ECONOMIC POWER IN THE UNITED STATES

NATIONAL CATHOLIC WELFARE CONFERENCE
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SOCIAL ACTION SERIES NO. 10

By
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The pamphlets in the *Social Action Series*, of which this is the **tenth** number, are edited by the Social Action Department of the National Catholic Welfare Conference. They represent an effort to present to the general public, and especially to Catholics, a discussion of current economic facts, institutions and proposals in the United States in their relation to Catholic social teaching, particularly as expounded in Pope Pius XI's Encyclical "Forty Years After—Reconstructing the Social Order" (*Quadragesimo Anno*). In the spirit of that Encyclical they are urged upon and recommended to individuals, study clubs, discussion groups and school classes.

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FOREWORD

Doctor Brown tells us very ably the story of that part of the concentration of economic power in the United States that is held by great wealth, corporations and investment banks. It limits itself to these sources of power and does not extend to the general question of control of credit which requires separate treatment and consideration.

SOCIAL ACTION DEPARTMENT,
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THE Encyclical of Pius XI on "Reconstructing the Social Order" states that not only is wealth concentrated, but that economic power is still more narrowly concentrated.[1] Furthermore, this economic power is held by very wealthy individuals, by the directors of corporations, and by bankers.

In the economic systems of the past such power was wielded only by individuals over small areas. Today it is exercised through several media and is world-wide in scope. Economic power may now be exercised on three levels:

1. By individual persons.
2. By corporations.
3. By investment banking companies.

The statement of Pius XI concerning the nature of economic power stimulates speculation. How much wealth is there in the United States? Who owns it? Is it true that the power arising from the control of wealth lies in the hands of certain individuals or groups? If such conditions prevail, what is their significance? These and other questions occur to the thoughtful American who reads this encyclical. To answer some of these questions is the purpose of this pamphlet.

[1] *Reconstructing the Social Order* (*Quadragesimo Anno*), from *Four Great Encyclicals*, pp. 150, 151.

I. POWER THROUGH INDIVIDUAL OWNERSHIP

A logical approach to the problem of establishing the fact of personal economic power in the United States is through data concerning the amount and distribution of wealth. If the assumption is made that the amount of wealth possessed by an individual is a good index of his economic power, then an analysis of wealth ownership should reveal who can exert such directive force in our country.

To obtain an accurate answer to the question of how much wealth there is in the United States is a difficult task. One cause of the difficulty is the definition of wealth. There is no need at this time to discuss the matter beyond stating that some estimates include public wealth and private wealth; others, private wealth only. The estimates of the National Industrial Conference Board and the United States Bureau of the Census are examples of the former type. A recent estimate by Willford I. King, on the other hand, measured only private wealth.

Another problem related to measuring wealth is that of procuring an appropriate yardstick. While an estimate of a nation's wealth may be expressed in terms of dollars for any one year, no basis of comparison is possible because the value of the dollar is itself a variable. Since there are no index numbers which standardize dollars measuring all kinds of wealth, money evaluations of wealth have embodied in them some inaccuracy due to variations in the purchasing power of the dollar. With these statements of limitation, some data may be considered.

Beginning with an early estimate made by the Census Bureau of 7.1 billions of dollars in 1850, the money evaluation of wealth—both private and public—increased irregularly to almost 500 billions in 1920. A subsequent immediate drop in 1930 to 329.7 billions is doubtless due to the deficiency of the dollar as a yardstick. Were the wealth expressed in terms of goods, the trend for 1920 to 1930 would be reversed. The latest value is for 1934, when national wealth reached 286 billion dollars.[2] A guess may be hazarded that few nations in recorded history have adapted the natural resources of their land so rapidly to satisfy the material demands of their citizens. Americans do and should enjoy a high standard of living.

The aggregate fund of wealth in the United States has grown. Before the conclusion is reached that all Americans are better off, some idea of the wealth possessed by individuals must be shown. How is the wealth of the nation divided among its citizens?

Distribution of Wealth

1. An initial approach to this problem is to learn the per capita distribution of wealth. From approximately $308 in 1850 the wealth of an American person grew to about $4,587 in 1920. That these figures are limited in the same way as the estimates of aggregate wealth is made clear when $2,677 is given as the per capita figure for 1930. The latest estimate is for 1934, when per capita wealth was $2,263.[3] From this data the conclusion may be drawn that individuals in the United States have enjoyed a generally increasing amount of wealth. Since the figures give the per capita share, however, they represent only a statistical concept. At best they form a point from which further analysis is possible.

2. A more realistic approximation of wealth distribution may be gained from the amount of wealth in probated estates. The assumption made is that "probate records,

[2] "National Wealth," National Industrial Conference Board Circular.

[3] *Ibid.*

covering the wealth of all classes and conditions of decedents, constitute an effective sample or cross-section of the distribution of wealth."[4] Since the collection of such data for the whole country over a period of time would be a gigantic task, research workers have contented themselves with a sample of estates. Another limitation to the complete effectiveness of this method is that not all estates are probated. Some are not valuable enough to be brought into court. This deficiency is partially overcome by assigning an arbitrary value to all such estates.

