

CHAPTER II

TO STOP TAXATION EVILS, GRANTS AND IMMUNITIES

IN the chapter preceding it has been remarked that were we to tax land values to their full, the Steel Trust, which is withholding from use great quantities of most valuable mineral land, would be unable to sustain the heavy burden of the tax and would collapse like a house of cards.

But besides the great privileges of natural opportunities, the Steel Trust enjoys other important forms of privilege, — special relations with transportation lines, which help it against competitors within our borders, and heavy tariff duties against steel imports, which shelter it from foreign competition. The second of these two forms of Government favor we may now consider.

II. Tariff and Other Taxation on Production and its Fruits

Every consideration for the public weal requires that the tariff should be repealed from beginning to end. The men who are looked upon as the fathers of the protective idea in the Republic never dreamed of the monster that has sprung from the loins of this policy. They regarded the tariff first of all as a means of obtaining revenue. They referred to its protective principle as incidental. But under various pleas and chiefly of recent years, when Privilege has become so potent in politics, about which the mass of the people, engrossed in the struggle for a living, have at the same time been so con-

fused and neglectful, the tariff rates have been raised approximately to twenty-eight per cent. of the value of all the imports into this country and close to fifty per cent. of the value of the imports on the dutiable list.

For generations the plea was for protection of infant industries. Exhibit A in our infant industry line is the Leviathan trust, the United States Steel Corporation. With wide command of natural opportunities and transportation advantages, and the lion's share of the home steel trade, and with serious competition from abroad shut out by the tariff wall, this huge concern has only to consult with a few of its larger rivals to establish a mean high price throughout the United States for its products. Yet in truth, so capable is the trade of being conducted here without any Government helps or advantages of any kind, that the United States Steel Corporation is developing a great export trade to various parts of the world in free and open competition.

This has no reference to the working off on foreigners of "surplus domestic stocks," by "job lots," as it were. Such transactions, although much talked of, are probably insignificant. But what is very large, important and permanent is the growing export trade in which highly protected manufacturing establishments in this country engage. They circulate in foreign countries price-lists intended to undercut the prices of foreigners, where quality, quantity and other essential elements are equal. Americans going abroad are amazed and chagrined, if they are not hardened to it, to find offered for sale in European cities staple American manufactures, like tools and machines, at prices very much below those asked at home.¹ Export price-lists issued by our manufacturers

¹ On lower Broadway, New York, is a jeweler who has bought abroad thousands of Waltham and Elgin American-made watches at such low figures that he finds profit in selling them here at a retail price far below the wholesale prices at which similar watches are sold by the manufacturers in this country.

are rarely to be seen here. They are, in fact, as difficult to procure in this country, if publicity here is suspected, as it is nowadays to find the eggs or the nestlings of the phoenix.

The purpose of our tariff-nurtured trust infants is to battle with the foreign manufacturer for foreign markets, but to keep this market as a private preserve!

Even the Coal Trust has to have its protection against foreign coal, and the Standard Oil Company against foreign oil! With all its boldness, however, the latter monopoly has not had the temerity to have oil put on the dutiable list. It reaches that result by indirection. In the general matter of the law there is a clause that requires the imposition on imported oil of a duty equal to that imposed on oil by the country of shipment. As the only country besides the United States having oil to export is Russia, and since Russia has an oil duty, this clause in our tariff act is leveled against the Russian natural bounty. But for those few words, Russian petroleum would either be competing with Standard oil for consumers in this country, or else it would compel the latter to sell at much below present figures to hold our market.

Nor does the tariff protect the wages of American workmen. It protects nothing but Privilege, which is doing its utmost to break down labor unions and reduce wages to the minimum at which laborers can continue to engage in production.

Therefore all future tariff grants by Government should cease and present grants be revoked.

And while it is thus clear that tariff taxation results to the advantage of the few and the disadvantage of the many, it also is certain that all other taxes imposed on production have precisely the same effect. This was illustrated when the Match Trust, following the Civil War, opposed the removal of the internal revenue stamp tax. The existence of the tax made necessary a larger capital to engage in the manufacturing of matches than would

be required without it. The less capital needed, the more competitors. Hence the match combine favored the tax, knowing full well that, while relieved of competitors, it really would not have to bear the tax in the end, for, competition being reduced, the amount of the tax could be added to the price of the matches and the consumer be made to pay both. In a similar way the manufacturing chemists not protected by patents and trade-marks have long opposed the reduction of our exorbitant internal alcohol tax, realizing that its repeal would lower the price of alcohol and stimulate competition in lines that they had to themselves.

