VICTOR PERLO

THE *Empire* OF *High Finance*

'57

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The structure and operation of monopoly in the United States...

THE EMPIRE OF HIGH FINANCE

BY VICTOR PERLO

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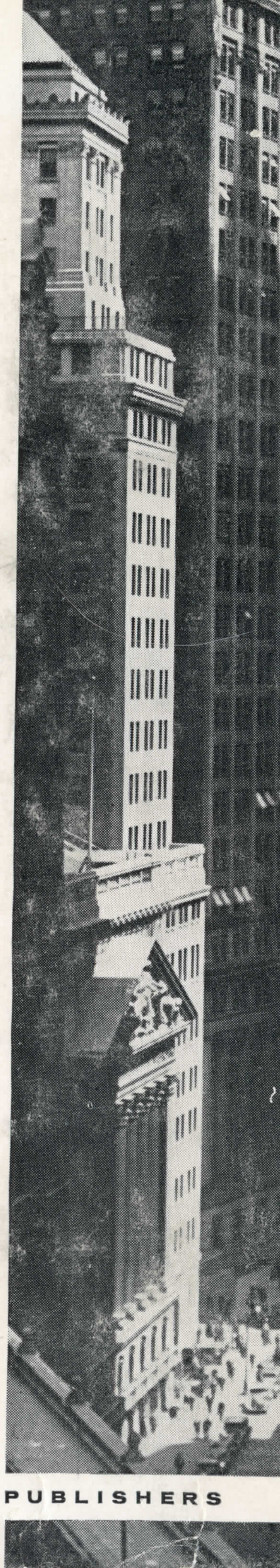

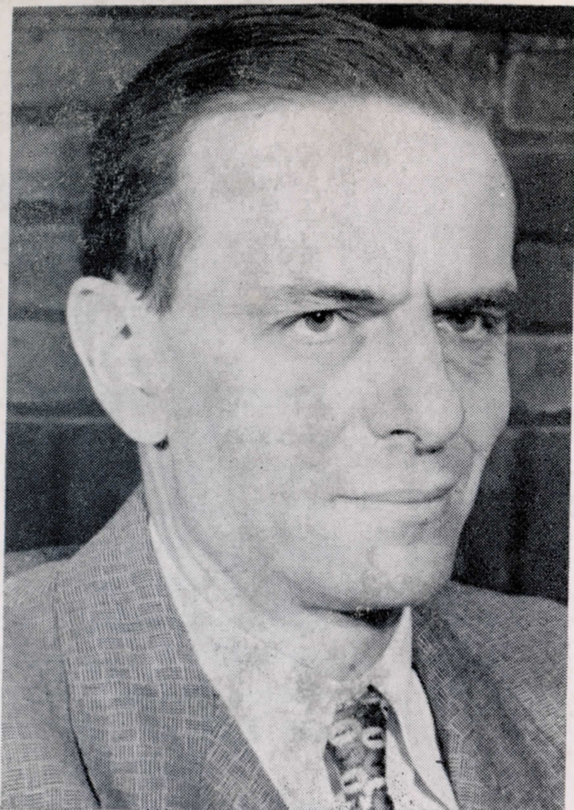

ABOUT THE AUTHOR

VICTOR PERLO is a New Yorker, with a background in mathematics, statistics, and economics (M.A., Columbia University). During the 1930's he was one of the group of young government economists who assisted in the New Deal reform measures. An economic consultant over the past decade, he is best known for his books—all published by International Publishers—and periodical writings. The frequently cited "American Imperialism" (1951) has received worldwide recognition, being translated into a dozen languages. "The Negro in Southern Agriculture" (1954) is a basic treatise on an important subject. The booklet "The Income 'Revolution' " (1954) is a critique of the thesis that America's income has been redistributed at the expense of the wealthy. The author regards the present volume as a logical counterpart of "American Imperialism," in the study of the structure and operation of U. S. capitalism today.

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THE EMPIRE OF HIGH FINANCE

By VICTOR PERLO

Four great banks and insurance companies have more assets today than all financial institutions had in 1912. Ten industrial corporations make more taxable profits yearly than all did in the boom year 1929. The foreign empire of American high finance now exceeds in value the combined national income of Canada, Britain and the Netherlands. War industry and foreign investments combined account for one-half the profits of the American super-trusts.

These are some of the facts, with far-reaching implications for the American people, which are uncovered and analyzed in this book. But the main concern of the author is to show how the monopoly giants are grouped in great financial empires. He traces the spider web of complex corporate and financial relations to expose the real position of the principal interest groups that stand at the peak of the entire economic structure and control it. Each is clearly defined in terms of monopoly control and influence—the Morgan group, the Rockefellers, du Ponts, Mellons, National City Bank and the lesser Wall Street groupings. The position of important sectional groups, such as the Midwestern, the Californian and Texas millionaires, are also studied in relation to the peak financial centers.

In the process of uncovering the inner connections of the multi-billionaire families and their banks and corporations, Mr. Perlo details the various modes of corporate control and the workings of the entire big business structure. He examines the changes in monopoly relations, analyzes the battles and shifts among the tycoons, and advances new concepts toward a better understanding of contemporary American finance capital.

(Continued on back flap)

(continued from front flap)

He probes the grand merger of monopoly and government at Washington and indicates its implications for the American people and world politics. Based on extensive research and careful scholarship, replete with analytic tables, charts and detailed appendices, this book takes apart the dream-world of "People's Capitalism," spun by Madison Avenue hucksters, and tells the story of streamlined monopoly and vested interests grown larger and more powerful than ever.

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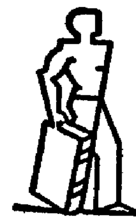

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p. 32, line 14, should be $521 *billion* instead of *million*.

p. 86: A line of type is missing after line 3; it is to be found as line 5 on p. 87.

p. 279, 6th line from bottom, *deed* instead of *need*.

Appendix: p. 335 should be p. 332; pp. 332, 333 and 334 should become pp. 333, 334 and 335, respectively.

p. 338: Add following reference notes for Chapter 3, at end of page:

25. Westcoast Transmission Co. Ltd., *Prospectus,* April 23, 1956.
26. July, 1956, Table 12, p. 15.
27. Ford Motor Co., *Preliminary Prospectus,* Dec. 21, 1955.
28. Olin Mathieson Chemical Corp., *Proxy Statement,* Mar. 28, 1955.
29. *Factors Affecting the Stock Market,* Table 11, p. 81.
30. TNEC *Hearings,* Part 24, p. 12902.
31. *Ibid.,* p. 12903.
32. *Ibid.,* p. 12615.

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Part One: Structure

CHAPTER I

Introduction

FOUR BANKS AND insurance companies have more combined assets today than all American financial institutions did in 1912. Ten industrial corporations make more taxable profits than all such companies did in the boom year 1929.

Monopoly!—ever larger, ever more powerful, looming over the lives of the people. Small businessmen, their share curtailed and areas of operation narrowed, operate under its terms and are transformed into its hired managers. Farmers are impoverished by its price scissors and squeezed off the land by its mortgages. Each year millions of workers suffer periods of unemployment as corporate giants shut down plants in slack periods. Old communities become ghost towns when corporate head offices in New York decide to move their main industries to low-wage areas.

Monopoly!—all pay it tribute through labor, through rising prices and debts, through taxes levied under its rules and mainly for its benefit. And hundreds of millions residing abroad in the economic grip of American big business pay their toll into the same coffers.

Monopoly!—destroying the security of all. How safe is the famous "American standard of living" in an economy teetering between the brinks of war and depression? These twin evils of modern times have not been cured by the growth in monopoly power and technique, but have been rendered more devastating than ever before.

The fight against entrenched wealth has been a central theme of our country's political history. At the start Thomas Jefferson, advocate of democratic government, stood for an independent citizenry of farmers and artisans, untrammeled by centralized financial and merchant capital. His antagonist Alexander Hamilton, the monarchist, stood for rule by banker, merchant and manufacturer, with government their

servitor. The contest between the social forces these men represented continued for decades. The democrats at first won the political victories, contributing much to the rapid growth of the country, to what is good and healthy in our traditions and institutions. But they could not win final economic victory. The logic of capitalism dictated that small enterprise should give way to large, that independent farms and factories should be squeezed by great banks and railroads.

Industry multiplied after the Civil War, and soon monopolies appeared in oil, sugar and railroads, dwarfing anything dreamed of by the Hamiltonian empire-builders. The newest social class, the factory wage-earners, now became prominent politically. Gathered by the thousands on the job, onerously oppressed over a 12 to 14-hour working day, labor strove for organization and for means to deal effective blows at monopoly. The general strike of American workers for the 8-hour day, on May 1, 1886, is celebrated all over the world as a landmark in the modern labor struggle.

Millions advocated new and radical doctrines, which attacked the sanctity of concentrated private property—Populism, the Single Tax, Socialism. Anti-monopoly forces obtained great influence in the Democratic Party, and came close to national electoral victory in the 1896 campaign of William Jennings Bryan.

The fight was lost, but its imprint on American life remained. Congress passed an anti-trust law establishing an official policy against monopoly. True, it was passed as a concession to the public, and its enforcement has been sidetracked by defenders of vested interest controlling the government. But even the most reactionary Administrations have had to pay tribute to the vitality of anti-monopoly sentiment in America by lip-service to free competition, and by a pretense of "vigorous prosecution" of monopoly.

In this century the anti-monopoly movement gathered strength in the Socialist Party slogan "Let the Nation Own the Trusts," in the political campaigns of the Bull Moose and La Follette Progressive parties, and finally in the New Deal of the 1930's. For the first time labor succeeded in organizing powerful, lasting unions embracing the majority of workers in trustified heavy industry. With this backing, President Franklin D. Roosevelt's Administration put into effect a whole series of anti-monopoly measures, including humanitarian reforms designed to protect labor and farmers from destitution and unrestrained exploitation.

But the economic domination of monopoly was not shaken. As events soon showed, big business emerged from the Second World War

more powerful than before. New Deal efforts to "drive the money-changers from the Temple" were inadequate in concept, in content, and in enforcement.

They started from the traditional concept of supporting scattered private enterprise against concentrated private enterprise. But, while small business exists and will continue, its subordination and defeat is complete and final. The centripetal forces of capitalist economy, spurred by modern technology, spell its doom.

New Deal measures were limited in content to attacks on particular malpractices, but did not menace the basic structure of centralized control. The engines of vested interest, skirting the roads that were blocked, moved onwards through the many other roads in the dense network of interlocking connections they had established, and rushed to completion new roads paved smoother than those closed off.

The reforms were limited in enforcement, first by the protection given to monopoly by the courts, and then by the capture of the responsible administrative posts in the new regulatory agencies by representatives of the very forces these agencies were supposed to restrain.

During and since World War II the anti-monopoly battle has been at a low ebb. That it will revive, multiplied in strength and effectiveness, is an historical certainty. Indeed, there is almost universal agreement that the people will not go through another major depression without insisting on changes much more fundamental than those of the 1930's. War or threats of war, large-scale military production and activity, have become a continuous feature of the system. With the knowledge of modern weapons and their destructiveness sinking into the consciousness of the people, they will not long tolerate this Sword of Damocles hanging over them.

The fact that a few hundred or at most a few thousand men of wealth determine the destinies of the nation, and are guided in so doing by the overriding principle of increasing their own profits, will some day become clear to the public. And the American people will not indefinitely tolerate economic royalism any more than they would political monarchy.

But what can we do about it? If previous attempts failed to prevent monopoly from growing bigger and stronger, what guarantee is there that history will not repeat itself?

One requisite is to understand the nature of the empire of high finance. This is all the more important nowadays because the public is asked to believe that the system has been completely transformed.

We are exposed to distortions in newspapers and broadcasts, in the speeches of politicians and the books of professors. Is a great company, employing hundreds of thousands of workers and accounting for more than half the total output in its field, a monopoly? Heavens, no! It is a public corporation owned by the multitudes. Is it run for private profit? The profits are merely incidental. It is run for service to the consumer.

Is a New York bank with billions of deposits, with ties to thousands of small banks all over the country and to even larger insurance companies, with directors on the boards of a hundred corporations, a pinnacle of unrestrained power? No longer. It is a well-behaved and modest financial agent of the depositing public and of national financial policies.

Is a man owning, with his family, billions of dollars worth of corporation shares a robber baron and an economic royalist? Not today. He has been transformed into a philanthropist and an industrial statesman. Is it true that Senators are bought by vested interests, and that the Executive is infested with those placed there by the upper crust and taken out of the top drawer? Don't believe it. Government is hostile to business, and its regulations assure against all abuses.

Do we live under capitalism, a capitalism which has long since reached its monopoly stage, which has been replaced by socialism in some countries, and which is threatened by the same fate in many others? Not us. We have something entirely different, strictly American. We have a "People's Capitalism," in which the common man owns the great corporations, poverty is eliminated, and the rich man is taxed down to the level of the mass—or so we are told.

Sophisticates may laugh, but the arguments must be answered. For the theses of "People's Capitalism" are proclaimed through all channels of communication. They are produced with the slick tricks of modern advertising. They are sometimes backed with seeming documentation as impressive as it is distorted. And they have confused, confounded, and misled millions. They have won partial, if begrudging acceptance, even from conscious foes of monopoly. Some have been unable to see through all the tricks of propaganda, or to resist the blandishments of theories sanctified by the most respected academic circles and repeated so frequently as to acquire the status of dogma.

What has really happened since the turn of the century, when the newly formed steel trust appeared to be the ultimate in monopoly, and since the years of frenzied finance which culminated in 1929? Actually the share of the giants has increased, and concentration has

become the rule in many fields formerly left to smaller enterprise. Monopolistic devices have become more effective in keeping out or eliminating competitors, and in making products more expensive to the public.

The power of monopoly has extended far beyond our own borders. Tens of billions of dollars invested in all capitalist countries, and backed by the armed might of hundreds of foreign military installations, yield billions in additional profits yearly to the very largest trusts.

The ties which interlock the monopolies have become tighter and more complex. The control of corporations is more and more centralized in knots of financial power—the banks and allied institutions, and the banker-industrialists and industrialist-bankers who run them. Control itself has become an object of major importance, bringing forth a rate of profit many times that accruing to the ordinary investor.

Those in the main positions of control determine the destinies of tens of corporations employing millions of workers. Eight prime centers of power have emerged, dividing among themselves most of the major companies and most of the profits. Through command of these systems, a few families have acquired wealth beyond all previous reckoning; they have become, literally, multi-billionaire families.

These empires of high finance do not have fixed boundaries. United in plunder, the rulers are rarely long agreed on its division. The interests of one group extend into the areas of others, and many corporations are divided in control. Corporate raids and mergers break out of the continuous behind-the-scenes maneuvers, through which boundaries of empire and power balances are shifted. The battles for supremacy embrace political as well as economic means, and involve major government policies affecting the entire population.

For the government and the main political parties have become increasingly merged—or submerged—in this corporate power structure. New forms of big business organization and operation have arisen, in which the line between "private" and "government" is indistinct. This trend is associated with the militarization of the entire economy. "Military necessity" becomes the excuse for the most outrageous use of government power to advance private profit interests. Military business has become permanently important to many industrial corporations, and to the big banks and insurance companies absorbing interest from the war-swollen government debt.

Washington, Incorporated, has become the alter ego of Wall Street—with a common board of directors. Positions on the Washington board become the most lucrative prizes in the battle for larger business

empires and profits. With military business at the core of government, and foreign investment the source of extra profits for the plutocracy, control of foreign policy has become the pivot of the power struggle. Political rule by big business centers around the ominous issue of war or peace, with its alternatives of atomic death or survival for the population.

This vast corporate-government structure is not operated in a planned and unified way. It works chaotically, under economic laws which the rulers of monopoly are powerless to abjure. It is subject to economic crisis, and is affected by international political crises, by domestic opposition, and by conflicts of interest among the ruling groups.

The whole giant network of corporate monopoly, involving the mechanically integrated labors of tens of millions, is run for one basic object: the realization of private profits by those in the positions of control. This object is out of harmony with the interests of the millions, renders impossible the smooth functioning of the entire machinery, and undermines the biggest boom in history. An old contradiction, this has grown to monstrous proportions with the extreme centralization of economic power.