The study of wealth distribution made by the Federal Trade Commission in 1926 is a good example of this type of research.[5] The sample taken by the Commission consisted of 43,512 probated estates taken from court records in selected areas for the years 1912 to 1923, and 141,446 non-probated estates of persons over twenty-one years of age from the same area and for the same time. The total wills, probated and not probated, amounted to 184,958. The non-probated estates were assigned a value of $258. The probated were put into various classes ranging between those less than $500 to those over $1,000,000. The probated wills formed the nucleus of the study.

An examination of the results obtained through the study brings out clearly certain tendencies toward concentration of wealth.[6] Although the sample consisted of some 185,000 estates, a little more than three-quarters were not probated. Of the gross amount of wealth included in the sample, 95% was owned by one-quarter of all the decedents. In terms of dollar value, three-quarters of all the wills were worth $36.5 millions; the remaining quarter had a total value of $671.3 millions.

[4] *National Wealth and Income,* Federal Trade Commission Report, 1926, p. 56.
[5] *Ibid.*
[6] *Ibid.,* pp. 58, 59.

If only probated wills are considered, the concentration of wealth is further emphasized. One-half of all the wealth was owned by the richest 2.2% of the decedents. Less than one-half of 1% of the wealthiest owned approximately one-quarter of all the property in the sample. This fraction of 1%—the richest group—owned as much wealth as the poorest 90% of the decedents.

The most usual size of a probated estate was between $1,000 and $2,000. Approximately 75% of these wills were valued at less than $10,000. Estates worth $25,000 or more contained about 75% of all wealth probated; yet their owners were but 10% of the decedents. There was almost as much wealth in the one hundred wills over $500,000 as in the 39,000 worth less than $25,000.

Despite the obvious limitations of this one sample, more knowledge concerning the actual distribution of wealth is given than the per capita figures offered above can convey. While much is left to be desired, the data adds strength to the hypothesis that wealth in the United States is narrowly held.

3. Another estimate of wealth distribution is afforded through the careful research of Willford I. King.[7] His study is different from that of the Federal Trade Commission in that he based his estimate upon wealth possessed by living men. This fact would tend to make his figures smaller because decedents would have had more time to accumulate wealth. Moreover, King made no historical comparisons.

According to his study, the dollar value of all private wealth in the United States as of December 31, 1921, was estimated at approximately $281 billions. About 41 million persons owned this wealth. When persons 21 years of age and over are considered as "the population," then the

[7] King, W. I., "Wealth Distribution in the Continental United States," *Journal of the American Statistical Association*, Vol. 22 (June, 1927), pp. 135-153.

total wealth of the nation at the end of 1921 was owned by 66% of the people; one out of three persons 21 years old and over were propertyless.

When the two-thirds of the population who did possess property is considered, additional significant facts are noticeable. One-half of all the wealth belonged to 4% of the property owners. The seven wealthiest persons owned almost as much as 1.7 millions of the poorest. One-half of the property owners possessed 10% of the wealth; the other half had 90%.

Millionaires represented less than one-one-hundredth of all property owners; yet they held over 6% of the national wealth. Approximately 76% of the property owners possessed wealth valued between $1,000 and $10,000. The poorest 13% owned 1.5% of the national wealth; the richest 11% had about 65%.

The data presented so far describe the distribution of wealth at least ten years ago. Are conditions today different? Are the rich getting richer? Has there been a greater diffusion?

4. What actually has occurred in the distribution of income—which can be used to throw light upon the distribution of wealth—was shown in a study made by Doctor King.[8] His data were collected over a decade beginning with 1916. For the first half of the period, from 1916 to 1921, income was so distributed that the poor were getting richer; income was more diffused. Beginning in 1921 the tendency was reversed. In the whole period from 1921 to 1926 there was a noticeable concentration of income; the rich became richer while the poor got poorer.

It should be noted that King's study of wealth, mentioned above, was made in 1921 and came at the close of

[8] King, W. I., "Shifts in Income Distribution," National Bureau of Economic Research.

a period when income was growing more diffused.[9] The concentration of wealth which existed then was probably less than it had been in 1916 or was in 1926. The year 1921 was certainly not typical for the decade 1916 to 1926; yet, the concentration of wealth is startling.

From King's work it is possible to conclude that in 1926 great wealth concentration was still a characteristic of the United States. That this situation persists can be shown from statistics of income for two years: 1929 and 1934.

5. The study made of family incomes by the Brookings Institution for the year 1929 contributed some interesting facts.[10] The total United States income was estimated at approximately $77 billions; the number of families, about 27.5 millions. This income was so distributed that:

1. Although $1,500 was regarded as an income yielding a poverty and subsistence existence, 42% of American families in 1929 received that much or less.[11]
2. Most families had incomes of $1,300.[12]
3. Ninety-two per cent of the families received less than $5,000.
4. The wealthiest 36,000 families received as much income as 11,600,000 families at the bottom.
5. One-tenth of 1% of the wealthiest families had a total income as large as 42% of the poorest families.

The statement of the Institute that the figures "reveal in a striking way the wide disparity in incomes, and also the concentration of the great bulk of the families in a relatively narrow income range" is definitive.[13]

6. How were incomes distributed in 1934—a year of

[9] *Op cit., cf.* p. 5, W. I. King, "Shifts in Income Distribution."
[10] Leven, M., Moulton, H. G., Warburton, C., "America's Capacity to Consume," Brookings Institution, 1934, p. 87.
[11] *Ibid.*, pp. 52-56.
[12] *Ibid.*, p. 55.
[13] *Ibid.*

depression? Income tax data reveal the general condition of that time.[14] Most of the returns filed were for incomes of between $1,000 and $2,000. Approximately 71% of all returns were for less than $3,000. Of the four million returns, 3.9 millions were for incomes of less than $8,000. About 10% of the individuals making returns received 40% of all the income. The wealthiest 3% received 10% of the total income.