This curious appearance of desire to be taxed may also be seen in a thousand directions where the tax is not a Federal and specific tax, but local or State and general in its nature. It is thus with capital invested in the buildings, furniture, machinery, tools and other equipment of large manufacturing concerns troubled with competitors. Observation tells the owners or managers of such establishments that if the taxes falling upon the part of real estate called improvements are irksome to them, they are calculated to be oppressive to their small rivals for two reasons: first, that the tax adds to the amount of capital needed in the business; and second, that the small concern has less opportunity than the large one to evade collection of its full share of the tax. Of course where a monopoly becomes established from some other cause — like a patent medicine, which sells on its name — taxation is unnecessary to embarrass rivals. It has no rivals and the tax can only embarrass the monopoly itself. But these cases are comparatively few, and they are exceptional to the general cases of production we are considering where the field is open to competition. In that field all kinds of general taxes upon production operate in the end to the benefit of the great producers, because it is more than proportionately hurtful to the small ones.

General taxes, therefore, tend to promote and strengthen

Privilege, not to mention the stimulus it gives to perjury and other immorality.

And since land values are publicly made values and should be, unless the public is to be robbed of its due, fully covered into the public treasury, and since these values constitute a fund ample to meet all the reasonable needs of local, State and Federal Governments, neither any kind of tariff tax nor internal tax falling upon industry or the fruits of industry would be necessary for purposes of revenue. So that all plea that these taxes are necessary to supply revenue breaks down.

From this it follows that all tariff taxes and all other taxes falling upon production or its fruits — all of which taxes now constitute a very important element of privilege — should be revoked.

Let us pass to the third class of privileges.

III. Special Government Grants

Observe transportation. It will be remembered that before he became an iron and steel master, Mr. Carnegie was a railroad man. He was the western superintendent of the Pennsylvania Railroad, stationed at Pittsburg, a city established at the junction of the Allegheny and Monongahela rivers, in the heart of the iron ore, soft coal and natural gas belt. At this period the Standard Oil Company was commencing its notorious career through the use of the railroad rebate. That insidious form of favor had not as yet so proved its deadly power as to arouse general and bitter resentment and cause the making of express laws to prohibit it. But that proof came soon. For the rebate principle was simply for favored users to receive back secretly from the railroad part of the payment openly made on shipments under the regular published schedule of rates — the rates charged to all rival shippers.

Mr. Carnegie was not unfamiliar with the workings of

the rebate principle, and it is scarcely probable that he and the highest officials of the Pennsylvania Road did not avail themselves of it when, organized as an outside group, they jointly went into iron and steel bridge and rail making with large and successive contracts from the Pennsylvania, Fort Wayne and other roads. If the various Carnegie iron and steel companies did not have the advantage of the rebate after it had been prohibited by law, yet they did have a similar advantage — a discriminating rate. For, owing to the stimulus of special contracts for products and rebates on the shipping of the latter, together with the natural energy and abilities of Mr. Carnegie and the men associated with him, the Carnegie plants in the development of the trade rapidly grew into great establishments. They became the larger when the policy was commenced of acquiring all the best quality and most conveniently placed natural materials. With an immense output from his furnaces and mills at his disposal, Mr. Carnegie could demand in lieu of rebates, special rates from the railroads, on the ground that he was a bigger shipper than other steel makers. Even to this day the railroad managements do not hesitate to say that they should make a lower rate to the large than to the small shipper.

Ultimately the Carnegie amalgamation acquired or built short, connecting railroads. One of these runs between Pittsburg and Lake Erie. In conjunction with it a fleet of boats is operated for the carriage of ore and products. The United States Steel Corporation, which absorbed the Carnegie combination, now possesses these roads and boats and other roads and boats besides, joining the steel plants with the several important railroad systems.

In these circumstances it is idle to suppose that the railroads do not offer an important advantage to the Steel Trust, as against the smaller steel manufacturing shipper.

And the Steel Trust is but a type of the favored ones.

We have seen how the Standard Oil Company, starting with secret railroad contracts for big rebates in consideration of large guaranteed shipments of oil, had merely to arrange to supply refined oil to the distributing centers in great quantities at low prices to destroy its rival refiners. Having killed or absorbed competing refineries, and thus obtained control of the refining of oil, the Standard then proceeded to discriminate against, to bully, or to cajole oil well owners, until it acquired a vast source of supply. Controlling this source, and the refining, it was then possible, using the railroad rates as an additional club, to embarrass the pipe lines and soon to absorb them. Then possessing the oil lands — or at least the most convenient of them — the refineries and the pipe lines, the Standard successfully demanded larger rebates or discriminations from first one railroad and then another, the penalty of refusal being reduction of the great Standard shipments. The enormous profits obtained in this way enabled the Standard-Rockefeller group to enter the railroad world as large stockholders, bond owners, directors, controllers and manipulators, and from the railroad to enter the banking, the stock-speculating and the stock-juggling worlds, and also a considerable number of industrial lines.