Its effects are felt in the strain and stresses of the cold war, in such political perversions as the witchhunt and segregation, in poverty and human suffering here and abroad. These evoke resistance, better organized on a world scale than ever before. Internationally this resistance has warded off, for the moment, the danger of hydrogen war. At home it has improved the conditions of millions of people, and set limits to the exploitation of labor and the oppression of minorities.

But these checks are temporary. A fundamental change is needed to permanently avert dangers to the people, and to realize the unlimited possibilities for the good life inherent in the mechanical advances of society and the growth of scientific knowledge.

My previous book on American imperialism* examined present-day monopoly capitalism primarily in its international aspect, as a system of foreign expansion and aggression, and as the main source of the war danger following World War II.

The present volume concentrates on the domestic structure and operations of monopoly capitalism. This is a big subject, and the book does not treat all of it. The cartels and price-fixing arrangements, the methods by which distributors are subordinated to manufacturers, and

* *American Imperialism*, International Publishers, 1951.

farmers to processors, have been well covered in many works. They are not emphasized here.

Attention is focused on the most decisive, and most confused and obscured, aspect of economic concentration, *finance capital*. By this is meant the linking of banking and industrial monopolies and monopolists into super-monopolies which tower over even the greatest of the industrial combines.

Popular opposition to monopoly has traditionally seen this as the key, and concentrated its fire against the "money power," against "Wall Street." Farmers saw the bankers depriving them of their livelihood through mortgage foreclosures. Weaker manufacturers saw how New York financiers organized the trusts that strangled them. Workers saw how the golden network broke their strikes, bringing into play the press, police, troops, and credits to the employers.

Part One of the present volume deals with the relations between finance and industry, the character and fruits of corporate control, the functioning of different kinds of financial institutions in the power network, shifts in influence and battles for control among the high and mighty.

Part Two deals with the main financial empires, the scope and particular characteristics of each, their alliances and conflicts, the changes in power among them and the reasons therefor.

Part Three deals with the relations between government and big business, the financial rulers as directors of the affairs of state, the competition for leadership in this respect, the fabulous mushrooming of the world empire of American high finance, and the impact of this on vital issues of foreign policy.

It is the aim of this book to increase public understanding of the structure and operations of American monopoly capitalism. As this is written, there are signs of a resurgence of anti-monopoly sentiment, reviving the great anti-trust traditions of the American people. Today, the people can prove more effective than heretofore in reducing the power and profits of monopolies, and thereby can safeguard their own livelihoods, liberties, and lives from the harmful effects of modern capitalism and its policies. In the process, they will find the road to the ultimate elimination of private monopoly in America.

CHAPTER II

Wall Street Still Rules

THE GREAT WAVE of mergers at the turn of the century stimulated an outpouring of literature which exposed the operations of the trusts and their financial promoters. The works of Gustavus Myers, Ida Tarbell, Charles Edward Russell, H. D. Lloyd, Lincoln Steffens, Frank Norris, Louis Brandeis, and others aroused the indignation of millions at the methods used by the trust builders. The approach was typified by the title of Russell's *Lawless Wealth.* Disdaining traditional laws and standards of behavior, the "robber barons" were plunging ahead to take the profits and control the policies of the entire economy.

These writers were known as "muck-rakers." They were not, however, dealing in petty filth. They were disclosing a historical process whereby a few men took to themselves the wealth built by an entire nation. Some writers in this tradition did not fully realize that the masters of capital were more than "robbers" and "conspirators." They were also agents of a historical process in which this robbery became the law and order of economic life.

Capitalism became transformed into monopoly capitalism. The rules and procedures of economic life were revised and adapted to the needs of monopoly.

CONCEPTS OF MONOPOLY STRUCTURE

A deeper understanding was necessary so that people could know where they were and where they were going, so that they could learn how to deal effectively with the problems created by monopoly capitalism.

An approach to this was made by John Moody, a chronicler of the feats of the trust builders, rather than a critic. In 1904 he published

The Truth about the Trusts, which drew the lines of financial control, establishing the domination of the many industrial trusts by a handful of Wall Street centers. The broad sweep of financial empires, and a summary of their methods of operation, were described by the Pujo Committee of the House of Representatives following an extensive investigation in 1912-13.

The fuller elaboration of the theory of modern monopoly was the work of Europeans, who studied its operations in many countries. The English liberal, J. A. Hobson, showed that modern monopoly was "imperialism," that it included the conquest and exploitation of weaker countries, with highly significant effects on life in the "mother" countries. Rudolf Hilferding, the Austrian Marxist, developed the theory of "finance capital," showing the role of the great banks as the promoters and key factors in monopoly, and stressing the "personal union" between banking and industrial monopolies. V. I. Lenin, the Russian revolutionary, drew together these lines of analysis in a short work called *Imperialism, the Highest Stage of Capitalism.* Lenin viewed monopoly as a world system, a stage of capitalism featured by war and decay, which would inevitably be replaced by socialism. Prophetically, he wrote this book a year before the Russian revolution.

The European theoretical works, in turn, influenced later analyses of concentration in America. The great crisis of the 1930's stimulated the most serious research into the causes of the disaster. Among the products were works explaining the operations of American monopoly as a system, rather than as an aberration.

Matthew Josephson, in a series of historical books, showed the connections between economic monopoly and political monopoly in America. He laid bare the anatomy of a democracy corrupted by systematic financial controls, but showed this also as part of a process, rather than as a narrowly conceived conspiracy.

Harvey O'Connor, John K. Winkler, and others wrote a series of exposés of particular financial groups. While in the muck-raking tradition, these works rose above it. They presented the role of monopoly more fully. Pre-World War I writers stressed the tribulations of small business squeezed by monopoly. O'Connor showed that labor was the main victim, and had the power to lead in curbing monopoly. His works were geared to and helped the valiant campaign of American labor to organize the open shops of steel, auto, and other key industries.

The outstanding theoretical work of the 1930's was Anna Rochester's *Rulers of America* which examined the relationship between finance and industry, and the structure of monopoly control as it then existed.

Miss Rochester's book set the stage for more detailed analyses by New Deal Government bodies, particularly the National Resources Committee, in whose work Paul Sweezy played an important role, and the exhaustive hearings and reports of the Temporary National Economic Committee (TNEC).

Franklin Roosevelt established this body to investigate ways of more effectively combating monopoly. Chances of its findings bearing immediate fruit were dashed by the outbreak of World War II.

But these scientific works of the 1930's contain much that will be useful when the American people again approach the task of dealing with monopoly power. And they led to a much wider public knowledge of the true scope and character of big business than had formerly prevailed.

A great war, an enormous extension of the influence of American monopoly, and a doubling of its industrial plant, has brought significant changes. Twenty years after publication of *Rulers of America,* with anti-monopoly battles of even greater consequence than those of the New Deal period in the offing, a fresh look and an attempt at a fuller understanding of the economic and political workings of big business are in order.

FINANCE CAPITAL

In the thinking about this subject, there has been a common thread of understanding among serious students of different political viewpoints and nationalities.

Moody, the admirer of Wall Street, anteceded the term, finance capital, but the idea was clearly there:

> Therefore, viewed as a whole, we find the dominating influences in the Trusts to be made up of an intricate network of large and small groups of capitalists . . . all being appendages to or parts of the greater groups, which are themselves dependent on and allied with the two mammoth or Rockefeller and Morgan groups. These two mammoth groups jointly . . . constitute the heart of the business and commercial life of the nation, the others all being the arteries which permeate in a thousand ways our whole national life, making their influence felt in every home and hamlet, yet all connected with and dependent on this great central source, the influence and policy of which dominates them all.[1]

Lenin, the Marxist, put it in this way in his description of the features of imperialism: "The merging of bank capital with industrial capital, and the creation, on the basis of this 'finance capital,' of a 'financial oligarchy.' "

The banks have been transformed from "modest intermediaries" into:

> powerful monopolies having at their command almost the whole of the money capital of all the capitalists and small business men and also a large part of the means of production and of the sources of raw materials of the given country and in a number of countries. . . .
>
> Finance capital, concentrated in a few hands and exercising a virtual monopoly, exacts enormous and ever-increasing profits from the floating of companies, issue of stock, state loans, etc., tightens the grip of financial oligarchies and levies tribute upon the whole of society for the benefit of monopolists.[2]

The reform President, Franklin Delano Roosevelt, wrote: "Among us today a concentration of private power without equal in history is growing."

After presenting statistics concerning the growth of monopoly in industry and wealth, he went on:

> Even these statistics . . . do not measure the actual degree of concentration of control over American industry.
>
> Close financial control, through interlocking spheres of influence over channels of investment and through the use of financial devices like holding companies and strategic minority interests, creates close control of the business policies of enterprises which masquerade as independent units.
>
> That heavy hand of integrated financial and management control lies upon large and strategic areas of American industry. The small businessman is unfortunately being driven into a less and less independent position in American life.[3]

RISING INDUSTRIAL CONCENTRATION

A whole series of government reports establish the fact of continually rising concentration in industry. True, a number of economists have tried to discredit these studies. They have been answered by such economists as Corwin Edwards, John Blair, George Stocking, and Myron Watkins, and perhaps most systematically in the Labor Research Association pamphlet *Apologists for Monopoly.*

Attempts to manipulate away the basic facts about concentration have diminished since 1951-52, owing to a new wave of mergers and the general growth of monopoly which has made such attempts quite futile. For our purposes it is sufficient to cite key summary statistics to illustrate the growth of monopoly in industry. In 1920, the 200 largest non-financial corporations obtained 33.4% of total non-financial corporate profits, in 1929, 43.2%, and in 1955, 57.4%.[4]

The share of the 200 largest manufacturing corporations in total manufacturing sales rose from 37.7% in 1935 to 40.5% in 1950 and

45.5% in 1955.[5] During the first 15-year interval, including most of the New Deal period, the increase in concentration was comparatively slow. The anti-monopoly legislation of the Roosevelt Administration had not turned back the trend towards monopoly, but merely slowed its growth. By the 1950's the limited practical effect of these laws was cancelled out by a government hostile to its purposes. Concentration increased almost twice as much in five years as it had during the previous fifteen years.

Today defenders of the system generally concede its monopoly character. Berle, for example, speaks of the state of American industry as representing "a concentration of economic ownership greater perhaps than any recorded in history . . . a system, industry by industry, in which a few large corporations dominate the trade. Two or three, or at most, five, corporations will have more than half the business, the remainder being divided among a greater or less number of smaller concerns who must necessarily live within the conditions made for them by the 'Big Two' or 'Big Three' or 'Big Five' as the case may be."[6]

True, Berle defines these giants as "concentrates," and various academic economists call them "oligopolies," to distinguish the situation described above from one in which a single company makes *all* of a given product. However, we here are not concerned with these academic niceties. The power and functioning of the "Big Twos" and "Big Fives" is of the same kind as that of the "Big Ones" (which do exist for a number of important products). The popular term monopoly is the correct one to describe the real situation.

Important features of growing industrial concentration are not revealed by statistical measurement. Some of these are discussed in Chapter VI. Furthermore, the pace of concentration in finance has been far more drastic than in industry.

In New York City, according to a Congressional report, the share of the four largest banks in deposits increased from 21% in 1900 to 60% in 1955.[7] Most of the increase in concentration occurred after 1929. Nor was the process limited to New York: "in 10 of the nation's 16 leading financial centers, 4 banks own more than 50 percent of all commercial bank assets. In 9 of these financial centers, 2 banks own more than 60 percent."[8]

The Mellon Bank in Pittsburgh, the Bank of America in San Francisco, and the First National Bank in Boston each control more than half the assets in their respective cities.

With all the multiplication of financial activity, the total number of banks in the country fell from 30,419 in 1921 to 25,113 in 1929 and 14,243, in 1955.[9] And the 10 largest banks increased their share of the national business from 10% in 1923 to 21% in 1955.[10]

Monopoly is more complete in finance than in industry, it grows more rapidly, and the all-important links between financial and industrial monopolies have been strengthened.

One must examine the financial world to find the control center of American monopoly. But it is exactly at this point that the academicians and publicists have failed most dismally. With scarcely any exceptions, they have either ignored the whole question since World War II, or presented a Pollyanna view of American finance having no relation to reality.

APOLOGETICS OF THE VANISHING BANKER

During the democratic movement of the New Deal period, the masters of capital, while not relaxing their grip in any respect, dropped a heavier curtain of secrecy around their operations, adopting a pose of innocent servant of industry and of government.

Experts bending to the reactionary political winds came forward to give the blessings of "science" to the supposed demise of "Wall Street," and the apologetics became bolder even as the financiers returned increasingly to the center of the stage after World War II.

Professor R. B. Heflebower, using the typical academic approach, concedes that the bankers once organized giant economic empires: "But that influence was never as strong in manufacturing as in railroads and has waned materially."

In his view, "an operating economic oligarchy" no longer exists.[11] Berle, the liberal corporation lawyer who developed the theory of the "corporate soul," claims that power has shifted from banks and investment houses to industrial managers, and holds that the picture of a central group of "interests" is "a bogeyman set up by demagogues."[12]

What are the arguments advanced by most of these writers? They are:

1. The bankers' voice in industrial affairs has become insignificant.
2. Industrial corporations have become so powerful in their own right that they no longer depend on banks for funds, and are run by a new group of "industrial managers."
3. Government regulation and "hostility" prevents financial domination.

The basic facts about the growth in the scope of financial institutions

undercut all of these arguments. Raymond Goldsmith, a conservative economist, provides a convenient summary in a recent monograph. He estimates the national wealth in 1949 at $898 billion, of which the banks, insurance companies, and other financial institutions held $432 billion, or almost half.[13] These financial assets were multiplied 23 times in a half century. More significant was the increase in their share of the national wealth. In 1900 they owned 21%, in 1929, 35%, and in 1949, 48%.[14] The bankers increased their power not only during the period of open manipulations, mergers, and pyramiding of fortunes that culminated in the stock market crash of 1929. They increased it even more rapidly thereafter, when a "hostile government" and the "managerial revolution" were supposedly sapping their strength!

When we differentiate among various kinds of wealth, the rising share of the financial oligarchy is even more impressive. Securities, in modern capitalism, are the decisive claims to ownership and control of industry. In 1900 the financial institutions held 23% of all securities; in 1929 this had increased only to 26%. But by 1949 it had risen to 58%.[15] The huge wartime rise in the federal debt, mainly held by the banks, contributed to this, but the post-1929 rise in the bankers' share of corporate securities was almost as dramatic.

As is typical of those National Bureau publications which contain significant information, the author is constrained to avoid explaining the meaning of his findings except in the most innocuous and generalized fashion. Thus Goldsmith says: "From the economists' point of view, the development of financial intermediaries and the trend of their share in national assets and wealth deserve attention as an indication of the extent and character of financial interrelations, which in turn help to determine how capital expenditures are financed and how existing assets are shifted among owners."[16]

But the lesson which Goldsmith did not draw is clear enough: The "extent and character of financial interrelations" has intensified greatly. The control of capital expenditures is more firmly than ever in the hands of the financial oligarchy, and "existing assets are shifted" more and more into their hands.

Here is more evidence, concerning the identity of the very largest, most powerful corporations. In 1935, out of 62 corporations with assets of over $500 million, 28 were banks and insurance companies, and they had 42% of the assets of the 62 giants.[17] Seventeen years later, in 1952, out of 66 corporations with assets of over a billion dollars, 38 were banks and insurance companies, and these had 64% of all the assets of the 66 giants.[18]

The share of profits siphoned off by the financial institutions has also increased. The after-tax profits of financial corporations (including real estate) increased from $0.9 billion in 1925 to $4.7 billion in 1952, and from 14% of the profits of all corporations to 24% of the total.[19] Under capitalism, profits are the ultimate arbiter of power and position. The ability of the financial corporations to extract a rising share of profits is the surest sign that the dependence of industry, and of capitalist society generally, on financial power has increased, and not diminished.

These growing shares of national wealth and income accrue to a smaller number of financial institutions, for, as we have seen, concentration of capital proceeds with especial rapidity in banking.

