid out in land. It is like eating the cake and having it besides, the part so remaining increasing to many times the size of the original cake!

So important is the business of this Astor estate, or the "Astor Estates," for the property is divided into several parts, that the agent in charge is paid a salary as large as that which the nation pays the President of the United States — \$50,000 a year. This agent collects the rents. Out of these rents he distributes a royal income among the members of the Astor family. The remainder is used to make improvements, and to *buy more land* in New York City.

The value of the houses on the Astor estates represents, of course, a value arising from human toil. Yet it is a value that has to be repaired constantly against the attacks of the elements, which destroy all products of labor. But how much do such elements destroy the value of land? Whatever may happen to improvements, the land grows more valuable as time brings a larger population to the vicinity. This land value, or site value as it is also called, is not a value produced by labor. It is a value arising from the power which ownership of such land gives its possessor to exact labor or the fruits of labor from those who wish to use that land. As population grows, competition for the use of the Astor land increases. The manager of the Astor Estates need build no houses or

make other improvements. Persons in need of that land will pay handsomely for a lease of it, even though it be bare, and they be compelled to do all the improving. And as population increases and thereby intensifies the competition, higher and higher ground rents will be paid on renewals of the lease.

Let me be clearly understood. I am not reflecting in the least on the Astors personally. I make no question of their right to a high moral standing in the community. I have no grievance with riches as riches. I am merely tracing out the seats and the workings of special privileges. The Astors happen to possess a form of privilege.

The Astors were not made princes of vast wealth by conquest. As plainly they were not made such by industry, for the earnings of the original Astor were, as compared with the present Astor fortune, quite small. His descendants have been doing little or no work of a productive kind since, except to improve the estates, which have, to speak figuratively, been improving themselves, out of the rent from the land. The present Astors have been made richer than the Count of Monte Cristo of romance, through possession of a privilege created by law and approved by usage. Their privilege has the social as well as the legal sanction. Mr. John Jacob Astor, the forebear, for a song, bought land on Manhattan Island. Growing population did the rest. The Astors are Princes of Privilege, because they are princes of a considerable part of the soil of New York. They have cornered that part of nature against population.

Here we see the process by which private appropriation of a value that arises not from labor but from a bounty of nature heaps up a gigantic fortune.

Take an instance of another kind: great private riches that spring from a mineral bounty of nature, as presented in the fortune of the late John W. Mackay. As has been justly said of him, Mr. Mackay was a strong man, a good man, a very human man, who became very rich, but whom

wealth did not spoil. But how did he get his great riches — by his labor alone, or by his labor plus privilege?

Mr. Mackay first saw the light of day in Dublin, Ireland, in 1831. He was the son of poor parents, came to New York when a mere boy, procured employment in the ship-building office of William H. Webb, and was not twenty when he went to California, soon after the discovery of gold there in 1849. He worked with varying success in many mines in California and Nevada. In the seventies he was a woolen-shirted mining superintendent in the Washoe Mountains, Nevada. John G. Fair, a friend of his, was also a mining expert. These two men had the belief that there was good-paying ore in the Consolidated Virginia mine in the Comstock lode, although that mine was generally thought to be worked out. They found they could buy the mine for about \$100,000. They went to San Francisco and induced two saloon keepers, James C. Flood and William S. O'Brien, to make the purchase with them. Almost as soon as they commenced work on their new possession the partners struck a "bonanza," or "kidney," or pocket of pure ore. The monthly output of the Consolidated Virginia for the first half-year exceeded \$1,500,000. Mr. Mackay was reported to have owned a two-fifths interest, which became worth on the San Francisco Stock Exchange approximately \$60,000,000. He and each of his partners shot up to the front rank of the rich men of the world.

Did "industry" as we commonly understand that word produce the vast Mackay fortune? Or was it rather the fruit of a lucky strike? Whether we call it this or something else, the underlying fact is that that which Mackay discovered was a bounty of nature. Under the statute law mere discovery made this natural storehouse of silver the private property of the Mackay group. Although a legalized private possession, this silver mine was none the less a great privilege. It clothed the Mackay group with artificial and unnatural advantages in pro-

duction, insomuch as it gave them something with which to command the services and tribute of other men.