One of the best informed authorities on income distribution today is Mr. Robert H. Jackson, Counsel for the Department of Internal Revenue. His report to the Senate Finance Committee during the hearings on the 1935 tax measure reflect substantially conditions similar to those mentioned above.[15] Excerpts from his reports are as follows: [16]

> It is well known that the per capita income of the United States, particularly in the years 1928 and 1929, ranked among the highest in the world, and resulted in a high standard of living.
>
> When the total income of the United States is averaged, the figures are impressive, but when it is viewed, not as it might be if it were equalized by averaging but as it actually is distributed, the result must arouse concern.
>
> Even informed observers were startled at the tendency to concentration, and the rate of concentration indicated by the 1935 returns.
>
> The conclusion indicated by the Treasury statistics is that the base of our incomes is now seriously narrow and results in part from the fact that the number of people having incomes above a generally accepted subsistence level is seriously small.

[14] *Statistics of Income for 1934,* Bureau of Internal Revenue, p. 6.

[15] Seventy-fourth Congress, first session, "Hearings Before Senate Committee on Finance."

[16] Jackson, Robert H., "The Rich Get Richer," *The New Republic,* Vol. 84, Number 1082, pp. 68-72 (August 29, 1935).

In the past some dependence could be placed upon those who inherited large fortunes to dissipate them and lessen the degree of concentration. Today the old saw, "from shirt-sleeves to shirt-sleeves in three generations," is no longer applicable; trust companies keep the wealth beyond the reach of potential spendthrifts. Estates are not only maintained, but they grow so large that the incomes from them cannot be spent in a lifetime.

From the data presented from the various sources the conclusion reached is that concentration of wealth in the United States is a fact. Does this fact mean that America is under the personal economic dictatorship of wealthy individuals?

II. POWER THROUGH CONTROL OF CORPORATIONS

Without doubt the enormous accumulation of wealth possessed by a relatively few Americans *could* enable them to exert economic pressure upon others. In the economy of Rome or of the late Middle Ages wealthy individuals were responsible for the course of industry, trade and finance. They owned directly the land, buildings, precious metals, and other forms of material wealth which formed the capital fund. Today—in contrast—our economy is directed preponderantly by group or joint enterprise.

The modern corporation has supplanted individual proprietorship and the partnership in importance. Through corporations individuals own material wealth indirectly; wealth is represented by corporation securities. An examination of Federal estate tax returns to determine the composition of estates shows that the largest single type of wealth held is capital stock of corporations. If wealth represented by stocks and bonds is counted together, more than half of the wealth represented in these estates is being used by the corporate enterprises of the nation.[17]

When statistics of income are examined the fact is made even more apparent. The distribution of total income by sources indicates clearly that large incomes are derived from ownership of wealth. Salaries and wages account for well over half the income for those who receive less than $5,000 per annum.[18] As the incomes grow, however, this source of income dwindles. Instead, income from dividends becomes important. Those who receive less than $5,000 per annum derive about 5% of their total income from dividends, on the average.

These facts indicate that those who own wealth place it at the disposal of the modern corporation. This characteristic is peculiar to our modern economy; it upsets customary ideas concerning the power that accompanies wealth. The economic power wielded by individuals today does not arise from ownership of wealth.

The separation of control from the other characteristics of property-ownership—risk and income—has been brought about by the modern corporation.[19] In earlier economies the owner of property used it himself; he bore all the risk, received all the income, and controlled the use of his property. If parallel conditions existed today in the United States, it would mean that the economic control of the nation would be in the hands of wealth-owners, the corporation stockholders. But such is not the true situation in America.

The fact is that the stockholder has not retained his historic rights of ownership. *Personal economic power exerted*

[17] *Statistics of Income* (1934), Bureau of Internal Revenue, p. 42.

[18] In 1929, 96% of American families received less than $5,000 per annum.

[19] Berle and Means, *The Modern Corporation and Private Property.*

by reason of direct property ownership is not a common characteristic of our present economy. Neither are economic oligarchies built upon the use of wealth personally owned. There has developed a paradoxical situation. Economic power is possessed by those who control the corporation and not by those who own the corporation. While those who control an enterprise may be wealthy, their power far exceeds their ownership. Their position in the economic system is derived in a large part from the use of other people's money. If the source of economic power is to be located, then it is imperative that the nature of the modern corporation be examined.

The nature of private property has changed. The purpose of this section is to show the effect of this change on economic power. To do this a factual description of the extent of "big business" in America; a presentation of some data to show the dominance of the corporate form of business enterprise; and finally, the relationship between the modern corporation and economic power will be presented.

Big Business

A fundamental factor in the alteration of property rights has been the growth of "big business." The amount of capital necessary to finance one enterprise today is so large that few individuals are able or willing to bear the risks involved. Groups of owners combine their capital to supply the necessary funds. The individuals who control these groups are in a position to control the economic life of the nation.