Now let us turn to the connecting links between finance and industry, and see whether the financiers have really been pushed out. Paul Sweezy, who did important work in the analysis of the structure of finance capital during the New Deal period, wrote in 1942 that bankers' power had become divorced from economic function, and "is bound to weaken and eventually disappear. . . . Bank capital, having had its day of glory, falls back again to a position subsidiary to industrial capital, thus re-establishing the relation which existed prior to the combination movement . . . today the entire banking system could be 'seized' in the United States, for example, without creating more than a temporary ripple in the ranks of big capital."[20]

The Federal Trade Commission in 1951 analyzed the interlocking directorates of the largest thousand industrial companies. In almost every basic industry, the financial corporations had more representatives than any other group. Among 727 interlocks of 112 machinery companies, 224, or 31%, were with banks, investment bankers, investment trusts, and insurance companies—an average of two financier-directors per machinery company. This government report commented:

> The high frequency of machinery company interlocks with financial institutions reflects the fact that the industry requires, particularly in its larger operations, huge aggregates of capital for plant and heavy equipment. Sources of finance capital have played significant roles in the formation, expansion, reorganization, consolidation, operation, and policy-making of many of the largest machinery corporations. These financial institutions also served as the prime connecting link among the leading machinery producers, as well as between machinery companies and their potential competitors or their potential suppliers or customers in other industries.[21]

There is really only one significant piece of evidence offered to prove the supposed weakening of financial-industrial links. That is

the increase in corporate self-financing. The theory of the financially self-contained corporation grew during the stagnant 1930's, when there was little expansion of capacity, and internal funds largely sufficed for the replacement of equipment that took place. However, in the boom after World War II, corporations turned increasingly to outside financing to keep ahead in the race for automation of production and expansion of capacity.

Owing to higher tax rates, large stockholders often prefer to collect smaller dividends, and reinvest profits without removing them from the corporate network. But the extent of dependence on outside funds remains larger than implied by Berle and others, and quite decisive in industrial expansion. Government tabulations show that in the 11 years 1946-1956, some 64% of gross capital spending was from retained profits and depreciation reserves, while 36% was from outside sources.[22]

To interpret these figures, it is necessary to analyze how the funds are used. Since World War II about half of corporate capital spending has been for replacement of obsolete and worn-out capital, and about half for expansion. The former is financed out of depreciation reserves, and to the extent necessary, out of retained profits. Comparatively little internal funds are left for expansion. Roughly and approximately, we have the following: as against the 50% of total spending for expansion, there is left 14% of internal funds and the 36% of outside funds which must be raised for the purpose. Thus the outside funds account for as much as 72% of the expansion capital.

This is the decisive part of the investment. It determines which corporation will get ahead, which must fall behind and either be absorbed through merger or wrecked through bankruptcy. The giant American Telephone and Telegraph Corporation borrows almost $2 billion yearly through financial institutions. There is hardly a major industrial company which has not gone to the capital markets since 1950. The debt of all corporations increased $111.5 billion or 131% in the decade after World War II, as compared with $35.6 billion, or 67% in the decade after World War I.[23]

Clearly, if there has been a satistical decline since the 1920's in the *proportion* of capital funds obtained through financial institutions, it has been insufficient to cause any qualitative change in the dependent relation of industry on these institutions. And this is only part of the story.

What many overlook is that the *merging* of financial and industrial capital means just that. This is expressed most directly in the ownership by the same groups of controlling shares in banks and industries, and the ownership by financial institutions of industrial shares. As shown in Chapter III, this has increased so markedly that in their totality, the relationships between big finance and big industry are more intimate than ever before.

THE AUTO INDUSTRY AND THE BANKS

Very well, some say, the bankers are still powerful, but the really big industrial giants do not need them any more. General Motors, the corporation with the largest profits in the world, is an oft-cited example. It has over a billion dollars in net current assets, and until recently it was debt-free. Its erstwhile President, Charles E. Wilson, is hailed as the man who rose to the top as a manager of a great industry, and thence to the Cabinet of the United States.

But actually General Motors and the auto industry as a whole provide an outstanding example of the interlocking of industrial and financial power, of the domination of great corporations by a financial oligarchy, and of the decisive weight of the banking element in crucial periods.

The auto industry is in the midst of a bitter power struggle. General Motors and Ford achieved outstanding gains during the years 1954-56; Chrysler absorbed serious losses. Meanwhile the "independents" dropped from 15% of the market in 1949 to 4.5% in 1955,[24] after having been reduced to two in number, the rest having been absorbed by mergers or forced out of production.

The battle rages in the field of capital expenditures, in distribution, in securing reliable sources of materials and parts, and in the striving for mergers and acquisitions. And in all of these areas of combat the financiers have the last word.

Consider the huge capital spending to reduce costs and locate factories more favorably, so that more horsepower and gadgets can be loaded into the "package" designed to win the customer's favor. General Motors and Ford threatened to squeeze out Chrysler partly because they were able to outstrip the latter in capital spending.

Until 1953, the major companies kept up the race from accumulated profits and reserves. But now this is not enough; the bankers must play a key role. General Motors borrowed $300 million. The largest industrial loan ever publicly floated up to that time, it was sold through a syndicate headed by Morgan, Stanley & Co. In a desperate attempt to catch up, Chrysler borrowed $250 million for 100 years from the

Prudential Insurance Co. (which has directors in common with the principal Morgan banks as well as with Chyrsler) and with its aid *did* regain some lost ground in 1957. Again in 1955, General Motors sold shares to existing stockholders for $329 million, with Morgan, Stanley underwriting the issue. Finally, at the beginning of 1956, The Ford Motor Company, which had always boasted independence of the bankers, authorized the Ford Foundation to sell 10,200,000 shares for $663 million dollars, through a large Wall Street syndicate headed by Blyth & Co. (connected with the First National City Bank). This sale of Ford shares did not directly make funds available to Ford Motors for expansion, but paved the way for future sales of shares for that purpose.

The role of banking is even more important in financing distribution of cars than in financing production. The corporation which can loan its dealers funds for cut-throat competition, and which can provide the easiest installment credit to car buyers, will survive and rise to the top.

General Motors, through the General Motors Acceptance Corp. and its Motors Holding Plan, has advanced $2 billion to car buyers and dealers. The dealers, backed financially by the corporation, can hold the stock of cars with which GM saddles them, can afford to slice their profit margins, and to engage in all sorts of sharp practices. Chrysler, until recently, had no scheme for financing its dealers, and the largest Chrysler dealer, Bishop, McCormick and Bishop, had to go out of business early in 1954, a serious blow to the Chrysler Corp.

But the extent of GM's financial backing of dealers and buyers is not a measure of its "independent" financial strength, but rather of the strength of the financial circles with which it is connected. At the end of 1955 General Motors carried an investment of $231 million in General Motors Acceptance Corp. But the banks and insurance companies had over $3 billion invested in GMAC. The banking investment in GMAC increased more than 15 times between 1947 and 1955.[25]

Combining the producing company and its sales subsidiary, new securities issues in the three years 1953-55 alone totalled $2,340 million.[26] *No industrial company has ever before gone so deeply into debt to the leading financial interests as General Motors has since World War II.*

Now let us turn to the internal structure of General Motors and the role of financiers within it. To begin with, General Motors today is itself more a financial holding company than an industrial corporation. Even without *any* outside banking funds, the ruling group in General Motors would be in truth a financial oligarchy. This is quite

apart from the widespread lending activities of General Motors, such as loans to steel suppliers, dealers, and customers. It is seen more basically in the much-advertised operating independence of the various manufacturing divisions.

What is the mechanism by which the top circles of General Motors coordinate the activities of its various divisions? Donaldson Brown, then vice-president and still a director of General Motors, wrote 34 years ago in a paper presented to the American Management Association:

> In the case of General Motors, the Board of Directors has two subcommittees, a finance committee responsible for general financial policies, and an executive committee responsible for operating policies. The finance committee includes men of large affairs identified with banking and with big business, apart from General Motors, while the executive committee is composed of men giving all of their time to the affairs of General Motors. In a limited sense, the executive committee is subject to the finance committee in that operations are dependent upon financial policies. At the same time, financial policies must be maintained so that operations will not be deprived of any legitimate development . . .[27]

The structure is virtually the same today, except that the Executive Committee is now called the Operations Policy Committee. Thus GM is organized as a center for controlling the operations of a series of manufacturing companies; and the principal organ of control is the Financial Policy Committee.

Who are the men of "large affairs" that run the decisive Financial Policy Committee? The controlling stock of General Motors, 23% of it, is owned by the du Pont Company, which has (as of the beginning of 1956) five representatives on the GM Board of Directors, three of them on its Financial Policy Committee. The du Ponts themselves are a section of the financial oligarchy, controlling important banks in addition to their industrial empire. But the financial resources controlled by the du Ponts are far from sufficient to insure the preeminence of GM. The billions which have flowed into GM in recent years reflect the interest of a group of financiers with still greater resources.

This is the famous House of Morgan, banker for both the du Pont Corp. itself and for GM. The chairman of the board and the president of J. P. Morgan & Co. are directors of GM, while the chairman of GM is a director of J. P. Morgan & Co. as well as of du Pont. These two Morgan men are both on the Financial Policy Committee, together with the three du Pont men and the Morgan-du Pont chairman of GM. Presumably, the du Pont voice is more powerful than that of the

Morgans in GM affairs, if only because in the event of conflict the du Ponts, with the controlling block of shares, could switch GM financing to the equally wealthy institutions centering around the Rockefeller interests. But the balance between the du Pont and Morgan financial interests in GM is not the point at issue. Clearly, their representatives, and not Charles E. Wilson nor his successor as chief executive, Harlowe H. Curtice, dominate the affairs of GM.

For all its power, General Motors Corp. cannot be regarded as an *independent* center of finance capital, but as a major part of the still larger Morgan and du Pont empires.

Lastly, consider the role of the financial oligarchy in one of the recent big mergers. The Studebaker-Packard merger was worked out by three Wall Street houses, Lehman Bros. (Studebaker's "traditional banker"), Glore Forgan & Co. (also on the Studebaker Board), and Kuhn Loeb & Co. Here is how the bankers worked: "If present plans develop, a merger program . . . will be submitted to Studebaker-Packard management within 20 days. . . . Several suggested methods of bringing Studebaker-Packard under one roof have been scrapped without ever reaching the attention of the principals . . . only one house will submit the final suggestion for bringing the companies together."[28]

Thus the fate of these two companies was worked out *wholly* by the banking houses, with the industrial managers not even being informed as to what was going on, and the final result was brought to them as a *fait accompli* by the bankers' spokesmen.

The industrial managers' role is discussed further in Chapter III. The final argument—government regulation and hostility, is discussed in Part Three.

WALL STREET

> The center of the money market is in downtown New York City, clustered irregularly around Wall Street. . . . This area bounds the location of the head offices of the ten or fifteen banks which . . . provide the major part of the facilities needed to effect the transfers of money, advices in confirmation of agreements, and the securities themselves, which flow largely on the basis of word-of-mouth agreements over the telephone between men who are known to each other and whose integrity cannot be questioned.[29]

So writes a Federal Reserve Bank official, Robert V. Roosa, in the most authoritative description of the present-day money market.

The economic life of the country is largely controlled from this area no larger than a baseball field. Wall Street is the apex of monopoly power, and a symbol of the extreme concentration of that power under modern conditions.

Supplementing the arguments of the supposed "disappearance" of the power of the financiers is the argument that Wall Street no longer predominates in finance; that the remaining financial power is diffused throughout the country.

Again, a most valuable argument for big business. Convince the people that the traditional target of their anti-monopoly campaigns has been dissipated, its power diffused, and anti-monopoly actions will become correspondingly more diffused and confused.

Sweezy, who is not trying to help big business, claims that New York no longer dominates financially, but is merely first among equals. As one argument he states that financial centers outside of New York formerly "looked up to and sought guidance from and actually followed" New York, but no longer do so to a decisive extent.[30]

This substitutes a subjective criterion—whether the out-of-town centers "seek guidance" from New York—for objective relationships. The desire for an independent role, for getting away from the "guidance" of Wall Street, was always there. During the 1920's the Chicago bankers set up their "own" public utility empire, the ill-fated Insull combine. Giannini, rising to the top in West Coast finance, struck out to establish a nation-wide and ultimately world-wide banking chain. Both of these attempts were beaten back by objective factors, principally the financial domination of Wall Street, which came into full play during the economic crisis of the 1930's. Wall Street emerged more powerful, more dominant than ever.

Again, during the postwar boom, the struggle of out-of-town groups for a "place in the sun" has become significant. The California financiers once more are spreading out within the country and overseas. The Chicago interests have gained control of important corporations formerly run by Wall Street. The Cleveland capitalists and some of the Texas oil millionaires have moved into the fray. Their most dramatic accomplishment was the successful attempt, headed by Robert R. Young, to wrest control of the New York Central from the Morgan-Vanderbilt interests. Correspondingly, these groups seek a greater voice in political affairs at the expense of the New York Behemoths.

But the existence of different financial centers, and struggles among them, does not assure a decisive change in the balance of power. Alongside the much publicized specific gains of out-of-town groups, New

York circles have quietly extended their positions in the original areas of operation of their rivals. Even without a detailed analysis of these struggles, (to be found in Part B of this volume), it is possible to examine the overall evidence to determine whether Wall Street has actually been undermined.

The facts show that New York remains far ahead in all financial statistics. Its lead has diminished in some, but increased in others of greater significance. Its premier position is most marked in the new and rising forms of financial power. Altogether, the financial domination of The Street is unshaken, while with the continuation of centralization of economic power as a whole, its overall weight in the life of the country is enhanced.

The most summary measure of financial activity is the volume of bank clearings. These totalled $531 million in New York City in 1955. This was nine times the clearings of the second most active city, Philadelphia, and exceeded the combined clearings of the next twenty cities.[31] One might say, considering all *secondary* centers, that Philadelphia is "first among equals." But this is not the case with New York. Handling each year more dollars than the total national income of the United States, it is in a class by itself.

The standard statistical evidence cited to "prove" the demise of Wall Street domination is the decline in New York's city's share of commercial bank deposits from over 30% in 1940 to 18% in 1954.[32] However, this comparison uses an unrepresentative starting point and does not include all banks. Deposits of all banks in New York State during the early 1950's were 25% of the national total, as against 28% during most of the period 1914-1929.[33] This is a drop, but not of major proportions.*

Even this smaller decline does not signify a diffusion of financial power. It reflects the growth of "retail" or consumer banking (see Chapter IV), which is spread out geographically more or less according to population. "Wholesale" or big business banking is the decisive instrument of financial power. It is the traditional means of banking penetration into industry, of the merging of financial and industrial capital.

In this crucial field, the role of the New York City banks has not diminished at all as compared with immediate prewar years, and has increased markedly as compared with the 1920's. The share of all banks in New York State in the business loans of the country was 32.5% in 1939, rising to 34.1% in 1953.

* For a fuller discussion of this point, see "New York as a Money Center," by Victor Perlo, in *Science and Society*, Fall, 1955.

Over a longer period, referring to member banks in the Federal Reserve System, the share of those in New York City rose from 19% in 1928 to 29% in 1953. Just eight New York City banks account for close to half the national total of loans to giant corporations with assets of over $100 million.

The share of New York banks in financial loans, connected most intimately with stock market manipulations and the control of corporations, increased just as markedly, and by 1953-54 amounted to almost 60% of the national total.[34]

Business Week, in commenting on a "squeeze" on deposits in New York banks, warned that these might have to curtail loans: "And if that happens, every corporate treasurer will feel the effects within weeks—because New York is the money center of the country."[35]

CENTRALIZATION OF WORLD-WIDE PROFITS

A favorite explanation of the supposed decline in Wall Street's importance has been the movement of population to the West, and the "shift by industry to new centers."[36]

The physical fact of this dispersal is irrelevant. Gulf Oil and Standard of New Jersey have shifted much of their industrial operations out of the United States, and get most of their crude oil abroad. But this merely signifies a great *increase* in the power of the United States oil companies. Within the United States there has been a significant movement of industry away from the higher-wage, older northeastern centers. But William Zeckendorf, large-scale New York real estate developer, pointed out that industries leaving New York have been replaced with executive units "ten times more valuable than industrial space." Since 1947, he said, 20 million square feet of office space has been newly constructed or planned in New York City, more than the entire office space in the city of Chicago.[37] The office space is "ten times more valuable" because it is used as a center of control to draw the profits from developing industry all over the country and abroad.

