inflation of the cost of living (with 1953 as 100) to 103 in 1956, up to 138 in 1961, and to 144 in 1962. However, it brought France and the other Common Market countries to an unprecedented level of prosperity which was in striking contrast to the drab conditions in the unfortunate countries within the Iron Curtain. The British, who had formed a European Free Trade Association of the "Outer Seven" (Austria, Denmark, Norway, Portugal, Sweden, Switzerland) to seek free trade among members but no common external tariff against others, sought to lift its rather lethargic economy by joining the Common Market in 1962, but was rebuffed by De Gaulle, who required as a price that Britain renounce its efforts, going back over decades, to establish a special relationship with the United States.

Chapter 35—The United States of America

... From the beginning, the United States had a shortage of labor in the face of an unprecedented richness of resources. As a result, it sought labor-saving devices and high output per man-day of work, even in agriculture. This means that the amount of capital equipment per man was unusually high throughout American history, even in the earliest period, and this undoubtedly presented a problem in an undeveloped country where private savings were, for many generations, scarce. The accumulation of such savings for investment in labor-saving mechanisms brought an opportunity to financial capitalism at an early date. Accordingly, the United States had financial capitalism over a longer period and in a more extreme form than any other country. Moreover, the size of the country made the problem of transportation so acute that the capital necessary for the early canals, railroads, and iron industry was large and had to be found from sources other than local private persons. Much of it came from government subsidies or from foreign investors. It was observable as early as 1850 and had overseas connections which were still in existence in the 1930's.

The Techniques of Finance Capitalism Reach Levels of Corruption into

America Higher Than Any Country in the World

By the 1880's the techniques of financial capitalism were well developed in New York and northern New Jersey, and reached levels of corruption which were never approached in any European country. This corruption sought to cheat the ordinary investor by flotations and manipulations of securities for the benefit of "insiders." Success in this was its own justification, and the practitioners of these dishonesties were as socially acceptable as their wealth entitled them to be, without any animadversions on how that wealth had been obtained. Corrupt techniques, associated with the names of Daniel Drew or Jay Gould in the wildest days of railroad financial juggling, were also practiced by Morgan and others who became respectable from longer sustained success which allowed them to build up established firms.

Close Alliance of Wall Street with Two Major Parties

Any reform of Wall Street practices came from pressure from the hinterlands, especially from the farming West, and was long delayed by the close alliance of Wall Street with the two major political parties, which grew up in 1880-1900. In this alliance, by 1900, the influence of Morgan in the Republican Party was dominant, his chief rivalry coming from the influence of a monopoly capitalist, Rockefeller of Ohio. By 1900 Wall Street had largely abandoned the Democratic Party, a shift indicated by the passage of the Whitney family from the Democrats to the Republican inner circles, shortly after they established a family alliance with Morgan. In the same period, the Rockefeller family reversed the ordinary direction of development by shifting from the monopoly fields of petroleum to New York banking circles by way of the Chase National Bank. Soon family as well as financial alliances grew up among the Morgans, Whitneys, and Rockefellers, chiefly through Payne and Aldrich family connections.

Finance Capitalism in New York Resembles a Feudal Structure

For almost fifty years, from 1880 to 1930, financial capitalism approximated a feudal structure in which two great powers, centered in New York, dominated a number of lesser powers, both in New York and in provincial cities. No description of this structure as it existed in the 1920's can be given in a brief compass, since it infiltrated all aspects of American life and especially all branches of economic life.

At the center were a group of less than a dozen investment banks, which were, at the height of their powers, still unincorporated private partnerships. These included J. P. Morgan; the Rockefeller family; Kuhn, Loeb and Company; Dillon, Read and Company; Brown Brothers and Harriman; and others. Each of these was linked in organizational or personal relationships with various banks, insurance companies, railroads, utilities, and industrial firms. The result was to form a number of webs of economic power of which the more important centered in New York, while other provincial groups allied with these were to be found in Pittsburgh, Cleveland, Chicago, and Boston.