A clear idea of what the term "big business" means can be obtained from statistics describing manufacturing establishments. In 1929 the data for concerns capitalized at $5,000 and over were: [20]

[20] Statistical Abstract of the United States, Sect. 32, p. 716, 1935.

	Per Cent of Establishments	Workers	Value of Product
$ 5,000– 20,000	32.9%	2.3%	1.1%
20,000– 100,000	35.7%	7.8%	5.1%
100,000– 500,000	20.9%	18.9%	14.2%
500,000–1,000,000	4.9%	12.7%	10.4%
1,000,000–and over	5.6%	58.3%	69.2%

The data show that over two-thirds of manufacturing establishments having less than $100,000 in capital employ about 10% of the workers and their products are valued at about 6% of the total. In contrast, the million dollar and over establishments—which represent 5.6% of the total number—employ 58.3% of the workers and produce in value 69.2% of the total output.

Concerns in the million dollar capitalization class employ almost six times as many workers as establishments in the $100,000 and under class; yet the large enterprises are less than one-sixth as numerous. Establishments having less than $500,000 in capital are responsible for only 20% of the products by value. The dominance of size is evident.

Some idea of the rapidity at which this trend toward bigness is occurring can be obtained by a comparison of the years 1914 and 1929.[21]

	Per Cent of Establishments		Number of Workers		Value of Products	
	1914	1929	1914	1929	1914	1929
$ 5,000– 20,000	48.9%	32.9%	6.8%	2.3%	3.7%	1.1%
20,000– 100,000	31.9%	35.7%	14.2%	7.8%	10.5%	5.1%
100,000–1,000,000	17.0%	25.8%	43.7%	31.6%	37.1%	24.6%
1,000,000–and over	2.2%	5.6%	35.3%	58.3%	48.7%	69.2%

Concerns with the smallest capitalization have decreased in relative importance in every respect. In 1914 they represented in number almost half of all establishments, but in 1929 they had dropped relatively to about one-third. The other classes grew; yet the million dollar and over enterprises more than doubled their relative importance.

[21] *Ibid.*

The most decisive changes occurred in the number of workers employed and in the value of products. All classes except the largest experienced decreases in relative importance. The million dollar establishments employed a little over a third of the workers in 1914 and produced by value almost half the products. By 1929 they employed almost one-half the workers and produced well over two-thirds of the products in terms of value.

Enterprises engaged in wholesale distribution reflect the same tendency. In 1929 over half of the business was done by concerns whose net sales totaled $1,000,000 and over. In contrast, establishments whose net sales were below $100,000 did about 6% of the total business. Enterprises between these extremes made about 41% of the net sales.[22]

In the retail business field, approximately 44% of the enterprises had net sales under $10,000.[23] There were over six hundred thousand concerns in this class and their net sales amounted to 2.7 billions of dollars. At the other extreme, establishments whose net sales were over one million dollars were 1/10 of 1% of the total number but they made 12% of all sales. In number they were only slightly over two thousand; their net sales—$6 billion—were over twice as much as those of the smallest concerns.

The existence of "big business" in these important parts of our economy is the foundation for the description of America as the land of large scale enterprise. The importance of this trait to our study is that the amounts of capital needed are so large that enterprises either find it necessary or prudent to combine their wealth in business adventures. Most persons do not possess enough wealth to furnish capital for a giant enterprise. If they could they probably would not; diversification of investments to insure

[22] *Ibid.*, Section 33, p. 771.
[23] *Ibid.*

safety is a common principle. Consequently even wealthy individuals are but part owners of the modern large corporations.

The corporation today is both a cause and a result of "big business." Large scale enterprises made imperative a business form which could attract capital, would limit liability, would permit a spreading of risk, and would exist indefinitely. The corporation arose to fill this need and furthered the growth of mass production. Securities of a corporation are marketed to attract small and large wealth owners. All degrees of risk-bearing are offered. Those who wish to be fairly certain that their capital will remain unimpaired as well as those who are intrigued with the possibility of profit find in the corporation securities which satisfy their demands. Wealth today is represented by ownership of securities.

Giant Business

The applicability of the corporate form to the needs of large scale industry assured its growth in size and importance. Just how large and important the corporation has become was brought to the attention of the public through the research of such men as William Z. Ripley,[24] Adolph A. Berle and Gardiner C. Means.[25] Today attention has been focused upon the modern corporation by their stimulating research.

Using ninety million dollars or more in gross assets as an arbitrary criterion of bigness, Berle and Means found two hundred non-banking corporations which they called "large." These companies were less than 1% of all non-banking corporations, but they owned almost one-half of all

[24] Ripley, W. Z., *Main Street and Wall Street.*

[25] Berle, A. A., and Means, G. C., *The Modern Corporation and Private Property.*

such wealth. This characteristic of "bigness" was in no way peculiar to that particular year but had been developing steadily and apparently would continue to grow.

Added evidence of corporate size and importance is found in the data given by Mr. Robert H. Jackson, Special Counsel to the Internal Revenue Bureau, before the Senate Finance Committee.[26] An examination of Treasury statistics relative to the assets of corporations shows that .2 of 1% of corporations submitting balance sheets for income tax purposes owned over 53% of all assets. In over half of the corporations assets were less than $50,000; and 90% were individually worth less than a half million dollars. Only 5.5% of the enterprises had gross assets of a million dollars and over: yet these held almost 86% of the total gross assets. At the other extreme, hundred thousand dollar corporations controlled 2.9% of all assets but were 67.6% of the total number.