Commercial banking throughout the country is dominated from the main centers by the correspondent relationship with out-of-town banks and industries. The smaller correspondent banks maintain funds on deposit in a metropolitan bank, to be used for purchase of securities, loan participations, etc. The headquarters bank supervises, to a considerable extent, the lending activities of the smaller bank, channeling selected securities into its portfolio and suggesting loan participations. It also often holds stock in correspondent banks.

The First National City Bank, with over a billion in inter-bank deposits, writes. "Of the hundred largest non-financial corporations in the country, 95 have accounts with our bank. Our correspondent banking relationships are similarly wide. All of the hundred largest banks in the country outside New York City maintain accounts with us. We work jointly with our correspondent banks in cases where business in their areas is of a size and importance to warrant including a New York bank as depositary and lender."[38]

Large midwestern banks have important correspondent relationships also. But, considering those connections carrying influence as distinct from purely nominal deposits, the banks in other cities generally exert only regional influence while the New York banks alone exert truly national influence.

Foreign banking is a field of crucial importance; it affects international relations; it involves close connections with the most profitable foreign dealings of U.S. corporations. Because of the increased world role of the dollar, this foreign business has become more important and in some respects has multiplied in volume. For example, deposits of foreigners in United States banks increased eight times between 1931 and 1954.

A recent Federal Reserve study showed that 15 banks wholly dominate foreign transactions. Of these, ten New York City banks held 76% of the total claims on foreigners, and 84% of the total deposits of foreigners.[39]

There are just nine U.S. banks with foreign branches or subsidiaries. Two Wall Street banks account for the majority of branches and over half the deposits in foreign offices. These are the First National City Bank, traditional bank of the raw materials merchants, and Chase Manhattan, bank of the international oil companies. Four other New York banks with foreign offices bring the city's share of deposits abroad up to two-thirds.[40]

If one passes from the field of ordinary commercial banking to other fields of finance, the predominance of Wall Street is shown to be even greater.

In investment banking, during the period 1950-54, 16 large New York City firms headed the underwriting of 66.5% of all securities issued.

In stock exchange transactions, 92% of the 1953 national total were on the New York exchanges.

In life insurance, New York and Newark companies held 61.4% of all life insurance company corporate loans at the end of 1952. Nine-tenths of all such loans are held by life insurance companies operating from 5 northeastern centers. Trust departments of banks in New York City handle almost half of this vital business.

The activities of these various forms of financial institutions are coordinated by the interlocking oligarchy of Wall Street. Their functioning is described in Chapter IV.

Sweezy thinks that "economic and political changes in the last thirty years (especially changes in the structure and functions of the banking system and the expansion of the economic role of the state) have reduced the relative importance of New York to a marked degree."[41]

The development of life insurance companies, trust departments, and international financial connections are among the more important changes in financial structure and forms during the past thirty years. But as can be seen, these all serve to enhance the domination of Wall Street, rather than the opposite. As for political changes, the specific weight of Wall Street in the control of the government by the financial oligarchy is discussed in Chapter XVI. Again, the increased economic role of the state means more power for the New York centers.

Wall Street is less brash in flaunting its power than it was thirty years ago. However, that power has not been successfully challenged. Practically all of the leading journals join in the game of denying the reality of "Wall Street." But occasionally, when other issues are at stake, the truth comes out. In 1953 the Mellons were trying to get the Engineering Societies to move their headquarters from an unsuitable New York building to Pittsburgh. A New York group had plans for them to remain in that city. The *New York Times* commented editorially: "The temptations tossed at the engineering societies by the outlanders seem to be in the form of money or other articles of value. But we remind them that New York is the beaten track. It is the gathering point. From here, incomparably, great corporations run their businesses, make their plans, execute the decisions for construction and expansion programs. Here is the financing capital. Can any of the inviting cities make this claim?"[42]

The Engineering Societies stayed in New York.

CHAPTER III

The Ownership and Control of Corporations

MOST PEOPLE KNOW that a few hundred corporations dominate the economic life of the country. But to understand this domination fully it is necessary to go behind the anonymous front of the corporation and to see who runs it.

Who control the great corporations? How do they exercise that control?

THE CONTROLLING LARGE STOCKHOLDERS

Those who do control try to convince the public of the existence of a corporate "democracy" of millions of small shareholders. This idea is stressed repeatedly in speeches of executives, in corporation advertisements, and in corporation-sponsored research works. It is a main feature of the newly-coined phrase, "people's capitalism."

It is, however, complete fiction. The myth was effectively nailed by F. D. Roosevelt, who wrote:

> The mere number of security holders gives little clue to the size of their individual holdings or to their ability to have a voice in the management. In fact, the concentration of stock ownership of corporations in the hands of a tiny minority of the population matches the concentration of corporate assets.
>
> The year 1929 was a banner year for distribution of stock ownership.
>
> But in that year three-tenths of 1 percent of our population received 78 percent of the dividends reported by individuals.[1]

Those who sponsor the "people's capitalism" line know this better than anybody else. But they have revived and heightened the propaganda, in a politically-motivated attempt to mislead a supposedly gullible public.

Through stock ownership, writes Professor Marcus Nadler for the

Hanover Bank, "the people own the means of production."[2] But the 8.6 million stockholders estimated for 1955 is lower than the number then estimated in 1930. Half a million wage-earner families own stock, but the total stock owned by all of them equals about two-tenths of one percent of the total value of stock outstanding. A single family, the du Pont clan, owns ten times as much stock as all the wage-earners of the country put together. The dividends received by the average worker-stockholder amount annually to about two days wages, or a tiny percentage of the profits derived by the large stockholder from his labor. And 97% of all wage-earners do not even have this token "share in the means of production."

Actually the corporation is run by a tiny clique of large shareholders and their banker-associates. Almost every day the financial pages report an individual or group purchasing control of a corporation from another individual or group. The thousands of small shareholders in the corporation are not consulted, are usually unaware of what is going on, and may be totally unaffected by the shift in control.

In a political democracy, there is usually one vote per voter. But in the affairs of the corporation, there is one vote per share of stock. The holder of 10,000 shares has as much influence as 1,000 holders of 10 shares each, even if one assumes the unlikely event that the 1,000 would get together and unite their votes.

Shortly before World War II a government agency, the Securities and Exchange Commission, studied the shareholdings in the 200 largest non-financial corporations in the United States. The results were published in a monograph of the Temporary National Economic Committee (TNEC).

The TNEC monograph showed a total of 7 million common stock shareholdings in these 200 corporations, or an average of 35,000 shareholdings per corporation. But fewer than 3% of the stockholdings accounted for more than half the stock. That is, fewer than 1,000 large and substantial shareholders in the average corporation could win any vote against the remaining 34,000. But even this tells the least part of the story.

The 20 largest stockholders in each corporation, on the average,*

* The 20 large stockowners in the statistics mean holders "of record" rather than "legal" or "beneficial" holders. Usually, a family with a large interest has its holdings distributed among several holdings "of record." On the other hand, many of the large holdings "of record" are by financial institutions, in some cases representing many individuals, in other cases mainly one or two. For these and other reasons the number of individuals or families controlling an equal percentage of the stock (through direct ownership or through controlled institutions), may be more or fewer than 20, depending on particular circumstances.

owned 32% of the common stock.[3] These 20 large stockholders, in practice, easily control the affairs of the corporation. To see this more clearly, let us summarize the situation in the average corporation as revealed by the TNEC monograph:

20 large holders have 32% of the votes
980 substantial holders have 18% of the votes
34,000 small holders have 50% of the votes

The 34,000 small holders rarely take an active interest in the corporation's affairs. Their stake in it is too small to justify any significant expenditure of time or money to look after their investment, nor do they have the resources to do so if they wished. When there is a meeting of the corporation's stockholders (usually held once a year), they cannot attend. They send "proxies" to a committee representing very large stockholders, authorizing them to dispose of their vote as the proxy committee sees fit. A few hundred of the substantial holders, at most, will attend the meeting. But with their 18%, they cannot successfully challenge the 20 large holders, who not only control their own 32%, but also a good part of the 50% of the total vote belonging to the small holders, which these have sent the committee of large holders as "proxies."

When fights take place for control of a corporation, and they do fairly often, *these fights are among the 20 large holders.* Different groups among these large holders engage in a struggle for control. In many such cases, each group requests the small and substantial stockholders to yield voting "proxies" to it, rather than to the rival group. Sometimes millions of dollars are spent in these proxy fights, in the last analysis at the expense of the stockholders—or, when the company is able to pass on the cost, at the expense of the users of its products.

Actually, not all the 20 largest shareholders, but a still smaller clique among the 20, are able quite easily to control the affairs of most corporations. The *New York Times* wrote on the Ford Foundation sale of stock that reduced the Ford family's share of voting stock to 40%: "Wall Street experts noted that effective control of the company was virtually certain to remain with the family, even after the transfer of 60 per cent of the voting rights to outsiders. *In practice, the holders of 5 to 10 per cent of the stock usually are able to exert a controlling voice in the affairs of a corporation that has large numbers of stockholders.*"[4] (emphasis added.)

In reality, therefore, not 20 shareholders with one-third of the stock, but usually one to five shareholders with 5-10% of the stock, exercise effective control. Typically, an alliance of a handful of giant stockholders, more or less akin to a partnership, has control. The members of this control group divide the profits of control in an agreed fashion, decide corporate policies among themselves, and select managers and technicians to handle corporate operations. Even within this grouping, the power is not equally distributed, and there is often a single dominant individual or group.

The main mechanism for the exercise of control is the corporation's board of directors. The board of directors usually numbers 9 to 15 individuals. Formally, they are elected by the stockholders. In practice they are selected by the small group which exercises control. When a magnate purchases a large block of shares in a corporation with which he was not previously connected, he demands a place on the board of directors, and will usually be granted such a place unless he is regarded as hostile to the existing center of control. When the block is sufficiently large to cause a switch in the center of control, the newcomers demand majority representation on the board of directors. They may achieve this peacefully, by buying out the holdings of the previous control group at a favorable price, or by granting various other concessions, such as continuation of high-salaried jobs or profitable contracts. Or the issue may be settled only after a struggle involving a "proxy fight" for the votes of the small and medium-sized shareholders, court suits, competitive buying up of available shares on the stock exchange, and other techniques.

Representation on the board of directors may be held personally by the large shareholder; it may be held by one of his employees as a representative of his interests; or it may be held by the bank through which he operates and in which he usually also has a financial interest.

An example of the first type of representation is provided by the Crown Zellerbach Corp., now the second largest paper manufacturer. The Zellerbach family is the largest shareholder and has three members on the board of directors. In this case, but not always, members of the owning family occupy the leading executive positions also.[5]

The Rockefellers provide examples of the second kind of representation, through personal employees or nominees. Harper Woodward and Randolph B. Marston, among others, serve as Rockefeller representatives on the boards of various companies, although they do not have a substantial financial interest in their own right.

The third type of representation, through a bank, is seen in the case of Union Carbide & Carbon, second largest chemical corporation. The

largest block of shares in this corporation, as of 1938, was held through the Hanover Bank. Then, and now, the chairman of the Bank is a director of Union Carbide, and the chief executive officer of the chemical company holds a place on the Hanover Bank board.

This type of representation leads to discussion of a most vital element in the structure of corporate control.

BANKERS' ROLE IN CORPORATE CONTROL

So far we have examined the basis of control of the individual corporation. Although the forms have changed, the principle is the same today as a century ago. One new feature, typical of the present century, is the size of the individual corporation, reaching the point where one or a few companies dominate a given industry. Still more significant is the exercise of simultaneous control over the affairs of a whole series of these giants by a single power center.

Super-corporate empires running into the tens of billions of dollars have arisen in this way, their spheres covering a wide range of finance, industry and trade within the country and overseas. The giant banks are the centers of these empires. Their position arises along two related lines. One line, and the original source of banking power, is the virtually limitless need for financing of the great corporations, both in their organization and in their subsequent expansion.

The banks which can supply this financing obtain a great, and sometime paramount, influence in the affairs of the corporation. They often become the very core of the control group; they obtain representation on the board of directors; they exercise a veto power on all major policy questions; they can direct orders for materials to allied firms and transport to allied railroads. This influence may exceed by a wide margin that indicated by the actual stockholdings of the banks.

Most outside funds for expansion supplied through the banking houses and insurance companies are raised through bonds, which in theory have no votes but in fact involve an important degree of power, expressed formally in various financial and operating restrictions on the borrower.

In a minority of cases the lending bankers are granted decisive legal control over operations. Thus, a small group of Texas families own almost all the stock of Anderson, Clayton & Co., the largest cotton merchandising company. But its capital for postwar expansion was supplied through the Morgan banking interests. As one condition, 90% of the controlling shares in the subsidiaries which compress and warehouse the cotton are held in a voting trust agreement by a committee

controlled by the Guaranty Trust and the Morgan law firm, Davis, Polk, Wardwell, Sunderland & Kiendl.[6]

More typically, however, the power position of the lending bank is based less on formal agreements than on its role as the supplier of funds, connecting link with other industrial firms, negotiator of mergers, source of all kinds of economic information, and contact point for all-important political influence.

The second line of banking power is the ownership of control blocks of stock by and through the big banks. This is often overlooked, and the illusion created thereby that banking power in industry is quite divorced from stock ownership.

Goldsmith estimated that the share of financial institutions in corporation stock increased from 7.9% in 1900 to 14.2% in 1929 and 23.6% in 1949.[7] Our estimate for 1954, which may not be wholly comparable with Goldsmith's, is one-third (Chapter IV). The government study of large stockholdings in the 200 giants of industry showed that in 1938 financial institutions held about one-half of these controlling blocks.[8] By 1954 this proportion reached about two-thirds. Indicative of the accelerated concentration of corporation stock in financial hands during the "Eisenhower boom," 77% of the net purchases of stock during 1954 went to these institutional investors.[9]

Bank stockholdings arose historically and continue to grow through a variety of ways: banker-promoters receive large blocks of shares as part of their price for organizing mergers and new corporations; they receive "proxies" for the voting of blocks of shares they place with certain customers, especially foreign stockholders; they handle the estates of wealthy clients, voting their stock in the big corporations.

For example, a number of families of the steel barons whose properties were put together into United States Steel by the House of Morgan became clients and associates of the Morgan banking interests, not only in steel, but in other industries as well.

The large banking houses control additional blocks of shares accumulated by affiliated financial institutions, such as insurance companies, investment trusts, and brokerage houses.

Stockholding by financial institutions is impersonal in form, but not in substance. The essence of the power of the leading bankers is their ownership of the most vital control blocks of all, the shares of the great banks. These stocks are very closely held. They are not traded on the stock exchanges. The "floating supply," that anybody with the funds may buy, is small. Maximum secrecy surrounds the identity of the owners.

As the greatest monopolies expand through wars and mergers,

control is increasingly exercised through a combination of these two lines of power—use of the financial resources of the banks, and of the largest blocks of stocks, also carried by the financial institutions.

The report of the Pujo Committee in 1913 recognized the importance of both of these as means for establishment of banker control over industry.[10] But subsequent literature has largely lost sight of the second, which resulted in a seeming narrowing of the basis of finance capital, and opened the door to the apologists who "abolished" finance capital.

Both lines of power are still vital, and banker stockholdings are in fact larger than ever.

THE OLIGARCHY

Anna Rochester cites the Morgan interests as the best known example of the power derived from the complex financial resources of the banks, and refers to it as: "the most advanced stage of capitalist development. . . . Industrial companies drawn in originally through Morgan investment banking are held in line through Morgan dominance in the banking world, but at the same time the Morgan banking power is now supported by the great Morgan industrial corporations."[11]

This most advanced form of control does not reflect an antagonism between banking and industry, nor the taking over of industry by the banks in any crude sense. Its general basis is characterized by the "community of interest" principle advocated by the leading banker in the early decades of the monopolies, J. Pierpont Morgan. Under this principle a group of the wealthiest moguls in industry and in finance combine their holdings to establish control over a whole series of corporations. The banks are key to this structure, but the erstwhile industrial magnates become part of the banking group.