See what the railroads have done for the Meat Trust. They have given special rates and special despatch to lines of stock and refrigerator cars owned by a combination of great meat packers, whose headquarters are in Chicago and Kansas City. As a consequence, not only have these packers been able to undersell and destroy general competitors, but, because they have had no rivals, they have further been able to put down the prices they would pay ranchmen for stock on the hoof; while, on the other hand, they have, owing to their great control of the general supply, put up prices to the consumer of dressed meat. Indeed, they have been able in a multitude of instances to destroy local rivalry by refusing to supply with their

products retail butchers who dealt in similar products from any other source.

Growing out of this, we have seen the scandals that have come to light in the carriage of fruit — how the Meat Trust, with the knowledge and help of the Santa Fé and the Southern Pacific railroads, dictated terms and took control of the very important southern California fruit-carrying trade. The Meat Trust's refrigerator cars had advantage over all others, indeed, practically monopolizing that kind of traffic.

Every one with the least experience in railroad affairs knows that the railroads, as they are operated, work for the overwhelming advantage of certain great shippers, just as if certain city merchants with much trucking to do should have a monopoly of horse-drawn vehicles, while their competitors were unable to get anything save man-pushed wheelbarrows.

Besides this discrimination which works such a hardship against general industrial and commercial businesses and to the advantage of an inside favored few, the railroads bear with great weight and manifest inconvenience upon the multitude of travelers. The policy is not to give the maximum of accommodation at the minimum of charge, but the reverse — the minimum of accommodation at the maximum charge. Instead of being capacious, convenient public highways, compatible with advancing civilization, they are of the nature of old-fashioned toll-roads, where gates swung open only on the payment of high charges, regardless of the condition of the roadways.

The question is, How shall the railroad service be divorced from these evils?

Surely not by the appointment of courts or commissions to fix rates or otherwise radically interfere with their management, if the ownership and control of these railroads are to remain in private hands. Either the people as a whole must assume ownership and management of these public steel highways, as they have of the other highways,

or else they must let private ownership and management alone.

Experience shows that all public partnerships with private monopolies are signally detrimental to public interest. Everybody's interest becomes nobody's interest, while the private interest is always alive and active, turning all things to its own profit. The establishing of regulating courts and commissions is only to set up instruments to be used by the railroad companies against the public, for the railroads will devote themselves with keenness and assiduity to the business of electing, having appointed, buying, or otherwise controlling the judges and commissioners. The recent exhibition of a New York State Railroad Commissioner who desired reappointment should be a warning. He presented to the Governor a petition signed by the presidents or other high officials of the largest railroad companies in the State, and of bankers and speculators dealing in railroad corporation securities! How could such a man adjust railroad fares or look to the convenience of the public, save as his patrons, the railroads, should approve?

Therefore railroads and all other forms of public highway, where free competition cannot be maintained, should not be in private, but in public hands. And this applies to local as well as to inter-community and inter-State roads. It further applies to pipe lines and tunnel lines and wire lines of whatever kind used in the service of the public.

A broad principle to be laid down is that all natural monopolies — enterprises which are indispensable to civilization, but which are not open to general and permanent competition, and which of necessity must center in few hands — should be publicly owned and controlled. Any departure from this principle can only be on the ground of expediency, which is invariably weak and dangerous.

If it be said that the people are not to be trusted with functions so vital to complex civilized life, then it is also

to be said that they are not to be trusted with self-government. Of course, if they undertake to conduct railroads, they must be watchful of their public servants. This is only the same as saying that if they venture on self-government they must be vigilant to govern, and not to be governed.

But it is always to be remembered that with the removal of the railroads and other public highways from private ownership and control, a great, confusing, corrupting element in the general politics in America will be removed. The considerable addition to the civil servants that public operation will bring, will, in its detrimental effect on politics, be as nothing against the influence of a few railroad princes, who now, gathering around a table in a private office, and discussing political situations, actual and desirable, can sign checks for ten, fifty, a hundred thousand, or even, if need be, for a million dollars for "campaign expenses."

Therefore all direct Government grants to public service corporations or to individuals having public service in view should at once stop; and all such grants hitherto made should be revoked or taken over into public hands.

This brings us to a consideration of the fourth category of Privilege.

IV. Grants under General Laws and Immunities in the Courts

By grants under general laws is meant particularly grants of corporate power under general incorporation laws. When we look at some of its fruits, we may well ask if it is not altogether wrong to create artificial persons, called corporations, since they too often act after the manner of the Frankenstein monster. But concluding that such persons are not only proper, but necessary to our civilized needs, just as are explosives, we ask where shall be the limitations? Shall we revert to the general usage

in this country down to about 1840 and have every incorporation formed by a special legislative act? If not, where shall we stop short of the present Incorporation Act of New Jersey, which, in the words of United States Assistant Attorney-General Beck, grants to persons acting under it, powers "infinite in scope, perpetual in character, vested in the hands of a few, with methods secret even to stockholders" — an incorporation law that permitted the organization of the gigantic United States Steel Corporation and of that "artistic swindle," as the receiver afterward characterized the United States Shipbuilding Company? Where are we to draw the line?