The tendency toward concentration of wealth through the growth of large corporations provokes the query as to whether there is any limit to their size. Theoretically these business forms will grow as long as their use results in maximum profits. Should a smaller enterprise be more profitable, then either voluntarily or by force of competition reduction to a more efficient size should occur. Competition has been relied upon to limit growth by letting the more efficient undersell the less efficient. Today there is some doubt as to whether competition actually exists between giant business concerns which dominate various industries.[27] Social control by means of legislation appears to be growing in popularity as a substitute for both monopoly and competition.[28]

[26] *The New Republic,* Vol. 84, No. 1083, pp. 99-101.
[27] Burns, A. R., *The Decline of Competition.*
[28] The thesis advanced by Burns is that large scale industry, the modern corporation, the size of the market, and the failure of anti-

The assertion that the modern corporation dominates the economic life of the United States may be accepted as a fact. Economic control of our national wealth is exercised by large corporations. Those who control these "quasi-public" institutions are in a position to exercise the power of economic dictators. Who controls the corporation is significant.

Who Control the Corporations?

Generally, in the past the control of the corporation has been in the hands of those stockholders who—as a group—possessed at least a simple majority of the common stock. Occasionally the stock of an enterprise would be so narrowly held that some one individual or his family was permanently in control. Under such conditions as these there was a direct relationship between the owners of the corporation and control. Individuals held large percentages of the stock outstanding. Frequently stockholders lived within easy traveling distance of the enterprise they owned. Today these conditions are the exception rather than the rule. Stock-ownership is diffused; some corporations have stockholders in all parts of the world. The change has had its effect on the nature of control.

The diffusion of ownership has made possible several kinds of control other than that of majority rule. Domination by minority interests, by management, or by some other group operating by means of legal devices has become common.[29] When stockholders are counted by the hundred thousands, live in all parts of the world and hold infinitesmal percentages of the total stock outstanding, they do not attend the annual meetings of the corporation. Instead, they either vote by proxy or not at all. Because of this char-

trust legislation all have created a new economic environment in which competition cannot be relied upon to protect the consumer. Legislative control appears to him to be a solution to the problem.

[29] *Op cit.*, pp. 70 ff.

acteristic, a small minority of the stockholders can and do manage many corporations. The proxy votes are cast to suit the minority group. Berle and Means indicate that approximately 20% of the largest non-banking corporations were controlled in this manner.[30]

A most striking separation between ownership and the control of corporate wealth is effected through self-perpetuation of directors. The board of directors selects the individuals whose names appear upon the proxies. If the stockholder votes by proxy, he designates the persons whose names appear on the list as representatives. They cast their votes for the board of directors which originally had put their names on the proxies. In this fashion the board may perpetuate its control though owning a negligible amount of the stock. Most of the very large corporations included in the study by Berle and Means were controlled in this manner.[31]

There are several legal devices by which control may be separated from ownership. Stockholders may be induced to place their stock in the hands of a select group for what appears to be their best interests. Certificates are issued to the stockholders as evidence of ownership of the corporation. This particular device is known as the voting trust and the evidence of ownership as trust certificates. The trustees then have complete legal control of the corporation. While the trust is for a limited time, it is renewable and frequently has been.

Another common device of obtaining legal control is by means of a special class of voting stock. Instead of allowing all stock to vote in the selection of the directors, only a small portion is granted this right. Ownership of a majority of the voting stock places control in the hands of those whose investment is relatively small.

[30] *Ibid.*, p. 94.
[31] *Ibid.*

Holding Companies

Of all legal devices, pyramiding is probably the best known. By this method, control of one corporation has meant dominance over many other enterprises. A corporation may be formed whose assets are the controlling shares in some other corporation. Approximately 49% of the newly formed corporation's stock may be sold to the public; control of both corporations is retained, but the amount of capital invested by the original promoters is reduced. The process may be repeated or varied until the final result is that those in control have invested less than 1% of the wealth which they control.

One of the best examples of control arising from pyramiding is the Van Sweringen railroad system recently investigated by a Senate committee.[32] This whole system was controlled by slightly more than 2% of the total invested capital. The effect of this control without responsibility to the real owners is reflected by the manipulations of the Van Sweringens for their own benefit. The Wheeler Committee found evidence to indicate that these men forced one unit of the system to purchase the stock of another unit at a price above the market value. Three Van Sweringen corporations were involved. The General Securities Corporation sold to the Cleveland Terminal Building Company 1,350,000 common shares of the Allegheny Corporation for $12,015,000. The sale price arranged between these three Van Sweringen units was $20 per share, although the market price was but $18.[33] The stockholders of the purchasing company were blissfully unaware of what was being done with the capital they had invested; they were only the owners of the corporation.

[32] Senate Committee on Interstate Commerce, Senator Burton K. Wheeler, Chairman.

[33] *The New York Times,* January 15, 1937, p. 29.

Instances of pyramiding are very common in the public utility industry. Mention of the dangers which exist for the investor and the owner need go no further than a citation of the collapse of the Insull system.

This outline of methods by which our modern corporations are controlled is evidence that economic power is not synonymous with ownership. Stockholders may be owners of an enterprise, but they are not necessarily in a position to control it. The nature of private property has been altered. Legally the security holder possesses real property; he owns factories, railroads, and power systems. On the surface, the present-day wealth owner differs from the property owner of the past in that wealth is primarily securities and indirectly real property.