Observe how this was exemplified. Mr. Mackay and his bonanza partners set up the largest bank on the Pacific Coast, with a view to doing not only a regular banking business, but also to manipulating gold and silver stock speculation on the San Francisco market, at that time the largest and most active market in precious metal stocks in the world. Thence these four men reached out and procured other forms of monopoly, chief among them being railroad and telegraph lines. Armies of men put on the liveries of these Silver Princes of Privilege in their various realms of empire and worked for them with much the kind of subservience that high-born courtiers and low-born peasants bowed before and did the bidding of "Lord's Anointed" sovereigns during the feudal periods of Europe.

As with our Silver Princes, so with our Gold, our Copper, our Lead, our Zinc, our Coal, our Iron Princes. They are Princes of Privilege because they possess, albeit with full warrant of law, more or less close monopolies of nature's bounties. Such monopolies empower them to control the services of a multitude of their fellow-beings.

Heaped wealth results from appropriation of natural bounties or resources, whatever their form; whether in centers of population, or in mineral, timber or agricultural regions.

Only a few generations ago the nation had a continent to overspread. Such a vast area, with its varying soils and climates, should have been ample to support a thousand millions of people. But such has been our prodigal waste, that all save the rocky or dry regions has been appropriated. Much of this land was allotted under the homestead act, but through the operation of speculation and of heavy taxation on improvements, and very largely through mortgage foreclosures, a considerable proportion has passed into the hands of banks and of trust and

mortgage companies, who hold them out of use for a rise, or sell them in great tracts to large ranchers, or sell them on mortgage in small pieces to small users, expecting mortgage foreclosures sooner or later to bring them back, or else rent them out to tenants on shares. Land tenure in the United States had come to such a pass in 1900 that only thirty-one per cent. of the families owned homes or farms that were free and clear of all debt. Fifteen per cent. owned homes or farms that were encumbered, and more than half of the families — fifty-four per cent. — owned neither homes nor farms, but paid rent.¹

Much of the land of the United States, especially the Western and Southern farming land, is held in large tracts. For instance, the Texas Land Syndicate No. 3 owns 3,000,000 acres in Texas, in which such English noblemen as the Duke of Rutland and Lord Beresford are largely interested.² Another syndicate, the British Land Company, owns 300,000 acres in Kansas, besides tracts in other States. The Duke of Sutherland owns hundreds of thousands, and Sir Edward Reid controls 1,000,000 acres in Florida. A syndicate containing Lady Gordon and the Marquis of Dalhousie controls 2,000,000 acres in Mississippi.

But these holdings become as nothing beside some of the *stealings* of the Western land thieves. The extent of their operations is almost beyond belief. Mr. William R. Lighton, of Omaha, Nebraska, who has made an exhaustive and careful examination of this matter, says, in a remarkable series of articles published in the *Boston Transcript*:—

Within the last fifteen years there has been stolen from the public domain not less than 150,000,000 acres; an area that would make thirty States of the size of Massachusetts, five States as large as New York, or three States as large as Kansas. When the truth is known, — as it may be by and by, — these figures will doubtless be doubled,

¹ See "Free America," by Bolton Hall, p. 43.

² "Free America," pp. 55-56.

trebled or quadrupled. The present statement is one justified by present knowledge. A recent grand jury investigation in California, backed up by other official inquiry, disclosed that one man alone in that State holds title to nearly 15,000,000 acres, acquired within the time named by the flagrant processes of theft. There are dozens, and even scores of men whose stealings will run from 10,000 to 1,000,000 acres or more, the extent of their grabs depending principally upon their ability to swing transactions to a successful issue.

No reference is made to the solemn, semi-official chicanery of the railroad land grants or to the equally bald grants in the Southwest, glossing over earlier pilferings. Those deals appear by comparison impeccably honest and above reproach. This charge relates only to such downright, outright, deliberate stealing as cannot be described by any other name, bearing no stamp of formal official approval.