Preliminary to answering this, it should be noted that both the steel and shipbuilding companies were based upon privileges. The Steel Trust had, according to Mr. Schwab's estimate, in testimony before the Industrial Commission, natural resources worth at least \$800,000,000, with transportation facilities and tariff advantages besides. The Shipbuilding Company, through contracts with the parent or some of the constituent companies, shared the Steel Trust's advantages, besides expecting a special great privilege of its own in the form of government contracts for ships. That is to say, the steel and shipbuilding companies were incorporated to exploit privileges otherwise emanating from Government — one form of privilege used to manipulate other forms of privilege.

Examination will show a similar state of things wherever corporations call for common censure. Their incorporating powers are not in themselves the evils that are censurable, but the use of those powers combined with other powers — all of which are legalized by Government.

Look, for example, into the life insurance corporations from which have recently come such sensational revelations. It may be questioned whether it would not be wise and proper to join a life insurance feature with that of a savings bank, and both to the post office service. A savings bank and a limited insurance on the mails are

features of the post office system in some of the European countries, with very salutary results. Surely the savings principle should operate no less well here, and probably life insurance could go with it beneficially to the public. Certain it is that the Federal Government frequently needs considerable quantities of cash, which both a postal savings bank and a postal insurance division would supply.

But this question aside, and assuming that life insurance should be conducted by corporations in private hands, is a repetition of the great scandals of the Equitable, New York and Mutual companies to be avoided? First of all, what are the scandals? Excessive premiums, gross salaries, wild extravagances and a deliberate purpose to withhold dividends from policy holders—are one class of them. But these are really induced or stimulated by another kind, namely, the use of the great funds of these companies in stock and bond gambling and promoting, mostly for the gain, not of the respective companies, but of their officers, boards of directors and inside syndicate cliques. What is the nature of the stocks and bonds so dealt in? They are the issues of railroad companies, of industrial trusts, or other incorporations around one or several forms of Government favor. It is a case simply of the insurance corporation managers, mainly for their own advantage, exploiting other corporations possessing privileges.

If then the privilege of land monopoly be destroyed by the process of taxation, if the privilege of highway monopoly be transferred to public hands, if tariff and other taxation privileges be wiped out, what important privilege would remain for exploitation through incorporation?

The only possible use to which an artificial person, or corporation, could be put would be that of engaging in the production of wealth where there was an open and free field, where no one had any favor. What matter then if a corporation be organized "infinite in scope, perpetual in character, vested in the hands of a few, with methods

secret even to stockholders"? Indeed, it is probable that in such a state of things, where none had favor, but where all depended on character, the character of such a corporation would be so out of keeping with the openness and fairness of industrial and commercial and banking pursuits as to raise suspicion and prove a disadvantage. The privileges which now attract them being gone, the company so incorporated would appear to be badly handicapped.

Whether or not this would be the popular attitude, it is clear that with other privileges now emanating from Government destroyed or withdrawn from private hands, the task of contracting the limits of the statutes for incorporation would be simple, and would probably meet with little or no opposition. What those limits should be seems to be suggested by the earlier special incorporation acts, when privileges in this country were neither many nor strong. The new act, however, should be modified in such ways as three quarters of a century of advance in population and wealth may appear to make necessary.

It seems reasonable to expect that with a change in forms of incorporation would come changes in the bearing of the courts toward those whom Lincoln called "the plain people." The cause for both changes would be the same. Monopolies of natural opportunities, public highway franchises and taxation favors being no longer in the hands or within the reach of individuals, great motives would be gone for the abuse of the courts, either in the issuance of arbitrary enjoining orders, or in the confusion of the weak and helpless in the coils of litigation. Statutory definition of contempt of court and provision for trial by jury in contempt cases might, but scarcely would, be necessary. The courts would largely change their character, since then the causes for trial would mostly be between man and man, and not between man and Privilege, as is now so common. If the land monopolists were taxed out, the tariff monopolists wiped out by repeal of all customs

duties, and all the public highways were conducted by publicly elected officials, as now the paved and unpaved roads are — where would be the demand for armies of lawyers, at very high pay, to devise ways to twist, extend and circumvent the laws; to invent pretexts for the assumption of power not expressed in the will of the people; and to cast over it all a glamour of eloquence, tempered by seeming reason and justice? With Privilege gone, the prize for the subornation of legal intellect, both on the bench and at the bar, would have vanished, and practice then would probably resume the lines of settled order and ancient wisdom.