The stockholder is not interested in the form of property; he does not know how to operate railroads and factories. His primary interest is income. The use of wealth has been delegated to the managers of corporations. Economic power arising from the use of wealth is centered in the hands of those who do not own wealth. Ownership and control have been separated. Personal economic control by the owner is not a characteristic of the United States.

Is it possible to conclude that the directors of American corporations are the economic dictators of our nation? An affirmative answer would be only partly true. Corporate directors are not completely invulnerable. Disgruntled stockholders may withdraw. Now and then directors may be displaced. But the strongest threat is made by the investment bankers.

Unless a corporation is able to approach the investing public directly or plough back a large part of its profits, admission to the capital market is gained through the investment banker. Since neither of the first two methods has proved to be completely satisfactory even when possible, the importance of the banker is apparent. Corporate growth depends upon acquisition of capital.

The dependence of corporate directors provokes thought. Where is the ultimate control of our economy? Is the banker a mere instrument of the corporation? Is the reverse true? Does the truth lie somewhere between these two extremes?

III. POWER OF INVESTMENT BANKERS

The purpose of this section is to ascertain the economic power of the investment banker. Factual data are not plentiful because bankers have not felt obligated to disclose information concerning their operations. Since most investment banking firms are partnerships, they do not have to publish the customary annual statements required of banking corporations. What is known about this form of banking beyond the textbooks has come from Congressional investigating committees and the prospectuses now required by recent securities legislation. Absence of factual information has afforded demagogues unlimited opportunities to "expose Wall Street" and has hindered students in search of the truth.

In general the position of the investment banker has been principally that of a middleman. His commodities are stocks, bonds, notes, etc. Because he guides the flow of accumulated wealth into productive channels, his importance cannot be exaggerated. Savings banks and insurance companies, entrusted with the wealth saved by millions of individuals both rich and poor, purchase securities offered by the investment banker. Business enterprises, upon whose success the economic welfare of the nation depends, have access to the capital fund of the nation through the banker. Banking is more than an economic pursuit; it is a public trust.

The nature of investment banking has been altered under changing economic conditions. Growth of large scale industry has meant large scale financing. Not only has the total demand for capital increased, but the capital requirements of individual enterprises have grown. Local markets and local bankers are no longer able to satisfy the demands of a modern corporation. Financing has become national and international in scope, and bankers with access to these new fields are required.

The increased size of capital demands has made the flotation of securities a complicated and risky undertaking. There has been an ever increasing division of labor and risk. While the method of floating an issue of securities varies with its size and the particular banking house guiding the operation, there is a form commonly followed.

The mechanics of security flotation may be divided into two operations, underwriting and distribution. Groups or syndicates of investment bankers are formed to carry out each step in the process. The underwriting syndicate is the smaller of the two and consists of five to twenty-five or more firms usually, varying according to the size of the issue. The larger group may include as many as eight or nine hundred firms.

The underwriting group performs several functions. The first is known as "origination." Through the medium of one or two large investment houses, a detailed analysis of the enterprise seeking capital is made and the general conditions surrounding the flotation agreed upon. This aspect of the whole process of security issuing is highly important; unless the banker is scrupulously careful, the investment public will hold worthless stocks and bonds. The syndicate then performs its second function by purchasing the entire issue of securities. In this manner the corporation receives capital in exchange for its securities and is essentially out of the flotation. The underwriting syndicate, on the other hand, must bear the risk arising from the possible unsuccessful attempt to sell the securities it has purchased. The third and last function of the underwriting group is to form a distributing syndicate to which the securities may be sold in wholesale lots.

The distributing group has but one function to perform; it must retail securities to the investment public. Frequently this syndicate is known as the selling group, since upon its success in selling the stocks and bonds depends the bankers' profit. Members of the underwriting syndicate, although nominally wholesalers, often participate in the retailing syndicate.[34]

The number of investment banking houses able to direct underwriting syndicates for large issues is relatively small. Many of these important firms are known internationally and participate in foreign issues as well as in domestic ones. The most important ones in America are located in New York City and form a part of what is known commonly as "Wall Street."

"Banker-Directors"

Thus far attention has been focused upon that aspect of the banker's occupation in which he acts as a middleman. While emphasis has been placed upon this activity of the investment banker in the past, his other relations with industry have recently come to the foreground. One reason for the change has been the desire of corporate managements to assure themselves an entrance into the capital market. Business corporations as well as investing institutions have placed investment bankers on their boards of directors. The

[34] A variant of this general method has been developed recently to avoid the provisions and amendments of the Securities Act of 1933. An issue of securities is sold without public offering; instead, a number of institutions purchase the entire amount by private agreement with the issuing corporation.

banker has become identified with those who demand capital as well as with those who supply it. He is not only a middleman, but also a director in the "manufacture" and "consumption" of securities.

The position of the investment banker as a director of a business corporation is involved. When the securities of his business corporations are to be issued, his influence in the directorate is greater than his vote. But his allegiance is divided. At the same time he is acting as a director he is also a partner in another enterprise. He is motivated by self-interest, not altruism; and the welfare of his banking partnership is the more vital. In effect, he becomes a buyer and a seller at the same time and would be inclined to favor his position as banker.