J. P. Morgan Dominates Corporate America

J. P. Morgan worked in close relationship to a group of banks and insurance companies, including the First National Bank of New York, the Guaranty Trust Company, the Bankers Trust, the New York Trust Company, and the Metropolitan Life Insurance Company. The whole nexus dominated a network of business firms which included at least one-sixth of the two hundred largest nonfinancial corporations in American business. Among these were twelve utility companies, five or more railroad systems, thirteen industrial firms, and at least five of the fifty largest banks in the country. The combined assets of these firms were more than $30 billion. They included American Telephone and Telegraph Company, International Telephone and Telegraph, Consolidated Gas of New York, the groups of electrical utilities known as Electric Bond and Share and as the United Corporation Group (which included Commonwealth and Southern, Public Service of New Jersey, and Columbia Gas and Electric), the New York Central railway system, the Van Sweringen railway system (Allegheny) of nine lines (including Chesapeake and Ohio; Erie; Missouri Pacific; the Nickel Plate; and Pere

Marquette); the Santa Fe; the Northern system of five great lines (Great Northern; Northern Pacific; Burlington; and others); the Southern Railway; General Electric Company; United States Steel; Phelps Dodge; Montgomery Ward; National Biscuit; Kennecott Copper; American Radiator and Standard Sanitary; Continental Oil; Reading Coal and Iron; Baldwin Locomotive; and others.

The Rockefeller Group Was a Monopoly Capitalist Organization

The Rockefeller group, which was really a monopoly capitalist organization investing only its own profits, functioned as a financial capitalist unit in close cooperation with Morgan. Allied with the country's largest bank, the Chase National, it was involved as an industrial power in the various Standard Oil firms and the Atlantic Refining Company, but it controlled over half the assets of the oil industry, plus the $2 1/3 billion assets in Chase National Bank.

Kuhn Loeb Dominates Railroads

Kuhn, Loeb was chiefly interested in railroads, where it dominated the Pennsylvania, the Union Pacific, the Southern Pacific, the Milwaukee, the Chicago Northwestern, the Katy (Missouri-Kansas-Texas Railroad Company), and the Delaware and Hudson. It also dominated the Bank of Manhattan and the Western Union Telegraph Company for a total of almost $11 billion in assets.

Mellon Group Assets Reach 3.3 Billion

The Mellon group centered in Pittsburgh dominated Gulf Oil, Koppers, Alcoa, Westinghouse Electric, Union Trust Company, the Mellon National Bank, Jones and Laughlin Steel, American Rolling Mill, Crucible Steel, and other firms for total assets of about $3.3 billion.

Four Economic Blocs Dominate Corporate America

It has been calculated that the 200 largest nonfinancial corporations in the United States, plus the fifty largest banks, in the mid-1930's, owned 34 percent of the assets of all industrial corporations, 48 percent of the assets of all commercial banks, 75 percent of the assets of all public utilities, and 95 percent of the assets of all railroads. The total assets of all four classes were almost $100 billion, divided almost equally among the four classes. The four economic power blocs which we have mentioned (Morgan; Rockefeller; Kuhn, Loeb and Company; and Mellon) plus du Pont, and three local groups allied with these in Boston, Cleveland, and Chicago, together dominated the following percentages of the 250 corporations considered here: of industrial firms 58 percent of their total assets, of railroads 82 percent, and utilities 58 percent. The aggregate value of the assets controlled by the eight power groups was about $61,205 million of the total assets of $198,351 million in these 250 largest corporations at the end of 1935.

The Economic Power of the Money Trust in America

Is Almost Beyond Imagination

The economic power represented by these figures is almost beyond imagination to grasp, and was increased by the active role which these financial titans took in politics. Morgan and Rockefeller together frequently dominated the national Republican Party, while Morgan occasionally had extensive influence in the national Democratic Party (three of the Morgan partners were usually Democrats). These two were also powerful on the state level, especially Morgan in New York and Rockefeller in Ohio. Mellon was a power in Pennsylvania and du Pont was obviously a political power in Delaware.

