

# Cost and Price

OR THE

# Product and the Market

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AN ANALYSIS OF THE NATURE OF COSTS AND AN IN-  
QUIRY INTO THE ORIGIN OF PURCHASING POWER  
AND CREDITS SHOWING THEIR LIMIT IN PAY-  
ING THE PRICE OF PRODUCTS AND THE  
EVER INCREASING NECESSITY FOR MUNIC-  
IPAL AND INDUSTRIAL BOND ISSUES



THE DAVID GIBSON COMPANY

CLEVELAND

1913

## CHAPTER VIII.

## THE MONEY TRUST.

During the 1896 campaign, the Secretary of the Treasury, in a document for campaign information, said that a man's credit was as much a purchasing power in buying and selling in his community as was his real money. In the same campaign and to the same purpose, a noted Chicago professor writing for the *Chicago Herald* asserted that money, even, was not a purchasing power, since a man must have something to sell in order to buy money. There is no record where these two gentlemen met after the election to congratulate each other on the triumph of the principles of truth. With such extreme views emanating from learned exponents on one side of an economic controversy, to quote from the other side might result in an inextricable muddle; so, between these extremes, we will look for the power of the "money trust"—if there is such an aggregation.

Between the possible condition where credit is a purchasing power and the positive condition where money is not purchasing power, there exists a wide field for both manipulation and investigation. While it might be possible to corner and control money, it would be very unprofitable and even dangerous, as witnessed by the experience of any bank which has been visited by a run on its deposits during a panic. With bank deposits, subject to withdrawal, far in excess of total volume of money, nothing but a game of "freeze-out"—resulting in industrial paralysis until a scarcity of products and loss in earnings compels that people pay their last dollars for bare sustenance—can force a concentrated control of money.

During the panic of 1907, the New York banks—those said to constitute the so-called trust—paid unheard-of premiums on deposits in their efforts to coax the money from the hands of the people back into the banks. Had the panic developed into a state of siege continuing to depletion of products, then the money would be drawn from the people, but not to the control of banks. With credits as purchasing power, there must be an active demand with balanced exchange of products or the credits will resolve into deferred payments and become inactive and a burden on commerce and banking instead of a help. So, to control credits in any manner other than to assist in liquidation would react on any combination attempting such control, while to control credits in a manner to assist liquidation through balanced exchange would result in a general benefit to production and commerce with no benefit to credit trust, for, with credits free in balanced commerce, there could be no “rake-off” margins on credits, while anything that detracts from credits shifts them into deferred payments where they cease to be purchasing power.

While loanable funds are always open and anxious for investment, yet they are most cautious in seeking and examining for security which is productive within itself and its management and association. The more perfect the security in its prospect for generating the necessary increase, or the greater its power in forcing a collection of what is being generated by general production, the lower will be the demand in interest margins, since the element of risk must be covered by higher rates for insurance against partial loss from depreciation.

So, with funds seeking loans and investments, it is incumbent upon those to whom these funds are intrusted for such purpose to use every effort and precaution in increasing and protecting the basic securities of loans and investments, which can be done only by facilitating pro-

duction and balanced exchange, rather than combining in restraint of the fullest possible commerce. Therefore, to assume and assert that our greatest financiers are combined in a money trust for the purpose of restraining and depreciating the values and efficiency of what forms the substance and base of their loans and investments is to charge them with incompetency, bordering on lunacy, rather than with the infringement of moral and statutory laws whereby they gain and others lose. For men who are engaged in a certain line of production to combine in that line for the purpose of excluding others and enhancing their own interests would be in accordance with prevailing human tendencies and business acumen; but, with men engaged in such business as comes in contact and associates with all other business interests and with mutual profits without competition, and in reality depending upon others for profits, it seems unreasonable and unbusiness-like to combine in restraint of commerce, since any restraint of commerce would result in diminished profits to themselves as well as to others.

One should reason to the last analysis before making a deduction, and in the last analysis, the money trust, so-called, is more to be compared with a great lake, into which many streams are flowing by natural gravity, than to an artificial reservoir, held in restraint by a dam, with gates to be manipulated by those who have planned and constructed the dam.