The upshot, then, is not the conquest of one by the other, but the *merging* of industrial and financial magnates into an all-powerful *financial oligarchy*. This oligarchy is not, by any means, wholly unified. It is divided into groups, with different spheres of control, although various of these join their interests in particular corporations. The development of the financial oligarchy with its ramified controls increases many times the effective concentration of economic power. *For while 200 large corporations dominate the economic life of the country, eight centers of high finance control most of these 200 corporations.*

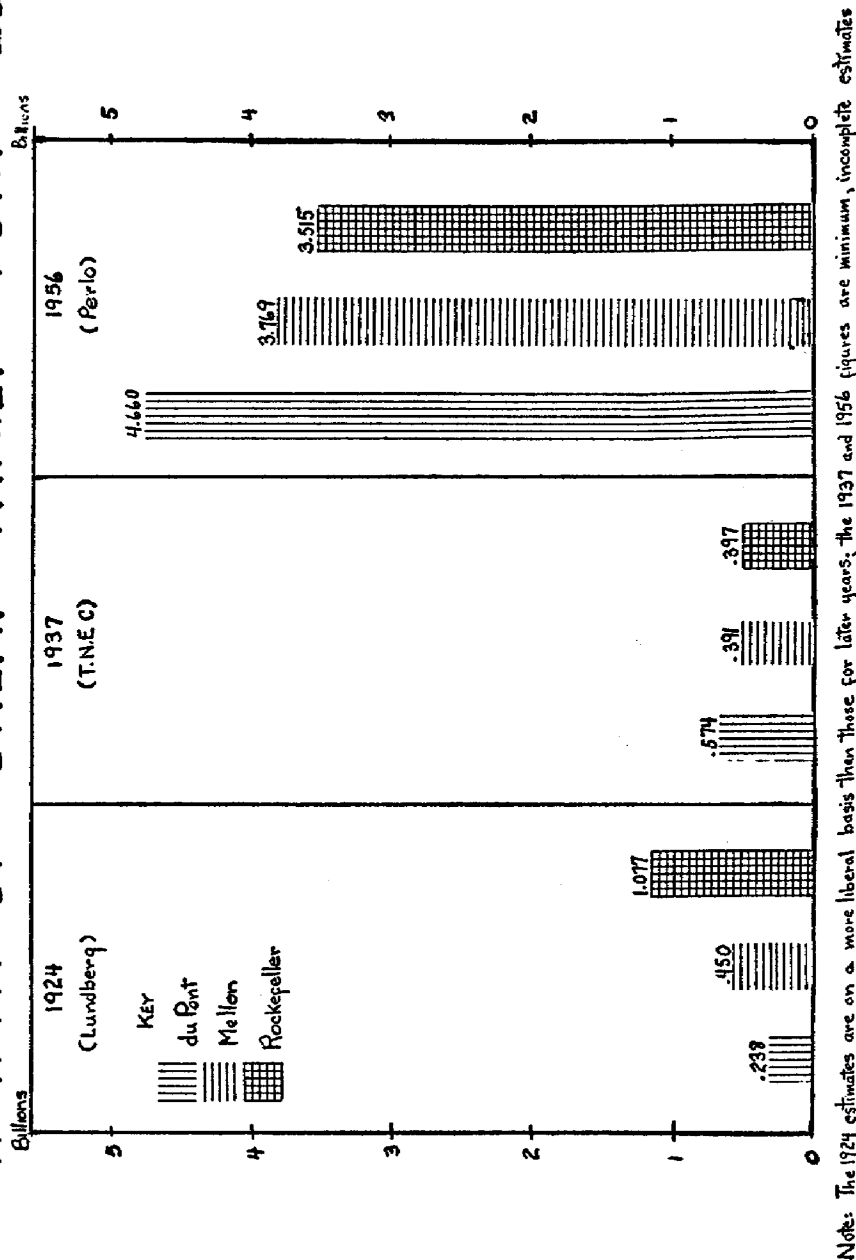
The individuals exercising control are mainly the multi-millionaires descended from the tycoons involved in the original formation of the trusts over fifty years ago. Some new interests have risen to the ranks of the mighty; some old families have become bankrupt or have died out. Outstanding is the entrenched aristocracy of American wealth, the so-called "60 families" who pile up added billions of dollars each year. The classic book about the rich American families is Gustavus Myers' *History of the Great American Fortunes*. Most of the fortunes described by Myers, some stretching back over 150 years, are still prominently represented in the circles of the financial oligarchy today —Astor, Goelet, Field, Vanderbilt, du Pont, Gould, Crocker, Morgan, Rockefeller, Havemeyer, Duke, Guggenheim, Mellon, and Ford are examples.

The public is told by press and television, by learned professors and skilled advertisers, that these great fortunes have been shrunken or dissipated through charities, high taxes, and egalitarian legislation. This is another leading theme in the People's Capitalism lullaby. C. Wright Mills, in *The Power Elite,* shatters it, and concludes: "The fabulously rich, as well as the mere millionaires, are still very much among us . . . the corporate rich of America, whose wealth and power is today comparable with those of any stratum, anywhere or anytime in world history."[12]

Mills, relying on income tax data, shows that these fortunes are unimpaired as compared with the 1920's. More precise measures show that actually they have been multiplied many times. (See Chart I.)

The TNEC computed the 1937 fortunes of such families as the Fords, du Ponts, Mellons, and Rockefellers as of 1937. It measured the market value of their reported shareholdings in the 200 largest nonfinancial corporations. It excluded holdings in banks and in smaller industrial corporations, hidden holdings in the 200 giants, holdings in unincorporated ventures, and personal properties. Despite these limitations, the TNEC report embraced the major components of family wealth.

These key stockholdings have not been dispersed. This is known specifically from certain corporate reports, as of the du Pont holdings in E. I. du Pont de Nemours; and from semi-official biographical accounts, as in the case of the Rockefeller Standard Oil holdings. Indeed, the fact of multiplied stock prices since 1937 would make any major sale of stock by one of these families too costly taxwise, even with the mere 25% capital gains tax, to be considered except in an emergency.



Combining TNEC data with other sources, it is possible to estimate the 1956 du Pont, Mellon, and Rockefeller fortunes, on a basis roughly comparable with that of the TNEC study:

TABLE 1. THE DU PONT, MELLON AND ROCKEFELLER FORTUNES, 1937 AND 1956

	(Minimum Estimate of Value of Corporate Property, *millions*)	
Family	*Dec. 31, 1937*	*April 30, 1956*
Du Pont	$574	$4,660
Mellon	391	3,769
Rockefeller	397	3,515

SOURCE: 1937, TNEC Monograph No. 29, Table 6, p. 116; 1956 (see Appendix 1).

Each of these family fortunes has multiplied between 8 and 10 times during the past two decades. This multiplication factor may be exaggerated for statistical reasons,* but the actual amounts shown for 1956, though not precise, are incomplete and certainly minimum estimates of these families' fortunes.

Thus today, for the first time, it is possible to speak of a number of *multi-billionaire* families in America.

These statistics of personal wealth, impressive as they are, do not adequately convey either the full power of these families, nor their comparative standings. The power of each of these major families arises from the vast corporate empires controlled through their shareholdings. In the case of the Rockefellers this embraces assets of over $60 billion, seventeen times the family fortune, and several times larger than the empires controlled by the du Ponts or Mellons (see Chapter VII).

Moreover, there are propertied men, no one of them in the family wealth class of the du Ponts, Mellons, or Rockefellers, who, by their historically developed functioning as a unified group, are comparable in total wealth and power. In this way, the Morgans and the various families associated with them compare with the Rockefellers; the Chicago or Cleveland groups with the du Ponts or Mellons.

To present the real picture, therefore, our concern here will not be mainly with tracing the particular holdings and degree of activity in financial affairs of individuals or families, no matter how wealthy. We will concentrate instead on the financial institutions through which

* The vagaries of the stock market—at a low point in December 1937 and at a high point in April 1956; and the inclusion of some additional corporate holdings in 1956.

their holdings and activities are centralized. At the same time, it must be remembered that the great banks, like other corporations, are not really anonymous institutions, but are controlled by a narrow clique of the very wealthy, the "Power Elite"* who exert enormous power and derive great profits from the whole range of American economy by virtue of that control.

With the development of monopoly capitalism, this most advanced and complex form of industrial control becomes more general. At the same time the distinction between the banker and the industrialist becomes more vague—as the banker and the industrialist merge into the unified banker-industrialist. The identity of the individual with a particular company or line of industry also becomes more vague, as he joins with a group of tycoons, and spreads his interests over a wider and wider range.

To illustrate this molding of economic power into a common basic form, consider the evolution of the Rockefeller and Morgan power. The Rockefellers began as oil magnates, with no interest in financial institutions, doing their own banking through the Standard Oil Co. The Standard Oil companies have grown hundreds of times and still provide the largest part of the Rockefeller *profits*. But the *power* of the Rockefeller empire is no longer centered in the Standard Oil Corp., but rather in the Chase Manhattan Bank, and its associated insurance companies and investment banking agencies. Moreover, the industrial interests of the Rockefellers, largely through their banking connections, now extend to aircraft, utilities, and a wide range of other industries besides oil. The Morgans began as bankers, and until as recently as 1940 remained a closed partnership. But today J. P. Morgan & Co., the key bank of the Morgan group, is a "public" corporation like the other banks, with "outside" directors from the industrial corporations in which the Morgans have an interest as well as "inside" directors consisting of full-time bankers.

Until recently one giant of industry retained a semblance of isolation from bankers and the network of interlocking directorates and mixed stock ownership. However, in 1956 Ford Motors authorized sale of stock to the "public" through a Wall Street investment banking syndicate, and hereafter will be increasingly associated with the financial oligarchy. In 1954 Campbell Soup, the largest "private" food company, made a similar stock distribution. Large private industrial companies are now limited mainly to the textile industry.

* The term is that of C. Wright Mills, who brilliantly analyzes the relationship between the individuals of the Elite and their institutions of Power.

THE "MANAGERIAL REVOLUTION"

As the control of industry has grown more complex in character, and increasingly centered in a network of financial institutions, it has become easier to conceal. When the giant corporations were first organized, the controlling banking interests openly laid out their empires and flaunted their power. But as opposition to this power increased, as its harmful effects on the people were exposed, the tendency grew to obscure and disguise its very existence.

The dominant financial interests hide behind the legal fiction of the anonymous "corporate person"* as a law unto itself. As the great majority of industrial property-owners, the small shareholders, lost all influence over corporate activity, the corporation appeared to them to become something apart from private property rights.

Encouraging this illusion, Berle writes: "The capital is there; and so is capitalism. The waning factor is the capitalist. He has somehow vanished in great measure from the picture, and with him has vanished much of the controlling force of his market-place judgment."[13]

The concept arose of the separation of ownership from control in the large corporation. Its essential falsity was expressed very clearly by Sweezy:

> In recent years we have read much about separation of ownership from control in the large corporation. This is a correct description of actual trends if it is taken to mean that concentration of control over capital is not limited by the concentration of ownership. If, however, it is interpreted as implying that control passes out of the hands of the owners altogether and becomes the prerogative of some other group in society, it is completely erroneous. What actually happens is that the great majority of owners is stripped of control in favor of a small minority of owners. The large corporation means, thus, neither the democratization nor the abrogation of the control functions of property, but rather their concentration in a small group of large property owners.[14]

Sweezy refers to "some other group in society" to which control supposedly passes. What is this other group? It is the hired managers and executives of large corporations. As the financial overlords became involved in larger networks, they increasingly separated themselves from active management of particular enterprises. They concentrated their personal economic activity within the financial houses or family holding companies from which the manifold investments were handled. The daily supervision of affairs in the industrial corporations,

* In some countries a corporation is known as a *"Société Anonyme."*

and even in many banking corporations, was more and more turned over to hired executives.

Formal responsibility was shifted from those actually in control to the hired managers and "front men." This tendency became particularly prominent with the outbreak of the great economic crisis of the 1930's, the utter failure of the tycoons of Wall Street to ward off its calamitous effects on the people, and the development of popular struggle against big business. When Republic Steel gunmen shot down striking steel workers in 1937, the responsibility was assigned to the executive, Tom Girdler, and not to the Cleveland financiers who completely controlled the corporation, and who had hired Girdler and made the major policy decisions.

Various professors and writers, from outright apologists for big business to well-meaning liberals, accepted at face value the facade of hired managers concealing the true character of control. They developed the theory that the managers now controlled the large corporations, and that these managers were a new and distinct class in society.

The concept of "management control" first appeared prominently in a book by Berle and Means, published in 1933, *The Modern Corporation and Private Property*. These authors failed to trace the connections of large corporations with financial institutions. Instead, where there was not an obvious basis for control in well-publicized centers of stock ownership, they usually classified a company as under "management control." They found that as of 1930, 44% of the largest companies, with 58% of the assets, were "management controlled."[15]

The later studies of the 1930's, based on more adequate information, largely overcame the weaknesses of the work by Berle and Means, and established outside centers of control for most of the corporations that these authors had classified as "management controlled." The TNEC study found that concentrated stockholdings constituted an adequate basis for control of most giant corporations: "About 60, or less than one-third of the 200 corporations, were without a visible center of ownership control. This does not mean, however, that an actual center of control was lacking, but only indicates that a study of the 20 largest record holdings failed to disclose such a center."[16]

The National Resources Committee study, depending mainly on financial connections and interlocking directorates, filled in many of the gaps. In later chapters of the present volume, by combining information on stockholdings with analysis of financial connections and interlocking directorates, definite centers of control are established for almost all large corporations analyzed.*

At any rate, even the prewar studies disposed factually of the "management control" theory. But shortly after they appeared, the theory was formalized and built into a system by the writer James Burnham in his book *The Managerial Revolution*. He claimed that capitalism was being supplanted by a new "managerial" society, whereby a bureaucracy of industrial managers would run the country. According to Burnham, the "managerial revolution" had been substituted for the socialist revolution, and Marxism was thoroughly discredited. Moreover, he argued that the "managerial revolution" was a world-wide phenomenon common to various social formations, of which the fascist type in Germany was most efficient. In the United States also, he argued, "managerial society" must ultimately develop along the political lines of Hitler Germany.

Thus Burnham supplied a rationale for the continuation in disguised form of capitalism. He endeavored to win acquiescence in fascist-type rule by big business as an "inevitable" outgrowth of the supposed trend towards control by the "managers."

Burnham was in no sense an economist, nor did he present any supporting data. But his theory was so valuable for big business that it could not be permitted to die a natural death. Instead it was widely popularized, made into part of the economic folklore of our times, presented as dogma to college students and the general public.

The "managers" are depicted as men risen from the ranks—"workers" who made good. Their supposed rule is projected as proof of the democratic or at least benevolent character of American capitalism.

Professor Samuelson of M.I.T. writes in his best-seller textbook:

> If not the stockholders, who do make corporate decisions? Primarily, the increasingly important class of *professional managers*. . . .
>
> This suggests that the future problem may not be one of choosing between large monopolistic corporations and small-scale competitors, but rather that of devising ways to improve the social and economic performance of large corporate aggregates.[17]

* Berle and Means classified 36 large industrial corporations as "management controlled" (besides several not included in later lists of large corporations). The TNEC study found definite centers of control for 15 of these. The National Resources Committee study established control centers for 11 of the 21 remaining. The present volume, with its more complex frame of reference, finds definite control centers for 7 of the 10 corporations unclassified before World War II. That leaves just 3 of the Berle and Means list of 36 as possible candidates for "management control."

No longer is monopoly to be feared, for it is not run by capitalists, but by managers, who may be converted into public servants! The most extravagant version is that of Berle, who claims that management control has imbued big business with a "corporate soul," which he hopes will harness capitalism to the advance of social welfare. Berle's view is roundly denounced by the anti-monopoly economists, Adams and Grey, who write of his doctrine of the "corporate soul": "This is the ultimate rationalization of monopoly, the prelude to final legitimization, which is the goal of all aspirants for monopoly power."[18]

While most of the business and academic world accept the validity of the "managerial revolution" theory, they are not wholly agreed as to its desirability. As against its advocate Samuelson, professors Purdy, Lindahl and Carter charge that the managers set themselves up as a "perpetual totalitarian business elite, . . . rather than a group of stewards working for the interests of stockholders, employees, and the general public. . . . Only a Rockefeller can wage a successful struggle against an arbitrary management fortified with a strong corporate treasury."[19]

Of course, some of these arguments are sheer nonsense. As if any big capitalist is after anybody's welfare except his own, or acts as "steward" for somebody else if he does not see a profit in it! Obviously, this discussion must be divorced from that twisted morality, which in the case of these authors glorifies the Rockefellers and other vested families, and attacks the "greedy" Girdlers, Wilsons, and other hired executives—and in the case of other authors glorifies the hired strikebreakers, speed-up artists, and government contract-getters, as against the "coupon-clippers" behind the scenes.