Nor is the investment banker's position as the director of a financial institution more tenable. Every year banks, insurance companies and trust companies must invest millions of dollars. They need objective advice. Should the banking house of the banker-director be selling securities, a most difficult situation is created. He is expected to give unbiased counsel in matters affected with his own personal interests. His advice is his opinion on matters involving a profit or a loss to his partners and to himself.

Despite the apparent disadvantage of the banker-director position, current financial practice tends to perpetuate it. Securities are not sold to underwriters by competitive bidding; instead, a particular investment house is identified with individual business corporations among whose directors are partners of the banking concern. Furthermore, bankers consider any attempt to disturb the customary relationships between an investment firm and its customers as unethical; they would not offer a competitive bid under such circumstances.

There are definite advantages which accrue to the corporation that has a customary banker. Certainty of access to the capital market; recognition of future needs by bankers who have become well acquainted with the operations of the concern; and the constant availability of the banking firm's technical knowledge are all cited.[35] Obviously the investment banking firm connected with a particular concern enjoys benefits. But who protects the interests of the investment public?

Up to this point three possible functions which the investment banker may perform have been described; he may be an investment banker, a director in a business corporation, and a director in an investing institution. Facts to show the prevalence of the banker-director relationship are now in order.

In practice a single banker may hold directorships in a large number of enterprises. The extent of his influence is difficult to measure. When fellow banking partners also hold similar positions, however, the ramifications of a single firm's influence taxes description. Such interlocking of directorates is one method of establishing the importance of the investment banker in our economic system.

Banker-Control

Examples of a corporate director who is also a partner in the investment banking firm engaged in marketing securities for that particular corporation may be found in almost any modern prospectus.[36] Specifically, the condition which

[35] Kuhn, Loeb & Co., *Hearings Pursuant to Resolution of the Senate,* No. 19, U. S. Senate, Seventy-second Congress, First Session, p. 305.

[36] Merely as an example, the prospectus of the Tidewater Associated Oil Company—selected at random—may be cited. A Mr. Walker is described as a partner of Kuhn, Loeb & Co., as well as a director in the corporation. Kuhn, Loeb & Co. was among the underwriters.

formerly existed at the Chase National Bank can be cited as an example of the number of directorships which an investment banking firm may hold. Although the Chase National Bank is now primarily interested in extending credit to business men for short periods of time—*i. e.*, performing the function of a commercial bank—it formerly was also engaged in investment banking. This combination of commercial and investment banking has been made illegal by recent securities legislation; no bank of deposit may take part in the flotation of securities. While the data were collected at a time when the Chase National Bank was an investment bank, they present a valid example of present-day complex relationships in the investment banking field. This bank had eighty-two directors in 1933 who held similar positions in other concerns as follows:

Type of Company	*Number of Directorships*
1. Transportation	133
2. Manufacturing	236
3. Public Utility	73
4. Insurance	82
5. Banks	59
6. Miscellaneous	262
Total	845

While the possibility of duplication must be taken into account, the inter-connections of this one bank are striking.

When the total directorships of eight important New York banks which were engaged in the flotation of securities in 1933 is obtained, a veritable web is drawn. The banks were: [37]

[37] *Congressional Record*, Vol. 76, Part 5, Seventy-second Congress, pp. 4773-4780.

1. Bank of America, National Association
2. Bank of Manhattan Trust Company
3. Bankers' Trust Company
4. Chase National Bank
5. Chemical Bank and Trust Company
6. Guaranty Trust Company
7. National City Bank Company
8. New York Trust Company

	Type of Company	*Number of Directorships*
1.	Insurance	287
2.	Public Utility	521
3.	Transportation	585
4.	Manufacturing	846
5.	Banks	301
6.	Miscellaneous	1,201
	Total	3,741

Banks and Holding Companies

The maze of inter-relationships represented by these eight banks is certainly intricate, despite any duplications which might be present. The number of directorships do not describe the situation adequately, however. Should one of the directorships be in a public utility holding company, for example, then the influence of that one director is magnified. The holding company may have other holding companies and operating companies beneath it. Thus the United Corporation, a public utility holding company formed in 1929 by the banking firm of J. P. Morgan and Company, was interlocked by directorships with the later firm and held substantial amounts of stock in Commonwealth & Southern Corporation, another giant utility holding company. As in other economic pursuits, the holding company device is an effective instrument for the expansion of influence.

In summary, therefore, facts indicate that the influence of the investment banker as a banker-director has grown tremendously. The existence of this phenomenon in our economy leads to the question of whether this influence amounts to control. Is the banker the economic dictator of the nation?

The answer to this question factually is not possible at present. There are no data to prove when influence stops and control begins. There can be no doubt, however, that particular investment banking firms can and do influence the operations of the individual business corporations which procure their capital through them. But that control of a corporation is permanently lodged in the hands of a banking firm, and that this situation is a characteristic one in the United States can neither be proved nor disproved when the data are absent. Suppose that investment firms could dictate to the managements of all the corporations for which they floated securities. Would that mean that the nation was governed by an economic oligarchy of bankers? A positive answer could be given only by proving that bankers act in concert. Only demagogues depict investment bankers as a highly unified group welded together by a directing, coördinating mind. There is no foundation for such an assumption in fact.