A fact well known to all practical men who have pushed great enterprises to successful completion throughout the central and western sections of the United States is that the East is the home of available funds. Old and well established industries may easily find local funds for additions to their plants when their trade has outgrown their capacity, but when new industries on a large scale are proposed, the best that local funds can do is to present a site—through the activity of real estate owners and dealers.

With the site pledged, the plans and specifications must go east for funds or abandon the project. While New York is not the whole East where funds are to be found, yet it is much the larger portion and forms the center of eastern loans and investments.\* But these loanable and investment funds are not owned by any combination of bankers and brokers, nor any set of men constituting a money trust. The real owners of these funds are scattered from Massachusetts to Maryland, and many of them know as little concerning the basic value of their investments as does a babe concerning the source of its milk supply. The capacity of their minds is so crowded with their social functions and so strained in finding sensational amusements that they must depend entirely upon the judgment of others in all their business matters except in spending their incomes. And they are more often defrauded in their spendings than in their dealings with those great banking brokers whom the country at large looks upon as the greatest swindlers of all time. They have learned to trust certain names when underwritten on securities, and they buy these securities on the strength of their faith in certain names, and it is this faith and such fund investors that form the foundation and backing of what constitutes the money trust.

In obtaining funds for industrial development, there must be something tangible and possible of development. The opportunity must be actual and apparently ripe for the picking, with plans and estimates carefully worked out. A man not wholly "without honor in his own country" may conceive the possibility and profits of watering a desert, of opening up a mining field, of developing a city by building a great manufacturing plant, of giving farming communities better service by constructing an interurban traction line, or of opening up new resources by the extension of railroads, but in doing any of these great things he finds no local funds equal to the needs. So, with his

plans and estimates, he moves onto New York and lays siege to the money market; and, if he is not well known to the commandants of the several fund arsenals, his first move should be to retain some eminent law firm which will advise his method of procedure and act as his ambassador in bringing him and his business before the proper authority. If he starts in right, he will soon work his way into a frigid zone where the size of his diamond, the set of his clothes and the brand of his cigars will "cut no ice." Large funds are surrounded by refrigeration, but proper credentials will make him feel more comfortable than a fur overcoat. If there is a welcoming hand extended to him it will seem like shaking hands with the tail of a cold-storage fish. While he is shivering for the general chilliness of the atmosphere, what he has to offer is subjected to a "liquid air" test and, if it stands the test, there will be a general rise in temperature. If he can show up a good proposition, after a thorough and even scientific investigation, a conditional offer of funds will be extended for his consideration; but one of the terms on which he secures funds will be a division of the spoils. If his project is not big enough to be divided, it is not big enough to be attractive; but the division will vary with conditions,—it may be a premium of from 10 to 25 per cent of the bond issue, or it may be a premium of bonds and a bonus of stock carrying a directorship. Whatever the terms and the amount he is to receive for developing his project, the amount will be available only as his project develops, and will be far less than the face of the bonds which he delivers to the accommodating brokers who do the underwriting. The stock which they also receive is wholly a bonus, while the directorship enables them to fully understand the inner workings of the business management. Yet, with the fairest of prospects, a man may be unable to secure funds, since what he designs to develop may be in direct competition with some other project which the

great brokers have already financed; in which case, he must either enter into a combine with the others or stay out of the field entirely, for lack of funds.

While New York has a host of varieties and degrees in methods and ways of selling bonds, the foregoing is the most certain, the safest and the least expensive when a man has a really good thing. He might sell his bonds by spending half their value in advertising, or he might get some broker to handle them on a 50 per cent commission,—possibly less. And no matter what he may have to offer, he could find some brokers who would attempt the sale, as some butchers will attempt the sale of any kind of meat, diseased or putrid. If they can't sell it in cuts, they will work it up into sausage. Anyway to raise funds,—that is their business.

In making great industrial and development loans, eastern brokers do not permanently tie up their own funds in the bonds they underwrite and handle. Having arranged the details with the party seeking the loan, the underwriting gives to the bonds a full-face value regardless of their purpose or their other security. The names of some of these banker-brokers are names to conjure with only because they are names to bank upon. Their name on bonds creates a *superstructive fund*, an inflation of funds, as completely so as if they had issued so much in bank notes or credit currency. As these bonds become absorbed—digested—in the investment market, the fund of their sale is being employed in developing the proposed constructions which are to give them and their associated stocks their permanent value, thus relieving the obligation burden on the underwriters. If the underwriters have received a bonus in stocks, carrying a directorship—which is common in financing railroads and natural resources—then there results an interlocking directorate among all corporations which they so finance. But

this needs no comment, since it is the funds themselves, their nature and origin, that are being considered.