Wherever there is a body of public land large enough to make a bait worth swallowing, there the thefts are going on. Lands of every description are included. Millions of acres in the rich wheat valleys of California have been stolen; millions of acres of grazing lands on the plains of Kansas, Nebraska, Dakota, Wyoming and Montana have been stolen; millions of acres of timber land in northern California, Oregon, Washington, Wyoming and Montana have been stolen, not to mention the earlier stealings in the now almost devastated timber regions of Michigan, Wisconsin and Minnesota; and now the lumber thieves are plying their shameless trade unhindered in the new fields of Mississippi and other undeveloped districts of the South; unnumbered acres of mineral land have been stolen—in fact, nothing worth stealing has escaped the clutch of these bold outlaws.¹

And then behold the railroad grants. To the generation now growing up, the prodigality of the grants out of the public domain to what are known as the "land grant railroads" is scarcely credible. Besides a continuous strip of land from one to four hundred feet wide for a right of way, with additional land for sidings, stations, yards and the like, the Federal Government granted all alternate sections,² in a belt of land a number of miles in width running on each side of the right of way strip. The grant to the Southern Pacific, for instance, consisted of alternate sections of a belt of land 60 miles wide in California, and

¹ These articles are seven in number, and bear date of May 20 and 27, June 3, 10, 17, and 24, and July 1, 1905.

² A section is a square mile in United States land measurement.

100 miles wide in the Territories (some of them now States). The grant to the Northern Pacific consisted of alternate sections in a belt of land 120 miles wide, running from the western boundary of Minnesota to Puget Sound and the Columbia River.¹

The total railroad land grants have amounted to approximately 200,000,000 acres, or 312,500 square miles.

Can the significance of this be easily realized? This gift of public domain to our Western railroad companies was sufficient to have made 2,000,000 American farms of 100 acres each. It would have made more than 33,000,000 farms such as in Belgium support a family each in happy independence.

Or consider the matter in another way. This land gift to the railroads is equal to the combined areas of the States of Maine, Vermont, New Hampshire, Massachusetts, Connecticut, Rhode Island, New York, New Jersey, Pennsylvania, Delaware, Maryland, Virginia, West Virginia and North Carolina. It is nearly as large as the territories of England, Scotland, Ireland, and France, taken together, which support a population of at least 75,000,000.

This is the land ownership aspect of the railroad problem. It will grow more portentous as the years pass and multiplying population intensifies the demand for land. But what is of more pressing concern at present is the highway aspect of the railroads. This is a constant and increasing aggravation. A steam railroad is a steam public highway. In the beginning of railroad building in the United States it was so regarded. But the public rights were soon lost sight of under private possession. The

¹ Besides land, the Federal, State, and municipal Governments made enormous grants of money and bonds for the stimulation of railroad building, mainly in the West. The five Pacific railroads (Northern Pacific, Union Pacific, Atlantic and Pacific, Southern Pacific, and Texas Pacific) received enough in cash and bonds to build the roads and put large fortunes into the pockets of their managing promoters besides. These five roads received from the Federal Government alone United States bonds amounting to \$64,000,000.

policy of charging the general public "all that the traffic will bear," while secretly discriminating to build up monopolies among favored users, has made it a matter of profound and general wonder how, in the words of the distinguished jurist and railroad authority, Mr. Charles Francis Adams, "the business world sustains itself." Through high traffic charges and discriminating rates, railroad companies have become organizations for public plundering and monopoly breeding. Supreme Court Justice William J. Gaynor, of New York, in a recent address said:—

The greatest crime of our day and generation is the favoritism in freight rates on our public highways. I say crime, for more wrong has been done by it than by all the crimes defined by our statutes. It has crushed and beggared thousands all over the land. And I say public highways, because our railroads are our public highways. That the public highways of a country should be used to aggrandize some and destroy others is so infamous and so heartless that we will be looked back upon as a generation lost to moral sense for having allowed it so long.