The Morgan Hierarchy

In the 1920's this system of economic and political power formed a hierarchy headed by the Morgan interests and played a principal role both in political and business life. Morgan, operating on the international level in cooperation with his allies abroad, especially in England, influenced the events of history to a degree which cannot be specified in detail but which certainly was tremendous....

Finance and Monopoly Capitalism Dominate America

In the United States, however, the ... [system] of financial capitalism was much more protracted than in most foreign countries, and was not followed by a clearly established system of monopoly capitalism. This blurring of the stages was caused by a number of events of which three should be mentioned: (1) the continued personal influence of many financiers and bankers ... ; (2) the decentralized condition of the United States itself, especially the federal political system; and (3) the long-sustained political and legal tradition of antimonopoly going back at least to the Sherman Antitrust Act of 1890. As a consequence, the United States did not reach a clearly monopolistic economy, and was unable to adopt a fully unorthodox financial policy capable of providing full use of resources. Unemployment, which had reached 13 million persons in 1933, was still at 10 million in 1940. On the other hand, the United States did take long steps in the direction of balancing interest blocs by greatly strengthening labor and farm groups and by sharply curtailing the influence and privileges of finance and heavy industry.

The Interlock Between Bankers and Industrialists

Of the diverse groups in the American economy, the financiers were most closely related to heavy industry because of the latter's great need for capital for its heavy equipment. The deflationary policies of the bankers were acceptable to heavy industry chiefly because the mass labor of heavy industry in the United States, notably in steel and automobile manufacturing, was not unionized, and the slowly declining prices of the products of heavy industry could continue to be produced profitably if costs could be

reduced by large-scale elimination of labor by installing more heavy equipment. Much of this new equipment, which led to assembly-line techniques such as the continuous-strip steel mill, were financed by the bankers. With unorganized labor, the employers of mass labor could rearrange, curtail, or terminate labor without notice on a daily basis and could thus reduce labor costs to meet falls in prices from bankers' deflation. The fact that reductions in wages or large layoffs in mass-employment industries also reduced the volume of purchasing power in the economy as a whole, to the injury of other groups selling consumers' goods, was ignored by the makers of heavy producers' goods. In this way, farmers, light industry, real estate, commercial groups, and other segments of the society were injured by the deflationary policies of the bankers and by the employment policies of heavy industry, closely allied to the bankers. When these policies became unbearable in the depression of 1929-1933, these other interest blocs, who had been traditionally Republican (or at least, like the western farmers, had refused to vote Democratic and had engaged in largely futile third-party movements), deserted the Republican Party, which remained subservient to high finance and heavy industry.

The Democratic Party

This shift of the farm bloc, light industry, commercial interests (notably department stores), real estate, professional people, and mass, unskilled, labor to the Democratic Party in 1932 resulted in the election of Franklin D. Roosevelt and the New Deal. The new administration sought to ... reward and help the groups which had elected it. The farmers were helped by subsidies; labor was helped by government spending to make jobs and provide purchasing power and by encouragement of unionization; while real estate, professional people, and commercial groups were helped by the increasing demand from the increased purchasing power of farmers and labor.

The New Deal

The New Deal's actions against finance and heavy industry were chiefly aimed at preventing these two from ever repeating their actions of the 1920-1933 period. The SEC Act sought to supervise securities issues and stock-exchange practices to protect investors. Railroad legislation sought to reduce the financial exploitation and even the deliberate bankruptcy of railroads by financial interests (as William Rockefeller had done to the Chicago, Milwaukee, and St. Paul or as Morgan had done to the New York, New Haven and Hartford). The Banking Act of 1933 separated investment banking from deposit banking. The wholesale manipulation of labor by heavy industry was curtailed by the National Labor Relations Act of 1933, which sought to protect labor's rights of collective bargaining. At the same time, with the blessings of the new administration, a drive was made by labor groups allied with it to unionize the masses of unskilled labor employed by heavy industry to prevent the latter from adopting any policy of mass layoffs or sharp and sudden wage reductions in any future period of decreasing demand. To this end a Committee for Industrial Organization was set up under the leadership of the one head of a mass labor union in the country, John L. Lewis of the United Mine Workers, and a drive was put on to organize the workers of the steel, automobile, electrical, and other industries which had no unions.