While the average wage earners have bank deposits which aggregate a very respectable sum, yet they are not investors in securities to any great extent. They tend to extremes in handling their money, either leaving it in bank at ordinary bank interest or risking it on some illusive prospect which is more alluring in the promise of the promoter than in the possibility of realization. Nor are manufacturers and merchants inclined to invest in securities to any extent, since their business interests require their funds, leaving them more often borrowers than investors.

This leaves only two classes from which to expect security investments,—those in the professions, and the owners of estates conducted more in the manner of stewardship than of personal management. But, as those in the professions are inclined to scatter their investments under their own supervision—and at gambling risks—the real purchasers of securities are the owners of estates who give reference to the degree of security rather than to the margin of interest. And as the majority of these have inherited their estates, without inheriting business necessity or business desire, they depend more upon the high standing of certain brokers than upon their own judgment in making investments; so this gives to those brokers who have earned this high standing the advantage of dictating terms to all who have prospects worthy of development. By their intimate knowledge of general business conditions and the thrift of population, together with their facility in estimating the available volume of loanable funds, they are in position to decide when railroad extension should be pushed and when and where large industries should be encouraged and developed. The volume of loanable funds on the one hand, and the needs for the funds on the other hand, creates a condition of extremes in which brokerage-

banking is the medium. This gives all the appearance of a money trust in the hands of these banker-brokers, when in reality they are merely balancing a condition and not creating one. The condition makes them and not they the condition, and the fact that they turn the condition to their own profit is proof only that they are human and not divine. The cause of this condition and why it centers in brokerage-banking is another story relating to the *invisible* funds which have no weight in freight shipments.

Under existing banking conditions—conditions made abnormal by the abnormality of certain funds handled in banking—sound banking requires that large money reserves be held to insure liquidation of funds in times of emergency. Custom and experience—enacted into law—require this, but custom and experience—permitted by law—find it more advantageous for banks in the less important communities to carry a part of their reserves in certain designated reserve cities—the chief of which is New York. In fact, all banking is connected directly or indirectly with New York banking in clearings; therefore, the ostensible purpose of these reserve deposits being to protect checks and drafts from discount-loss in clearings, all banks directly or indirectly carry a part of their legal reserves in those New York banks which comprise the clearing house association.

To make this more clear to one not familiar with the principle of bank clearings, it may be compared with the use of local bank checks. For instance, a man may be entirely responsible financially, yet his check might not be accepted at any bank where he has no drawing account—unless endorsed by one who has an account at that bank. And this principle applies as well between banks and clearing houses as between individuals and banks. If a bank has no open account with a clearing house association, its paper can be given no consideration other than being held for collection the same as an individual check—and at the

same discount charge for collection. So, to insure prompt clearings without discount and collection rates, all banks must have open accounts with clearing house association banks, or clear through some neighborly bank which does have a clearing house association account.

Since the law compels bank reserves, and permits that a part of these reserves be carried in certain reserve center banks, it is found to be very advantageous to bank clearings for banks in all parts of the country to carry a part of their legal reserves in New York clearing house association banks. The advantage is not alone in prompt clearings without discount rates, but also in a small rate of interest obtained on these reserve deposits, which could not obtain if left in their own vaults. All of which would be immaterial were it not for the peculiar fact that these reserve deposits require constant replenishing to prevent their depletion by adverse balances against outside banks and in favor of New York banks. Yet this is not a loss to the outside banks, since they are but handling the business funds of their respective localities, which must pay balances whenever balances are due to eastern investors in their resources. For the banks of the country to carry reserve deposits in New York banks is but to provide funds from their respective localities to meet payments falling due to eastern owners of interests in local development, the nature of which has already been noticed. As the banks can make these deposits out of their legal reserve, it not only gives them the benefit of protecting their paper in clearings, but enables them to discount payments out of their reserves and which would otherwise have to be provided for from their funds over and above their reserves. It is really paying in advance and saving the discount. To place a portion of bank reserves in advance of ultimate dues is an economic gain to commercial exchange by maintaining the parity of local credits in clearings. It can not be condemned as unsound banking.