A brilliant English observer, the late Duke of Marlborough, fifteen years ago called our railroads "the very life and lungs of trade." He said that the main arteries of these railroad systems are now permanently worked out.¹ "It will be practically impossible to make new routes, except at fabulous cost, with approaches to the coast. The strategical positions are seized and occupied, and whoever can possess himself to-day of a controlling interest in a main through route and allied feeders across the great central basin of the Northern States, cannot be deprived of a gigantic monopoly in the present and in the future."

Facing these facts, observe the extent to which the railroads have combined and railroad management has concentrated. Mr. Charles A. Prouty, of the Inter-State

¹ *Fortnightly Review*, April, 1891.

Commerce Commission, emphasizes what has been repeatedly shown: that "of the 200,000 miles [of railroad lines] in the United States, approximately 125,000 miles are controlled by a half-dozen individuals." Shall we not say then that our great railroad magnates, the Goulds, the Vanderbilts, the Hills, the Harrimans and the Huntingtons are Princes of Privilege?

If steam railroads are public highways, are not street car lines in the cities, towns and villages of the country in the same sense public highways? Are not all pipe and wire lines through such thoroughfares similarly public highways? Yet in not a single municipality are the street car lines in public hands. Where are the instances in which the telegraph and telephone wires and heat and power pipes are operated by public officials? In all but a very few of the municipalities the electric lighting and power wires are in private hands. In many municipalities the water supply is the business of private, or only quasi-public corporations. Only in the case of sewage piping is there public municipal ownership and operation throughout the country. Hence most of the arterial functions of the body social in our centers of population are in private hands. In a few instances enlightened self-interest swells net receipts by constant improvement in service, but the general policy pursued is to refuse to improve until driven by public pressure. And at all times is practiced with more or less care the art of "getting most feathers with least squawking."

The great value of municipal highway public franchise privileges may be judged from the fact that the annual "earnings" of these rights of way in Greater New York, as distinguished from plants and equipments, are conservatively set down by experts at this time at \$40,000,000. The combination, merger and absorption principles are, taking all the important communities together, rapidly bringing the public service corporations into fewer and fewer hands. Hence we have the Whitney, the Widener,

the Ryan, the Dolan examples of Princes of Municipal Franchise Privilege.

But it rarely happens that, whatever their source, the great individual fortunes are developed from one source of privilege alone. The amazing Rockefeller fortune, for example, sprang from several kinds of privilege, but mainly from two, — railroad monopoly and land monopoly.

John D. Rockefeller was born in central New York, in 1839, amid humble circumstances. He early went to Cleveland, Ohio, and his name appeared in the directory of that city in 1858 as a "bookkeeper." For several years he was industrious, his habits were frugal, yet he had but small success as a fortune-maker. He became a member of a struggling produce commission merchant firm — Clark and Rockefeller. The petroleum resources of Pennsylvania and Ohio were at that time having their sensational development, and Cleveland had become an oil-refining center. This new business opened new chances for money-making. Mr. Rockefeller left the produce business, and formed an oil-refining partnership with an ingenious Englishman named Samuel Andrews, who made a number of improvements in the refining process. Later Mr. Rockefeller established a second refinery under the name of William A. Rockefeller & Co., and opened an agency in New York. In June, 1870, he merged these and other companies in the Standard Oil Company, with a capital of \$1,000,000. The men interested were John D. Rockefeller, Henry M. Flagler, Samuel Andrews, Stephen V. Harkness and William Rockefeller, John's brother.

For a while the Standard Oil Company was unaccountably prosperous. In the face of keen competition its business rapidly grew. Its competitors were astonished and puzzled. At length one of them, Mr. Alexander, of the firm of Alexander, Scofield & Co., accused one of the railroads of giving the Standard Oil Company better rates.