Despite the propagandist purpose of the "managerial revolution" theory, it is necessary to examine some of the evidence cited by its advocates.

Prominent is the argument that salaried officials, or "inside" directors, constitute a majority on the boards of most large corporations, and "outside" directors, primarily representing financial interests, are a minority. This argument simply disregards or distorts the facts.

In seven of the ten largest non-financial corporations, as of early 1955, so-called "outside" directors were a majority, usually an overwhelming majority.*

* Among academic studies of this subject, the best documented, by Professor Mabel Newcomer, shows that of over 5,000 directors of large corporations in 1949, only 37.3% were officers, or "inside" directors. This was an increase from 25.7% in 1900, but of course the development of a responsible corporate bureaucracy was still in its early stages at the turn of the century.[20] Professor Stanley Vance claimed to show a majority of "inside" directors, but by means of a confused classification which lumped together members of owning families with hired executives, and other dubious statistical methods.

TABLE 2. "OUTSIDE" AND "INSIDE" DIRECTORS OF TEN LARGEST NON-FINANCIAL CORPORATIONS, 1955

Corporation	*Number of Directors* "Outside"	"Inside"
American Telephone & Telegraph Co.	18	2
Standard Oil Co. (New Jersey)	0	16
General Motors Corp.	20	13
United States Steel Corp.	13	5
Pennsylvania Railroad	14	4
New York Central Railroad	14	1
Socony-Mobil Oil Co.	2	10
Standard Oil Co. (Indiana)	3	13
Southern Pacific Railroad	14	2
Gulf Oil Corp.	6	3

SOURCE: Poor's *Register of Directors and Executives,* 1955. "Outside" directors are those whose principal business attachment is not with the listed company. Usually they represent large stockholders, affiliated financial institutions, or corporations in related industries. "Inside" directors are paid executives of the listed company, usually without substantial stock ownership.

The three exceptions, with a majority of "inside" directors, are all Standard Oil companies. As shown in Chapter IX, far from exhibiting "managerial" control, this merely reflects the tightness of the Rockefeller grip on the oil companies, which permits them to put the affairs of their largest industrial corporation formally in the hands of hired managers without risking loss of actual control.

In smaller companies, there is often a majority of "inside directors." But this is usually because here the large stockholding families more often appear *personally,* rather than through trusted employees, among the salaried managers. And in some companies outside directors are limited for legal reasons, as with the electric power holding systems. The significance of these limitations, so far as actual control by financial interests is concerned, is shown in Chapter VI.

The largest giant of them all, American Telephone & Telegraph, heads the list of the so-called "management-controlled" corporations. But what is the actual situation? Of the 18 directors, only 2 are salaried officials! The outside bankers not only dominate the board, but constitute the majority of the executive committee.

The statement that "only a Rockefeller" can challenge a group of managers is also not in accord with the evidence. Recent years have seen numerous examples of dominant shareholdings or financial groups firing the top executives of large corporations. Lever Brothers, the British-controlled soap manufacturers, fired the well-known Charles Luckman as chief executive. The Merrill Lynch interests controlling Safeway Stores fired Lingan A. Warren, despite the fact that he had

acquired a prominent position in the retail world. Finally, the epitome of the dictatorial manager, Sewell Avery, was dropped by the Chicago financiers who really dominate the "management controlled" Montgomery Ward. When Robert R. Young and his associates defeated the Morgan interests for control of New York Central, they replaced the president, William White, and a number of other top executives. The Wall Street forces "took care of" their loyal servant, White, however, and promptly made him president of another railroad under their control, the Delaware & Hudson.

This is not to say that corporate managers are mere "hired hands." The executives of Standard Oil, somewhat like the permanent Civil Servants of the British Foreign Office, have lifetime tenure in positions of great responsibility, often international in scope. But the tenure is secure, and the responsibility exercised, only so long as it conforms with the general policy lines laid down by the controlling outside interests.

Of course, conflicts arise. Corporation officials and executives "bargain" with the controlling stockholders over the division of the spoils, and sometimes fairly sharp differences arise. Moreover, occasionally hired executives rise to positions of considerable influence, and may participate in control, by virtue of exceptional ability or where an uneasy balance of power exists among owning groups. For example, Charles E. Mitchell became a dominant figure in the National City Bank during the 1920's because of his skill in the aggressive sale of stock, and because of personal difficulties which impeded active exercise of control by the largest stockowning family. In the case of Bethlehem Steel, the managing group, consisting of large stockholders from the time of establishment of the corporation, probably exert effective control, although in close concert with leading Wall Street financial interests. Frequently business managers become prominent in politics, as representatives of dominant financial interests, rather than as controllers of corporate policies.

Regardless of the exact distribution of power in any given case, the most vital point is the identity of class interests as between managers and controlling stockholders. Burnham's attempt to draw a class distinction is in complete disregard of the facts.

Contrary to the Horatio Alger mythology of "People's Capitalism," corporate executives are drawn overwhelmingly from the propertied classes. Nepotism is normal in filling top jobs throughout the network of industry and finance. When a man of lesser property rises to a high place, often as not he gets there by "marrying the boss's daughter."

Even in the absence of such personal ties, the poor man rises to the corporate top only by dint of the most strenuous, unscrupulous efforts to serve his masters at the expense of the company's workers, customers, and rivals.

These conclusions may be gleaned from recent academic studies, such as that of professors Warner and Abegglen. They found that two-thirds of all top business executives were the sons of owners or executives of business firms or of professional men, and concluded: "Whatever our national hopes, the business leaders of America are a select group, drawn for the most part from the upper ranks. Only to a limited extent may it be said that every man's chances are as good as the next man's, for birth in the higher occupational levels improves these life chances considerably."[21]

Mabel Newcomer, in a more elaborate study, found that the chances of a son of a business executive attaining a top corporate post were 139 times the chances of a semiskilled or unskilled workers' son,[22] and that corporate chairmen and presidents were overwhelming from moneyed families of Anglo-Saxon Protestant origin.

The corporate bureaucracy, like the government bureaucracy, has increased in size with the growth of giant corporations. But even more than government bureaucrats, the corporate managers are part of, as well as agents of, a ruling group, the financial oligarchy.

THE FRUITS OF CONTROL

Capitalism has grown far more complex than it was in the days when the capitalist personally supervised the labor of workers and derived his profits directly from the exploitation of that labor. The essence of that relationship remains as the amount of profits derived from exploitation of labor has multiplied. The particular characteristic of monopoly capitalism, in this respect, is the monopolization of profits, going far beyond the centralization of capital in a few strong hands.

The control group in a corporation, which, as has been shown, may supply a small proportion of the total capital invested, appropriates a much larger share of the total profits, often amounting to the lion's share.

Traditional economic theory recognizes that the rate of return on "risk capital" is normally several times as large as the rate of interest, paid for the mere use of money "without risk" on the part of the lender. Now, to be realistic, economists must define an additional

category, the *profits of control*. These profits are realized in a variety of forms. Their existence is often hidden, appearing neither in the books of corporations nor in the tax returns of individuals. In my earlier work, *The Income "Revolution,"* it is estimated that the top one percent of the population had effective income of more than $16 billion in 1948, over and above the $19 billion reported on their tax returns.[23] A major portion of the $16 billion, in addition to a small part of the $19 billion, consisted of the profits of control.

Because of the lack of precise statistics on the subject, Table 3 is presented only as a rough approximation of what the actual situation may be in the United States today.

TABLE 3. RETURN ON DIFFERENT CAPITALS

Kind of Capital	*Possible range of rate of annual return*
Control capital	25%—50%
Risk capital (ordinary share capital)	4%—12%
Personal savings at interest	2%— 3%

Here the whole concept of profits as the "reward for risk-taking," as taught in the schools of the land, is turned upside down.

A small savings bank depositor can obtain interest of two or three percent with little *formal* risk. However, because of the tendency to inflation which has persisted over most of the half century of monopoly capitalism, the entire interest return often merely compensates for the decline in the purchasing power of the saver's capital, and sometimes falls short of the loss in real values.

A small investor may purchase stocks and receive four to six percent annually in dividends. If he is reasonably lucky in his selection of securities and timing, he will average as much again in the appreciation in the value of his shares, for a total return of eight to 12 percent. But he risks losing out altogether through the vagaries of the stock market and his unavoidable ignorance of the full situation in particular corporations. The cards are stacked against his buying and selling the "right" stocks at the "right" times. Often, he will be urged by promoters to buy particular securities *after* they have been marked up in price through advance purchases by "inciders" who knew that profits would increase. As he is buying, the "insiders" may well be unloading, to anticipate the next downturn in profits. The small investor is apt to have money for investment only in good times, when stock prices are high, and is often forced to sell in bad times, when stock prices are low.

The men with the really big money, participants in or closely connected with the highest financial and political circles, are able to reap fabulous rates of profit from the actual control of corporate affairs, and *without substantial risk*. They avoid risk because they themselves can arrange to acquire their profits of control, they know before the event those happenings which dictate the advisability of purchases of sales, and have money when the best opportunities arise.

We are told, for example, that Laurance Rockefeller multiplied a portion of his capital five times in as many years through investments in a series of corporations in which he took control.[24] That is the equivalent of 38% compounded annually. The eight to ten times rise in the values of the "blue chip" investments of the Rockefellers, Mellons, and du Ponts, is partly traceable to control on a higher level—the ability to establish Federal government policies designed to enhance the profits of these families' controlled corporations.

This difference between an ordinary return beset with risks, and a riskless king-sized rate of profit, is what inspires the numerous battles for corporate control in America. It explains why a corporate directorship, even in a company without book profits, is a valued prize.

Some will say: if a man can make 38% each year, that is the American way, that is the reward for competitive enterprise, and more credit to the winner. One may have whatever moral judgment he wishes, but he should be aware of the circumstances and consequences of the 38% profit. Usually it is possible not because of any particular ability on the part of the beneficiaries, but because of the wealth already in their possession, mainly through inheritance. The acquisition of the profits of control, although in rivalry with other groups of powerful men, furthers the process of monopolization of the entire economy. It is realized mainly as extra-large profits, at the expense of the labor of the working population, in a variety of ways which are none the less costly for their frequent invisibility. Finally, control profits are often accomplished through business and government policies which reach new depths of irresponsibility to the general welfare.

The following is a partial listing of the ways in which control is used to garner extra profits:

(1) *Acquisition, without investment, of large initial blocks of shares as "promoters' stock."* This device, in the happy never-never world of college professors, was stopped by Securities and Exchange Commission regulations. Actually, if it has become less important, it is only because fewer enterprises than formerly are started through new

corporations. In those industries where new companies have been started during recent years—e.g. uranium, natural gas—promoters' shares have been taken with a lavishness equalling any known in past boom periods.

Thus the promoters of Westcoast Transmission, Ltd., a natural gas pipeline company, dealt themselves 625,000 shares of stock at 5 *cents* per share, and then proceeded to sell stock to the public at 5 *dollars* per share. The investment bankers, the highly respected firm of Eastman Dillon & Co., claimed that "no inference" that the two prices "should necessarily bear any relation to each other is justified."[25] This brazen explanation is all that is necessary to satisfy SEC requirements.

(2) *Placement of members of the control group or their relatives in jobs paying fat salaries and carrying other prerogatives, such as virtually unlimited expense accounts.* In many smaller corporations, a major part of total profits are taken out in this way. In larger companies, while substantial, this item is relatively less important. Nevertheless a substantial part of the $8,777 million in compensation of corporate officers in 1953[26] falls into this general category.

(3) *Channeling of all banking business to the institutions of the control group.* This involves interest on bank deposits, underwriters' discounts on new securities, fees for financial advisory services, fees for the handling of fiduciary services, and profits from control of various sinking funds and pension funds (see Chapter IV).

(4) *Channeling of orders for materials and supplies to corporations under related control.* A recently published example is the purchase by Ford Motors of designing services from the Walter B. Ford Design Co., a family concern.[27] Not satisfied with its $15 millions in annual dividends, the Ford family also insisted on taking extra profits through this means, as well as through payment of huge salaries to family members.

(5) *Sale of goods or property at a favorable price to corporations under related control.* An example is the virtual gift by Olin Mathieson Chemical Corp. of valuable oil properties to an oil company owned by the corporation's control group (Olin family, Thomas S. Nichols, and John W. Hanes, a banker with Morgan connections). The oil company paid no cash, will pay 80% of the produce until several million have been turned over, and then will have the property free and clear.[28] This form of transferring title is typical for oil and mineral properties, since it permits the profits to be reported as low-cost capital gains.

(6) *Channeling of legal, engineering, accounting, and advertising fees to related firms.* A recent example, unusual only in the publicity surrounding it, was the action of Thomas I. Parkinson of the Equitable Life Assurance Association in paying out multi-million dollar advertising fees to his son's firm. Because of an internal squabble, a scandal was made of this and Parkinson was forced to resign. But obviously his big business associates did not regard this perfectly "normal" way of acting as in any way reprehensible. Parkinson was retained as a director of such corporate giants as American Tel. & Tel., Chase National Bank, and Westinghouse, and as an overseer of the proper upbringing of the young—a trustee of Columbia University.

(7) *Use of inside information.* Dollarwise, this is the most important of all. The service fees collected by bankers and lawyers, the salaries and bonuses collected by directors and officials of corporations—large as these are—are small in comparison with the dollar value of the information about business affairs obtained by these "insiders" of the controlling circles.

A frequent situation is for the control group to decide to build corporate properties in a certain area, and in advance, through dummy companies, buy up land cheaply there so as to realize the profits from its sale to the controlled corporation. Similarly, the control group of a most powerful corporation, deciding to offer to buy out a weaker firm, will purchase shares of the weaker company and reap a pretty profit when the main corporation makes a favorable offer for purchase of the assets of the smaller concern. The Eastern Air Lines-Colonial Airlines case (see Chapter VI) is an example.

Often, when a corporation announces an increased dividend, prices of its shares on the stock exchange decline instead of rise. This is because the price has already "discounted" the increased dividend. The "insiders" who *decided* on the dividend bought up shares some time ago, at much lower prices, before they voted the higher dividend at the Board of Directors meeting, and then sold the extra shares and took their profits just before or immediately after announcing their decision.

STOCK MARKET PROFITS

Only insignificant and incidental stock market profits are made by petty speculators, whether they be "hunch gamblers" or "students of trends." The real profits are made by the "speculators" who take no risk. They bet on a "sure thing," because they control the situation and decide the event which will determine the trend of market prices.

The stock market, as a general medium of speculation, has never regained its prominence of the 1920's. But so far as the control groups, the "insiders" are concerned, stock market and real estate deals have become the most important means for extracting the profits of control. In the six years 1924-29, the period of the "bull market" of the 1920's, net capital gains (less losses) shown on income tax returns totalled $16.6 billion. In the six years 1946-51 the corresponding figure was $30.7 billion.[29] During this later period capital gains reported on income tax returns came within ten percent of the totals of dividend receipts reported.

The figures cited fall far short of portraying the full extent of this development. A very large proportion of capital gains are never reported on income tax returns. They are transferred through gifts, wills, or other transactions, sometimes through several generations without ever being realized in taxable forms. Furthermore, the figures end with 1951, prior to the "Eisenhower bull market" of the middle 'fifties, during which capital gains undoubtedly jumped far ahead of the 1946-51 rate.

Economists teach that capital gains are accidental, speculative income, without economic significance. Nowadays, certainly, that is wholly inaccurate. Capital gains, like other forms of appropriation of profits, are derived from the exploitation of labor buttressed by control of natural resources. Far from being accidental, they result from systematic arrangements to put profits into that form in order to reduce taxes as permitted by discriminatory tax laws. And thereby an additional cut is taken out of the incomes of the majority of the population, who have to pay higher taxes to compensate.

Of course, some of the capital gains are realized by small speculators. But this is much less the case than during the 1920's. The capital gains are mainly those of large operators, the really top Wall Street figures, as well as the lesser empire builders who function under their wing and with their financial support.

Capital gains provide the largest single source of profits of control. Add the many billions each year from the other forms, and only one conclusion is possible.

The control groups in corporations, holding but a minority—and often a very small minority—of the total shares, extract more profits by virtue of their control position than all of the millions of small and medium-sized shareholders taken together.