The New Deal Greatly Benefitted the Bankers

All this served to create more highly organized and more self-conscious interest blocs in American life, especially among farmers and labor, but it did not represent any victory for unorthodox financing, the real key to either monopoly capitalism or to a managed pluralist economy. The reason for this was that the New Deal, because of President Roosevelt, was fundamentally orthodox in its ideas on the nature of money. Roosevelt was quite willing to unbalance the budget and to spend in a depression in an unorthodox fashion because he had grasped the idea that lack of purchasing power was the cause of the lack of demand which made unsold goods and unemployment, ... and had quite orthodox ideas on the nature of money. As a result, his administration treated the symptoms rather than the causes of the depression and, while spending unorthodoxly to treat these symptoms, did so with money borrowed from the banks in the accepted fashion. The New Deal allowed the bankers to create the money, borrowed it from the banks, and spent it. This meant that the New Deal ran up the national debt to the credit of the banks, and spent money in such a limited fashion that no drastic re-employment of idle resources was possible.

A Failure to Grasp the Nature of Money

One of the most significant facts about the New Deal was Its orthodoxy on money. For the whole twelve years he was in the White House, Roosevelt had statutory power to issue fiat money in the form of greenbacks printed by the government without recourse to the banks. This authority was never used. As a result of such orthodoxy, the depression's symptoms of idle resources were overcome only when the emergency of the war in 1942 made it possible to justify a limitless increase in the national debt by limitless borrowing from private persons and the banks. But the whole episode showed a failure to grasp the nature of money and the function of the monetary system, of which considerable traces remained in the postwar period.

Roosevelt's Theory of Pump Priming

One reason for the New Deal's readiness to continue with an orthodox theory of the nature of money, along with an unorthodox practice in its use, arose from the failure of the Roosevelt administration to recognize the nature of the economic crisis itself. This failure can be seen in Roosevelt's theory of "pump priming." He ... believed, as did his secretary of the Treasury, that there was nothing structurally wrong with the economy, that it was simply temporarily stalled, and would keep going of its own powers if it could be restarted. In order to restart it, all that was needed, in New Deal theory, was a relatively moderate amount of government spending on a temporary basis. This would create purchasing power (demand) for consumers' goods, which, in turn, would increase the confidence of investors who would begin to release large unused savings into investment. This would, again, create additional purchasing power and demand, and the economic system would take off of its own power. The curtailment of the powers of finance and heavy industry would then prevent any repetition of the collapse of 1929.

The Public Debt Rises Under Roosevelt's Erroneous Theories

The inadequacy of this theory of the depression was shown in 1937 when the New Deal, after four years of pump priming and a victorious election in 1936, stopped its spending. Instead of taking off, the economy collapsed in the steepest recession in history. The New Deal had to resume its treatment of symptoms but now ... the spending program could [never] ... be ended, ... since the administration ... lacked the ... [determination] to reform the system or ... to escape from borrowing bank credit with its mounting public debt, and the administration ... [decided not to] to adopt ... [a] really large-scale spending necessary to give full employment of resources. The administration was saved from this impasse by the need for the rearmament program followed by the war. Since 1947 the Cold War and the space program have allowed the same situation to continue, so that even today prosperity is not the result of a properly organized economic system but of government spending, and any drastic reduction in such spending would give rise to an acute depression.

Chapter 36—The Economic Factors

From an analytical point of view there are a number of important elements in the economic situation of the twentieth century. These elements did not all come into existence at the same time, nor did any single one come into existence everywhere simultaneously. The order in which these elements came into existence is roughly that in which we list them here:

1. rising standards of living
2. industrialism
3. growth of size of enterprises
4. dispersal of ownership of enterprises
5. separation of control from ownership
6. concentration of control
7. decline of competition
8. increasing disparity in the distribution of incomes
9. declining rate of expansion leading to crisis

Rising Standards of Living