So far from this being denied, it was agreed that Alexander's firm should share the rate favor. He was to pay the open or regular rate on the oil he shipped from the oil regions to Cleveland, which at that time was forty cents a barrel. At the end of each month he was to send to the railroad vouchers for the amount of oil shipped and paid for at forty cents, and was to get back from the railroad in money fifteen cents on each barrel. This concession, however, applied only to oil brought from the wells to Cleveland. Alexander was never able to get a rebate on oil shipped eastward, although the Standard Oil Company did. Protestations to the railroad managers only brought the explanation from them that if he would ship as large quantities as the Standard Oil Company, he could have as good a rate.¹

That was the secret of the Standard Oil Company's amazing ascension to power and wealth. Mr. Flagler, in 1870, had secretly proposed to General J. H. Devereaux, vice-president of the Lake Shore & Michigan Southern Railroad Company, whose New York connection was the New York Central Railroad, that if the Standard Oil Company could obtain a special through rate it would ship sixty carloads a day. The railroad official acceded. This arrangement, says Miss Tarbell, in her "History of the Standard Oil Company,"² gave the oil corporation "steady transportation the year round to the seaboard, at a rate cheaper than anybody else could get. It was equivalent to renting a railroad for their private use. Every Cleveland refiner was put out of the race. The refining business was so prosperous at the time the arrangement was made that suspicion was not at first aroused, but in a year's time the effect became apparent. Firms which had been making \$10,000 to \$20,000 a year, found

¹ Testimony of Mr. Alexander before the Committee on Commerce of the United States House of Representatives, April, 1872. See "History of the Standard Oil Company," by Ida Tarbell, Chaps. II, III.

² Chap. III.

themselves making little or nothing. But why? That they did not see. The oil business of Cleveland was growing prodigiously. By 1870 the city had become the largest refining center in the United States, taking 2,000,000 barrels of crude oil from the region — one third of the entire output of the oil regions. Instead of being destroyed by the competition of refineries built close to the wells, it was growing under the competition, but in spite of this growth, only one firm — the Standard Oil Company — was making much money.”

In other words, the railroad rebates enabled the Standard Oil Company to undersell its refinery competitors. Many of those competitors were ruined, others were absorbed, until Mr. Rockefeller's group obtained a monopoly of the business. Controlling the refining of oil, they had the power to control and then absorb, first the oil wells, then the pipe lines, and lastly to buy into the control of the oil-carrying railroads themselves.

With the wonderful flood of riches that the Standard Oil monopoly thus poured in upon Mr. Rockefeller and his companions, they could and did push out in other directions, procuring by purchase, by special legislation, or by darker ways a variety of other privileges. Some of these privileges were monopolies of nature, such as tracts of standing timber, tracts of iron, coal, silver, copper, salt and other minerals. Other privileges consisted of ownership of or “forcible influence” in public highway monopolies, such as steam and electric railroads, illuminating, telegraph and telephone companies. The great income proceeding from such sources enabled Mr. Rockefeller to buy into the control of tariff-created or tariff-fostered manufacturing combinations like the Steel Trust. Mr. Rockefeller was further enabled to establish a vast chain of banks which can “bull” or “bear” the stock market at will, promote or deter Federal or State legislation, sway politics, and altogether exert ten, twenty, fifty times the malign power that shook political institutions to the center in

President Jackson's time, when the United States Bank flourished.

Mr. Rockefeller may or he may not have been fair and honest in his business dealings after he came into possession of these privileges. That we need not discuss. We may be certain, however, that the most unfair and dishonest man, armed with such law-made advantages, could have become just as rich as the famous head man in the Standard Oil group of multi-millionaires. However intelligent, industrious, honest and frugal, he could not have risen from obscurity and poverty to the front rank of the enormously rich men of the world but for the help of certain laws and immunities, which, for short, are embodied in the word "privileges." Indeed, until Mr. Rockefeller obtained such privileges, he remained comparatively poor and obscure. And because he has not had the use of such privileges, many another man just as able as Mr. Rockefeller is slaving away his old age at a bookkeeper's desk, if indeed he has not been supplanted even there by a younger, quicker man, and been reduced to a lower position, or gone to his grave, wrecked in body and mind.

If particular men have been named in this chapter, it is not with personal animus, but only to show how the principle of privilege operates when used — how it would operate in the hands of anybody who applied it with ordinary intelligence and even a part of the energy that is expended in general commercial and manufacturing pursuits. In brief, it is not the man, but the principle, that is to be kept in mind.