Since the bulk of these extra profits are reinvested to further increase profits and control, there are the following general results of this process:

(1) A rapid increase in the concentration of ownership and control of corporations;

(2) A sharp intensification of struggles for corporate control among various groups.

STANDARD POWER & LIGHT

The 1939-40 hearings of the Temporary National Economic Committee brought out a number of cases where financial giants battled to win control of great corporations, and to capture the profits derived from those controls. As an illustration, consider the Standard Power & Light Corp., one of the large utility holding company setups of the 1920's. From 1926 through 1929 this was jointly controlled by two banking groups, the Byllesby interests of Chicago and Ladenburg, Thalmann & Co. of New York.

These two interests had a written agreement for the division of the profits of control. A stockholders' suit filed in 1929 identified $5 million in profits which the Byllesby interests had already obtained, in a three-year period.

However, this stockholders' suit was no complaint of defrauded small stockholders or overcharged electric power customers. It was a device of another group of financiers who used the exposé to wrest control from the Byllesby interests. The rival syndicate, which was successful, consisted of the American branch of the Schroder banking interests and the financier Victor Emanuel. Behind this syndicate stood the Rockefellers and Dulleses, the Anglo-German Schroder interests, and the successors to the Belgian munitions king, Alfred Lowenstein.

The previous group were pikers compared with the objectives of the new and more powerful syndicate which succeeded in winning control of Standard Power & Light.

The president of Schroder Trust, a key firm in the new syndicate, explained how most of the $137 million required for buying control could be raised from outsiders, the inner clique needing only $20 million: "For the $20 million still to be raised, we would have available earnings of $15,250,000, which would represent a *return of 76¼% per annum* on the money to be raised (emphasis in the original)."[30]

That phrase, underlined in the memorandum—76¼% profit—was the real object of the fight for control.

The $15 million was explained in detail, one-third to come from dividends on stocks of subsidiary companies to be seized by the control syndicate, the remainder from "management earnings," "engineering earnings," and "financing charges." Nor was the $15,250,000 the whole

story, for: "Nowhere in this memorandum have I discussed the many advantages that would inure to the bankers in this situation. I have thought this was too apparent to make any comment; it is sufficient to say, however, that they would be assured of an immense amount of prime public utility securities each year that would be purchased from friendly hands, and that their position in the situation would be even more attractive than that of the operators."[31]

The memorandum explained how the profits of the control group would be kept from public knowledge through the manipulations of accountants: "it has been done in many of the largest and most important companies in this country."

Deeply involved was Allen Dulles, later Director of Central Intelligence in the Eisenhower Administration, and the Dulleses' law firm, Sullivan & Cromwell, which explained to the syndicate that: "the two gentlemen's agreements are not legally binding, as we already understand, but that they have worked perfectly and will continue to do so as long as they are between people who have confidence in each other and who wish to play ball."[32]

Thus the affairs of great corporations are run by banking groups under extra-legal agreements for the division of the super-profits derived from the control position. The greatest upholders of "law and order" and "our way of life" run their affairs by secret agreements, trick accounting, and the advice of lawyers who help them cook up their deals while spouting the highest moral principles in public.

Of course, the dubious character of these proceedings accentuates the instability of any particular control arrangement, increases the opportunities for the "gentlemen" to cease "playing ball," for a reshuffling of forces and a renewed battle for control. But these struggles involve only the identity of the particular beneficiaries, not the character of the control or the extraordinary profits derived.

CHAPTER IV

The Spider Web

HAROLD STANLEY, OF Morgan, Stanley & Co., wrote the TNEC in 1939:

> Whatever may have been said pro and con about the existence of so-called "banker domination" in the past, the truth is that it simply does not exist today. . . . Allegations of "banker domination," like those of the "spider web" theory of control, have been repeated so often and arbitrarily, and so fancifully, that they shape the thinking on economic questions of may well-meaning and intelligent citizens. . . . For the most part such talk has been advanced by persons who have had no practical experience in banking or in industry and by persons intent on creating sentiment for the abolition of private enterprise.[1]

This eloquent denial has been built up, rationalized and "documented" by the monopoly apologists and no few "well meaning and intelligent citizens" taken in by the arguments of the bankers and their covert spokesmen.

Actually, the term "spider web" chosen for attack by Mr. Stanley is an excellent one to characterize the complex network of financial institutions through which the oligarchy runs the economic life of America. If anything, the term is inadequate. The reality is not so simple in structure and clear in function. Often devious in its operations, the network throws out strands in many directions, strangling and absorbing more and more of the country's economic life.

Chief institutions in the "spider web" are the banks of various kinds, the insurance companies, investment trusts, holding companies, and foundations. And no account would be complete without considering the special role of the great corporate law firms.

Each type of institution has its special role in the control of industry and in the appropriation and investment of profits. Strong ties of ownership cemented with interlocking directorates link financial in-

stitutions of different kinds in an inner circle of coordinated power. Similar strands extend from the inner circle to the great corporations of industry, transport and utilities, through which billions of profits extracted from the population of this and other countries are funneled to the central oligarchy.

All weaker economic units, in greater or lesser degree, are entangled victims of the web, including smaller business and agriculture, and the individual citizens as workers, householders, and personal borrowers. They may be ensnared by direct exploitation, by the manifold devices of monopoly domination, by indebtedness, or by a combination of these. All pay higher taxes to compensate for those avoided by the means available to high finance, described in this and later chapters.

Properly speaking, there is not one such spider web, but a number, each ruled by different interests, rivals in certain areas, partners in others. Rivalries also exist between the different types of institutions, each striving for a stronger position. During the past twenty years, there have been important changes in the balance of power.

The overwhelming position of the financial core of the "spider web" in the control of corporation shares and in the supply of capital is illustrated in Table 4.

The $88 billion of corporate stocks held through these financial institutions comprised 33% of the $268 billion in stocks outstanding.*[2] Another 35% was owned by the one-tenth of one percent of the population with incomes of over $50,000 (besides their holdings in trust funds).[3] Much of this 35% was carried through investment banking and brokerage firms, and personal holding companies. Moreover, included among these individuals with incomes of $50,000 or more are the much smaller number who control the network of financial institutions.

Obviously, this oligarchy has solid stock control of the major corporations of America.

The $80.7 billion of corporate credits outstanding shown in the table exceeds 60% of the total, and the $10.3 billion of new long-term money arranged by financial institutions is almost all of that category.

There follows a discussion of each of the major types of financial institution, explaining the particular role of each in the control network and in the extraction of tribute from the population, and identifying the leading companies.

* Or 35% of an alternative estimate of the total, $250 billion, shown in the same source.

TABLE 4. STOCK OWNERSHIP AND SUPPLY OF CORPORATE FUNDS BY LEADING TYPES OF FINANCIAL INSTITUTIONS, 1954

(billions of dollars)

Type of Institution	*Stocks Owned or Controlled*	*Corporate Credits Outstanding*	*New Long-Term Money Arranged*
Commercial banks		$26.9	
Trust depts., banks and trust companies	$62.6[a]	15.6	
Investment bankers and brokerage houses	[b]		$8.0[d]
Life insurance companies	3.4	34.2	2.1[d]
Fire & casualty insurance companies	6.5	0.6	
Investment trusts	7.3	0.4	
Mutual savings banks	0.6	3.0	
Personal holding companies	[b]		
Foundations and university endowments	7.6		
Law firms	[c]	[c]	[c]
Known totals	88.0	80.7	10.3

[a] Other estimates run as low as $40.5. That shown is from the source which specializes in trust business. In any case, allowance should be made for the undervaluation of stocks in trust accounts.

[b] Not available. The stock holdings of investment bankers, brokerage houses, and personal holding companies, combined, are comparable with those of the trust departments of banks.

[c] Small direct holdings, but involved in all major transactions.

[d] Domestic issues only. Figures based on estimate that one-half of all private placements go through investment bankers, the other half arranged solely by the insurance companies.

SOURCES: *Trusts and Estates*, Feb., 1956; *Factors Affecting the Stock Market*, (Senate Banking & Currency Committee, 1955), Table 6, p. 96; *Investment Dealers Digest*, Corporate Financing Directory, 1955; *Life Insurance Fact Book*, 1955; *Federal Reserve Bulletin*, Feb., 1956.

COMMERCIAL BANKS

In form, a bank is a mere intermediary which collects the savings of many depositors for the use of selected customers who need these funds as capital, and will pay interest for them. In the complex modern business world, however, the banks have acquired vast powers that go beyond the simple sum of these many transactions.

Their loans to the business firms of the country give them complete access to information of the affairs of these companies, so that the banks have become the nerve centers of the economy, the main storehouses of commercial intelligence.

Moreover, the banks are the manufacturers of the bulk of the

country's money supply. Coins and paper currency are of minor importance in business affairs. The main money consists of bookkeeping entries of deposits in the banks, out of which most business payments are made by check. Today in the United States about 80% of the money supply consists of these demand deposits, only 20% of currency.* Whenever a bank loans money, it causes the creation of an almost equivalent amount of deposits, so that the lending activities of the banks are the main effective means of money creation—usually more potent than the issuance of currency by the Federal Treasury. By regulating deposit money, the banks strongly influence interest rates and commodity prices. Credit inflation has become more potent in our country than currency inflation. Booms are permitted—and extended to great heights—through credit inflation. Crises are often precipitated by the collapse of the credit pyramid, and deeply involve the entire banking system.

Occupying a central place in the country's finances generally, the commercial banks play a more limited role in the specific field of financing industry, as can be seen from Table 4. These banks concentrate on short and medium-term loans, rather than long-term credits. They supply mainly working capital, and comparatively little fixed capital for the expansion of capacity.

The large commercial banks also finance the speculative activities of their favored accounts, and the underwriting and trading activities of investment bankers and stock brokers. These loans are often for only a few days at a time, involving an extremely rapid turnover of funds. Thus in 1956 the First National City Bank was making loans to brokers and dealers in securities at an annual rate of $24 billion, an amount equal to many times its total volume of loans outstanding at any one time.[4]

The very rapid growth of concentration in banking fosters concentration in industry and trade. Local enterprises, accustomed to borrowing from local banks where they are known, often are cut off from funds as these banks are swallowed up by large banking chains and bank holding companies.

The effects are very marked in times of boom and "tight money." Large companies, able to get ample bank funds, can expand operations to the utmost. Small companies can rarely get additional funds, and sometimes have their existing credit lines curtailed. They must pay higher interest rates for what they can borrow. They cannot take

* In addition to various forms of quasi-money, such as short-term government securities.

full advantage of "good times." Many fall victim to the credit squeeze, either being forced to sell out to one of the giants, or becoming business failures in the midst of the boom.*

Credit discrimination reaches its climax in time of financial crisis. The largest, best-connected corporations are permitted to maintain their credit lines unimpaired. But the smaller, "independent" businesses have their notes called when due. Now they no longer have the option of selling out. The many that fail simply go on the auction block, where they are picked up for a song by the bank-associated giants.

Until recent decades the commercial banks serviced mainly business firms, and the large banks limited their accounts to the most affluent corporations. However, in the intensified hunt for greater supplies of capital and larger profits, the commercial banks have increasingly added the servicing of middle class individuals and workers.

Most large banks have raced to establish branches in residential areas in order to collect the deposits of the maximum number of individuals. They have entered actively into the business of granting small consumer loans and home mortgage loans—lines of endeavor which have multiplied many times. The small pawn shop has given way to the streamlined branch of the multilbillion dollar bank.

These "retail" services to the small consumer are the most profitable of commercial banking operations. On consumer loans the rate of interest is usually 12% or more as compared with 3%-4% on loans to the largest corporations. Small checking account depositors, far from receiving interest, pay monthly service charges to the bank for the privilege of writing checks.

At the same time, the expansion of this field of activity permits the rapid growth of bank resources and capital, and hence an enlarged scale of operations in the field of industry. Legal requirements limit a bank's loan to a single customer to 10% of the bank's capital. But loans running into the tens of millions are needed for the operations of the industrial leviathans. The banks which come to the top in the accumulation of deposits and capital are able to monopolize this business, to intensify their contacts and power position in industry,

* Between the second quarter of 1955 and the second quarter of 1956, manufacturing corporations with assets of over $50 million increased their bank borrowings by 46%, while those with assets of under $1 million were able to increase their bank borrowings by only 7%.[5] (The difference is exaggerated, but not decisively, by the method of statistical compilation used by the government agencies.) The many complaints of inability to borrow by small corporations showed that this was a forced containment of their credit facilities.

and at the same time to subordinate weaker banks which must depend on them for participations in loans.

THE TWENTY GIANT BANKS

The Bank of America, National Trust and Savings Association, which pioneered in "retail" banking, emerged at the end of World War II as the largest commercial bank in the country. The Guaranty Trust, which 25 years earlier was on an approximate par with the two other very large banks in New York City, remained a "wholesale" bank, and declined relatively to less than half the size of the Chase Manhattan and First National City Banks.

Table 5 shows the twenty largest banks in the country at the end of 1955. Their combined resources amounted to $64 billion, approximately 30% of the total resources of all of the 14,000 commercial banks in the United States. Moreover, through their position of leadership in the placement of credits and determination of banking policies, these twenty banks, together with certain smaller banks under identical control dominate the commercial banking business of the United States.

Their financial influence is measured more accurately by loan statistics. Just 17 of these 20 banks, in October 1955, accounted for 52.1% of all member bank loans to manufacturing and mining companies; 61.2% of loans to transportation companies, and 70.9% of loans to all large corporations having assets of over $100 million.*[6]

Nine of the 20 are in New York City. Eight of these nine accounted for 63% of all business loans of the billionaire banks, and 26% of all business loans of all Federal Reserve member banks in the United States.[7] Qualitatively, their leadership extends to determination of national banking policies in addition to allocation of business and control of many smaller banks.

The listings of the largest owning groups in the table are derived from a variety of sources, including the unpublished manuscripts of an outstanding student of American finance capital, the late Benjamin Allen. In general, where a family name is shown, this represents the largest known holder. Usually, however, control of the bank does not reside in that family exclusively, but in a grouping of interests.

* Statistics of Federal Reserve Board, covering banks with deposits of over $1 billion. This happens to coincide with the banks listed, except for the three chain banking systems shown in the table.

TABLE 5. TWENTY LARGEST COMMERCIAL BANKS, DEC. 31, 1955

Bank	*Headquarters City*	*Resources 12/31/55 (millions)*	*Largest Owning Families or Groups*
Bank of America, NTSA	San Francisco	9,903[a]	Giannini
Chase Manhattan	New York	7,509	Rockefeller
First National City	New York	7,212[a]	Stillman-Rockefeller
Manufacturers Trust Co.	New York	3,210	*n.a.*
Guaranty Trust Co.	New York	3,191	Morgan
Chemical Corn Exchange	New York	3,156	Goelet
First National	Chicago	2,977	Chicago
Bankers Trust	New York	2,785	Morgan
Continental-Illinois Bank & Trust	Chicago	2,739	Chicago
Transamerica Corp.[b] (banks only)	San Francisco	2,688	Giannini
Security-First National	Los Angeles	2,141	Los Angeles
National Bank of Detroit	Detroit	2,015	du Pont
Marine Midland Corp.[b]	New York	1,967	Rand
Hanover	New York	1,959	Woodward
Mellon National	Pittsburgh	1,942	Mellon
First National	Boston	1,824[a]	Boston
Irving Trust	New York	1,733	*n.a.*
Northwest Bancorporation[b]	Minneapolis	1,687	*n.a.*
American Trust Co.	San Francisco	1,542	San Francisco
Cleveland Trust	Cleveland	1,447	Mather

n.a. Not available.
[a] Includes assets of wholly owned subsidiaries and affiliates, where published.
[b] Bank chain.

SOURCE: Resources from financial statements.

TRUST COMPANIES AND TRUST DEPARTMENTS

Ten Wall Street banks hold in trust some $50 billion of the personal assets of the wealthiest families in America, about double the amount of ordinary assets shown in their published reports. Through the $50 billion the big ten wield a special power, for this sum includes the largest and most intense concentration of corporation shares in the world.

These funds are held in special trust departments, originally separate companies, for managing rich peoples' investments and supervising their businesses. Little known to the general public, and largely ignored by academic economists, these are peculiarly instruments of the financial oligarchy in the era of monopoly.