In the last analysis, the money trust is nothing more than the collecting and distributing agency of non-resident funds; that is, values developed in one locality and owned and falling due in some other locality.

The profit margin funds of non-resident ownership must be developed through the process of local industry and commerce and transferred to the owners wherever they may choose to establish their residence. As "birds of a feather flock together," so do those of similar income derivative seek a mutual association. As every line of industry and science forms its association in mutual tastes and occupations, that mutual interests may be discussed, so do those who have transcended the necessity for thought and occupation choose a mutual association in order that all "shop" conversation may be avoided. So, as eastern investments in western lands have developed into great estates, requiring no business management other than stewardship collections, there has developed a society superior to thought and business worries. Then, as eminent business men of the West have developed great estates and passed them down to inexperienced heirs, in the form of rents and securities in stewardship, these heirs have changed their residence to the East to avoid the smell of their properties and the association of their poorer relatives. This results in non-resident ownership in productive resources by a social element barren in business development, and to such extent as to unbalance local commercial exchange by the total of funds which must be developed and sent to the non-resident owners. Thus the last degree of industrial impotency becomes the most potent factor in unbalancing commerce and the most erratic burden on commercial banking, requiring larger reserve funds and more idle money. This is also the foundation of the money trust.

The certainty of the "law of averages," working through an unbalancing commerce, brings to New York

brokerage certain funds which can be restored to circulation only through the medium of loans and security investments. These funds come from every part of the country as water flows to the Gulf from every part of the Mississippi water shed. They are largely the profits on speculative investments, the "unearned increment" which rests as an unbalancing cost and debt burden upon every community that has developed a better condition and a better commerce by its industry.

The burden of generating these funds rests most heavily upon local manufacturers whose costs are increased by the higher royalties on raw material, and by the reduced market for products,—all caused by the funds of the community being absorbed through higher land prices.

The certainty of this flow of funds to non-resident owners renders it an absolutely safe banking proposition for the local banks to carry a large part of their legal reserves in New York banks. The "law of averages," and the certainty that these reserve fund deposits will ultimately be absorbed by the dues from the country at large to eastern investors, render it an absolutely safe gambling proposition to use these deposit funds in financing industrial developments in the very localities which developed the funds so deposited. Those to whom the funds fall due will invest in the securities later and balance the brokerage condition in New York, leaving the premium bonds and the bonus stocks—carrying a directorship—as net profits to the brokers and an added burden to the community that generated the funds its industry has borrowed. Borrowing back the funds which a community has generated enables the local bank to maintain a balance between outside debits and home credits, also its reserve deposit in New York banks.

On a broad principle of economic development, it can be logically asserted, every community can easily develop all funds necessary to finance any industry that can pos-

sibly show a profit,—provided, always, that no funds developed by the community are absorbed in unearned increments and taken away by non-resident investors in local lands, franchises, or other natural resources. The necessity for the Middle West to engage industrial development funds from New York is about as economically logical, under natural conditions, as to irrigate the lands of Iowa and Minnesota with water pumped from the Gulf.

The money trust is not the gravity force that takes the funds to the East, it is only the machine which pumps the funds back to the place of origin in order that they may irrigate—or lubricate—the industry which developed them.

Any attempt to regulate the flow of funds by legislating to control the money trust would be as ineffectual as trying to give the cities on the upper Mississippi purer water by putting a filter in the river below New Orleans. Also, to attempt the regulation of money circulation and commercial loans by creating a central bank empowered with the control of currency would be as effectual to that purpose as to construct a lake of pure water in which to drown fish.

The most logical remedy yet proposed—one that will balance commercial exchange, equalize money circulation, insure profits in manufacturing and markets for products, with an advance in wages and a reduction in the costs of living—is to absorb land values in local taxation.

To do so would keep locally developed funds at home to finance local industry and pay local wages instead of being drawn away to feed the money trust, and loaned back to increase the future burdens of the community when falling due.

There may be other and better remedies yet to be proposed. The main thing now is to recognize the cause of economic troubles. With the cause fully recognized, the right remedy will follow as naturally as trusts and poverty have developed under present economic conditions.

It isn't necessary to kill a dog to rid it of its fleas.