The relation of the investment banker to industry and investing institutions through his dual rôle of banker and director is an effective method of centralizing control. What use has been made of it? There is evidence to show that individual banking firms have formed small economic empires within the United States. But to infer that these separate empires have been federated into a nation-wide empire controlled by a single unified oligarchy of bankers who are the economic dictators of America is to go beyond the realm of known facts.

Will the small economic empires which exist combine? A definitive answer, either positively or negatively, cannot be given.

CONCLUSION

The purpose of this pamphlet was to determine factually the extent of economic dictatorship in the United States. The first section has shown that the wealth of the nation is concentrated in the hands of a relatively few persons. Because wealth today is largely in the form of corporation securities, the second section indicated that the control of property has chiefly passed from the individuals who own it to the directors of our modern corporations. Even the latter do not have absolute control over the wealth they manage. They need more capital from time to time and are dependent on investment bankers for an assured entrance into the capital market. The third section was utilized to describe the nature of investment banking and the strategic position of the banker. Particular attention was focused upon the recent emphasis placed on the banker-director relationship, because that is an effective means of controlling single corporations or — through interlocking directorates and such devices—veritable webs of corporations.

In summary, therefore, the fact may be accepted that wealthy individuals, directors of our modern corporations and investment bankers share among them tremendous economic power. Of the three, wealthy persons are least powerful; our economy is preponderantly one of joint enterprise. The economic power exercised by corporation directors and investment bankers is so divided that the banker is the more powerful of the two. The investment bankers are not in complete control, however, because they apparently do not act as a compact group. Indeed, it is known that they compete among themselves. Yet, their cumulative power, though exercised in separate and conflicting groups is enormous.

N. C. W. C. STUDY CLUB OUTLINE

1. According to Pope Pius XI, on what three levels is economic power now exercised?

I. POWER THROUGH INDIVIDUAL OWNERSHIP

1. Give figures to show increase of national wealth. What qualications attach to these dollar estimates?
2. What are the conclusions (with what limitations) as to personal distribution of wealth are to be drawn from:
   (a) Per capita estimates?
   (b) The study of estates of decedents made by the Federal Trade Commission?
   (c) Willford King's study of wealth of living men?
3. What difference in income distribution for the periods 1916-1921 and 1921-1926 is noted in King's "Shifts in Income Distribution"?
4. How is present personal concentration of wealth shown by the Brookings Institution study and the 1934 income tax returns?
5. How is this concentration maintained?

II. POWER THROUGH CONTROL OF CORPORATIONS

1. What do figures on income derived from wages and that derived from dividends indicate?
2. How has the nature of private property changed in the separation of ownership and control? How has "big business" been responsible?
3. Give figures to show the dominance of big business in American economic life, and its growth since 1914.
4. Describe the corporation both as a cause and a result of big business.
5. Quote studies of Ripley, Berle and Means, and Jackson to show how important the corporation has become and the concentration of wealth in the largest.
6. Discuss the size of corporations with relation to maximum profits, competition and legislative control.
7. What has been a recent change in the nature of ownership and control of corporations?
8. Show how separation of ownership and control of corporate wealth is achieved through:
   (a) Self-perpetuating boards of directors.
   (b) Voting trust.
   (c) Voting stock.
   (d) Pyramiding.

III. POWER OF INVESTMENT BANKERS

1. Why is so little information available on investment bankers? What two sources afford information?
2. What is the function of the investment banker as a "middleman"? Show how the nature of investment banking has changed with large scale industry.
3. What are the mechanics of security flotation as to: (a) Underwriting? (b) Distribution?
4. Investment bankers have become also directors of: (a) Business Corporations; (b) Financial institutions. Why? What are the disadvantages? The advantages to the corporation?
5. Give figures to show the interlocking directorates of investment bankers.
6. How does directorship in a holding company increase the influence held?
7. Is the nation actually governed by an oligarchy of bankers?
8. What is the conclusion as to the distribution of economic power in this country?

SUGGESTIONS FOR STUDY CLUBS OR COMMITTEES ON INDUSTRIAL QUESTIONS

1. The study club is not a group to listen to lectures. It is for joint discussion. It is small—ten or twelve to twenty or so—so as to permit general discussion.
2. There is a discussion leader.
3. The group may consist of persons of various occupations and interests or of special groups, such as organization leaders, employers, professional persons, clerical workers, manual workers, etc. A number of small study groups established within each organization is desirable.
4. Meetings are once a week or once every two weeks or once a month.
5. Every member should have at least the text and the outline.
6. The discussion, as a rule, follows the outline point by point. The section of the text to be discussed should be read before the meeting by each member.
7. Use questions at the end of the meeting to recapitulate.
8. Reports or papers called for by any outline should be brief.
9. The purposes are:
   - (a) So its members will know the teaching of the Church on economic life.
   - (b) So they can speak at Catholic meetings.
   - (c) So they can be leaders in the activity of Catholic organizations.
   - (d) So they can apply the teachings in their work and civic life.
   - (e) So they can guide the economic organization to which they belong.
   - (f) So that they will be better Catholics.
10. If the group is an offshoot or a part of another organization they should report their conclusions to the parent organization, because one of the chief purposes of the club or committee is to pass on their information, point of view and enthusiasm to the Catholics of their community and to make the club's work definitely a part of the parent organization's work.

For further information and assistance, write:

National Catholic Welfare Conference,
Social Action Department
1312 Massachusetts Avenue NW., Washington, D. C.