The U.S. Trust Company of New York, organized in 1853, claims to be the oldest in existence. It writes: "For 50 long years the Trust Company's trust business was nearly nil. . . . In retrospect we can only marvel at the patience that nursed this infant activity to full

development." Then, at the turn of the century, the trust—or "fiduciary"—business mushroomed. U.S. Trust Company's income from this source multiplied twenty times in the next fifty years (and the value of trust assets increased even more rapidly).[8]

The currently typical joint organization of commercial banking and trust functions provides distinct advantages to the owners. Through the trust department of the bank they coordinate their investments, putting together concentrated blocks of shares, sufficient for control or a share in control of selected corporations. These corporations then have access to the resources collected from many individuals and enterprises, and are thereby able to expand more rapidly and increase the profits of the control group. Often the trust department directly runs or participates in supervising industrial corporations.

The National City Bank said of the operations of its Trust Affiliate:

> The principal business of the City Bank Farmers Trust Company is the care and management of other people's money. The extent of our business is measured not by our balance sheet figures, but by the size and types of the funds under our control or supervision. The amounts involved run into the billions, and our investment activities range from the management of funds for individuals, corporations, and charitable, religious and educational organizations to the operation of private business for which we are responsible under wills or trusts.[9]

Personal trust accounts originated in the handling of wills. Estates were left in the "trust" of the bank or trust company for the benefit of the heirs. While this continues as the major form of personal trust, recent decades have seen a rapid flourishing of living trusts, wherein people of wealth transfer a portion of their assets to the management of the trust companies.

The trust department is far more than an agent. It takes on all the attributes of ownership except for the appropriation of profits, as illustrated by this description, by the Continental Illinois Bank and Trust Co., of typical actions of a will trustee:

1. Takes physical possession of assets, takes title to property.
2. Considers immediate needs of beneficiaries and arranges to pay income if necessary.
3. Reviews assets, buys and sells, invests funds.
4. Collects income, makes payments as provided.
5. Handles all tax angles, looks for tax funds, distributes assets as provided.[10]

During the past decade the trust departments have gathered more billions of assets, nominally belonging to workers—the corporate

pension trust funds. By September 1955 banks held over $12.5 billion in trust for such funds, almost $7.5 billion held by 13 large New York banks. The employers select associated banks as trustees. These banks use the funds as they see fit, rendering accounts to employers, rarely to the workers.[11]

Thereby the trust department bankers obtain still more funds to merge with the billions of the wealthy in buying up control blocks of company shares. The security of the workers is limited by the liability of these investments to depreciation in time of crisis, and by the ability of the banks to use the funds as a club against labor in time of acute class conflict.

By 1954, total personal trust assets exceeded $100 billion, five or six times as much as in 1931. This heightened centralization results partly from the increased share of the national wealth in the hands of a tiny group of millionaires. Also, the growing complexity and scope of operations of American capitalism increases the incentive for rich families to pool their resources and information through banks as a means of establishing control over still more profits. Compelled by popular pressure to accept higher income tax rates, these interests were able to frame the law to leave loopholes through the use of trust accounts. Many of the directors of trust companies are lawyers, with a primary function of manipulating accounts so as to minimize the taxes paid.

The rapid increase in personal trusts signifies a further increase in the concentration of control over American industry. As shown by Table 4 by the end of 1954 the personal trust departments were far and away the most important control center for huge blocks of stock, having almost one-fourth of all the shares in the country.

The handling of trust accounts is much more concentrated than commercial banking. Only one-fifth of all banks are licensed to do trust business. And with most of these the business is nominal. Table 6 shows the geographical distribution of personal trust assets.

The ten Wall Street banks previously mentioned (including one private bank) handle the bulk of the city's dominant share in the country's trust business.[12] Each (with one possible exception) had more than $2 billion in personal trust assets in 1954. They are listed in approximate order of trust assets in Table 7.

Chase Manhattan handled some $14 billion of personal trust assets in 1954-55. These represented the holdings of a few thousand families, averaging several millions each. For these families, Chase Manhattan collects perhaps a half billion yearly in interests and dividends. Taken

together, the big ten concentrate a large part of the properties of America's economic royalty, perhaps 20,000 families.

TABLE 6. PRINCIPAL CENTERS OF PERSONAL TRUST ASSETS, 1954

Area	*Personal Trust Assets (billions)*
New York Federal Reserve District	$58.0
New York City (alone)	*$53.0*
Illinois	10.5
Pennsylvania	7.0
California	4.7
Ohio	3.5
Massachusetts	3.2
Total of above	$86.9
NATIONAL TOTAL	$100 plus

SOURCE: New York estimates based on data contained in Federal Reserve Bank of New York, *Monthly Review of Credit and Business Conditions*, June 1955. Other states based on Annual Report of the Comptroller of the Currency, for national banks, and state banking department reports for state banks.

Despite its magnitude, the personal trust business contributes but a small portion of the profits of the great downtown banks. Fees collected have averaged less than one-tenth of one percent of the assets handled. Basically, this is because the trust customers are the select few who own the banks or are closely associated with the owners. They are not interested in making profits out of themselves, but only out of the smaller depositors and companies.

Outside of New York, the two leading Chicago banks probably have over $2 billion each in personal trust assets. The First National Bank of Boston reports close to $2 billion, as do the three leading Philadelphia banks.

The power generated by concentrated investment of trust funds in industrial corporations is translated into influential and profitable relationships with these corporations.

The corporate trust or fiduciary activities of the banks are a case in point. The bank acting as *bond trustees* represents all the scattered bond holders of a particular company, and exercises their rights and privileges. The *stock transfer agent* performs technical functions which give it a complete knowledge of the corporation's owners and of all shifts in ownership. It thereby is in a strategic position to forestall attempts by rival financial groups to gain control through stock purchases. The *stock registrar* has secondary technical responsibilities of the same general character.

TABLE 7. TEN LARGEST WALL STREET TRUST DEPARTMENTS

(*personal trust assets in billions*)

Chase Manhattan Bank ($14)
First National City Bank (through City Bank Farmers Trust)
Bankers Trust
Guaranty Trust
United States Trust Co. ($5)
Hanover Bank
New York Trust Co.
Bank of New York
J. P. Morgan & Co. ($2)
Brown Brothers Harriman & Co.

SOURCES: Banks identified from information contained in annual reports and in reports of stockholdings in major corporations submitted to Federal agencies. The order of the institutions is based on comparative earnings of trust departments, and collateral information. The $14 billion for Chase Manhattan Bank was revealed when it transferred from national to state charter in 1955, causing the dropping of its personal trust assets from the New York State total for national banks shown in the Annual Report of the Comptroller of the Currency. The $5 billion for U. S. Trust Company was indicated in a special release of Jan. 1957, and the $2 billion for J. P. Morgan & Co. was contained in its annual report for 1956.

When an industrial company is controlled by a single group, these functions will be shared by banks of that group. When two groups share control, they will divide these fiduciary assignments and the fees that go with them.

Large New York banks perform at least one (and usually all) of these three functions for 99 of the 100 largest non-financial corporations in the United States.

Many of the 99 also have these functions performed by banks in other cities, notably in areas where they operate, or where there are large stockholdings. But the predominance of the large New York banks in this business is overwhelming.

An authoritative text by four professors states: "The financial aspect of corporate fiduciaryship is indeed an amazing one. The figure of over fifty billions of personal trust assets is practically beyond comprehension. Yet this is merely one phase of their activities. The volume of corporate trusts administered is two or three times as large. Although the economic, social, and political aspects of such financial magnitudes will not be discussed here, these points should not be overlooked—in fact, they can hardly be overemphasized."[13]

The good professors may be pardoned for their timidity in discussing the "economic, social, and political" significance of this state of affairs. The main point is clear enough—through trust activities a few New York banks and the influential families behind them

exercise a vital, and often decisive lever of control over all of the key points of the economy. Moreover, through the rapid expansion of this form of activity, the concentrated power that it represents has become still more marked in recent decades.

INVESTMENT BANKERS

Investment banking is the mobilization of the basic capital of industry, as distinct from the short-term working capital supplied by commercial banks. Investment bankers convert the money capital of many people into huge unified blocks of productive industrial capital. They sell the stocks and bonds which represent ownership of that capital. They play the key role in the organization of new companies, in arranging mergers, in decisive expansions of capacity.

The leaders in investment banking, therefore, have been, historically, at the summit of the industrial-financial empires of the oligarchy. The House of Morgan, which evolved the investment banking function most successfully, was the leading financial power of United States imperialism during most of its development.

The investment banking houses have done more business in recent years, dollar-wise, than in any previous period of comparable length. But their proportionate share of financial business has been reduced, and their functional role is less decisive. Fewer wholly new major corporations are established, and the life insurance companies have taken over part of the function of mobilizing long-term capital.

Believers in the reformation of American capitalism cite this trend as evidence of the supposed demise of the power of high finance. But all that is really involved is a change in the relative importance of different types of institutions used by the same moneyed interests. It is true that some very prominent investment bankers who did not succeed in creating a rounded financial apparatus have lost ground in general influence. But their loss is the gain of others, a mere shift in power within the oligarchy. The general rule in the top circles is the common ownership or control of varied institutions of the financial network, to provide maximum functional flexibility.

This is all the more necessary because day-to-day investment banking operations, to be effective, must be in the closest conjunction with other types of financial institutions. Commercial banks supply investment bankers with vast short-term credits while the latter are disposing of securities purchased from industrial corporations. Intimate relations are required with bank trust departments, insurance companies and investment trusts, buyers of the bulk of the securities underwritten by the investment bankers.

Prior to 1933 the leading investment bankers were organically connected with commercial banks and trust companies. Old investment banking houses also conducted commercial banking and trust activities, besides buying up previously independent commercial banks and insurance companies. Large commercial banks established investment banking subsidiaries.

The first major New Deal attack against the concentrated money power in 1933 was the enactment of legislation forcing the separation of investment banking from commercial banking. The Glass-Steagall Act prohibited commercial banks from engaging in investment banking business (except for government bonds), and prohibited interlocking directorates between investment banking and commercial banking companies.

This legislation was doomed to failure. It left untouched the vast aggregations of capital and the huge blocks of stock which comprised the ultimate basis of the control of industry by the financial oligarchy. It left untouched the more important interlocking directorates and other connections between industry and finance. It aimed to put a "competitive" pattern on one financial function, investment banking, when that function existed, and could only exist, in a world of monopolized banking and monopolized industry.

The result was a series of formal, organizational moves to meet the technical requirements of the new law. These moves not only failed to make investment banking "competitive" and "independent," but generally resulted in a further concentration of the investment banking business. The House of Morgan, for example, simply divided its manpower and offices into two main companies—J. P. Morgan & Co., as a commercial bank and trust company, and Morgan Stanley & Co., as an investment banking partnership. The old Morgan partners (including various members of the Morgan family) were designated either as directors of J. P. Morgan & Co., or as partners in Morgan Stanley & Co. (except for those going to the Philadelphia branch, reorganized as Drexel & Co.). The investment banking subsidiaries of the Chase National Bank, the First National Bank of Boston, and later of the Mellon interests, merged into a single new company, the First Boston Corp. The National City Bank merged part of its investment banking interests with those of Brown Brothers

Harriman in the new firm of Harriman, Ripley & Co.; while merging the other part of its investment banking business with California interests in Blyth & Co.

As with other forms of big business, investment banking is characterized by increasing monopoly, the formation of cartels, and the striving for domination. The four largest investment banking firms controlled 48% of the total business in 1950-55 as compared with 33% in 1927-32, and virtually *all* of the mammoth transactions.[14] The leading firms operate as a closed club which allocates territory and, according to precise formulas, divides among several hundred smaller firms the secondary business of gathering together capital from all parts of the country.

Once an investment banker organizes a new or merged combine, or initiates public financing of a former family concern, he remains its investment banker indefinitely. It is understood that no one else shall "poach" on the terrain. The industrial corporation which seeks "independence" and "shops around" for easier terms on which to obtain new capital finds a cool reception from the cartel members. These are the only ones who can mobilize sufficient blocks of capital, and generally they respect the "traditional banker" position. The reorganization of investment banking firms following the 1933 legislation scarcely rippled the waters. With loving care the bankers traced the "historical position" of each newly organized investment banking firm, its "successorship" to business previously managed by commercial banking subsidiaries.

Bonds and stocks are sold through investment banking syndicates. The investment banker connected with the particular industrial company is the syndicate "manager." He controls the entire operation, receives a special, overriding management fee; and handles the largest single block of the bonds or stocks. Normally, most other leading cartel members participate in the syndicate. Each sells its portion of securities to financial institutions and patrons within its particular sphere. In this way, the syndicate system preserves and strengthens the community of interest of all leading sections of the oligarchy in the various branches of the economy, and at the same time it reinforces the dominant position of a particular group in the affairs of certain industries and companies.

The investment banking cartel system does not bring perfect harmony among the financiers. Changes in the relative power of different firms lead to struggles between them. These in turn occasionally lead to changes in the banking connections of industrial cor-

porations. There is nothing surprising in such battles, nor in deviations from previous cartel arrangements. This is "normal" for monopoly capitalism, which combines to extract the greatest profits and to squelch weaker capital, while fighting most intensely within itself for supremacy. What is surprising is the comparatively few changes in banking connections which have occurred. During the past three decades, including the shattering experiences of the 1930's, the expansion of the second World War and the subsequent transformations in the economy, almost all of the major industrial corporations have maintained their "traditional" connections.

Those changes which have occurred in investment banking power have reflected changes in the relative importance of industries and of particular companies within an industry. Particularly keen has been the scramble to obtain leadership in new industries, such as natural gas, and new corporations entering the field of public financing, such as Ford Motors.

Other changes have taken place as a result of government regulations. In 1941 and 1944 government agencies ordered "competitive bidding" for the sale of bonds of railroads and power companies. These new regulations, unlike earlier New Deal legislation, were not mainly responses to the general public pressure against monopolies. There were elements of this, but perhaps more important was the pressure of midwestern banking groups, largely excluded from the investment banking business after the collapse of the Insull utilities empire. The competitive bidding regulations broke the cartel monopoly for these types of securities. It particularly affected the house of Kuhn, Loeb (railroads), and to a lesser extent Morgan Stanley. The main beneficiaries were the Chicago house, Halsey, Stuart & Co., and certain Wall Street firms, including First Boston and Blyth & Co.

However, while the competitive bidding requirements reduced the profits of the "traditional" bankers on new security issues, they did not seriously affect the retention of general financial control over the railroads and power companies. Competitive bidding was *not* required for stock issues, in which voting power resides. And in the case of bonds, the issuing corporation continued to name the bond trustee, the bank which retains the key position among the bondholders. To keep the winning competitive bidder in his place, he is required to pay, out of his commissions, legal fees to the law firm designated by the borrower. This is usually the law firm of the "traditional banker" that handled the business before competitive bidding was required!

Thus, aside from the gaining of commissions by certain houses,

nothing is changed. Midwestern banks and insurance companies are permitted to buy more bonds from Halsey, Stuart & Co., with which they are connected, but they have no more power than formerly in the affairs of the particular railroads and utilities.

Investment banking is a highly profitable business. The syndicate selling Ford stock in early 1956 charged a commission of $1.50, or 2.3% of the selling price of $64.50 per share. Despite the fact that the issue was "over subscribed" long before the commission was set, the syndicate collected $15,300,000 for an operation that required no tie-up of capital and no risk whatsoever.

Typical commissions charged for the common stocks of the very largest companies are 3%-4%, and for preferred stocks and bonds 1%-3%. For medium sized, but well established companies, the commissions for common stocks are in the range 5%-10%. A similar range of commissions applied to recent bond issues of weaker foreign countries, such as Israel and Cuba. For the speculative issues, such as the uranium mining companies, the investment bankers charge 15%-20% commissions.

Only in the case of competitive bidding have commissions been reduced, usually to less than one percent. Halsey, Stuart & Co. advocated competitive bidding on the grounds that it would save corporations excessive commission charges. But in those few places where it has industrial connections, not requiring competitive bidding, its concern for inexpensive service vanishes. In 1955 Halsey, Stuart issued $30,000,000 of bonds for Detroit Steel, a smaller company with excellent markets in the automobile industry. But the company was forced to pay the then high rate of 5% interest on the bonds, and a commission of over 4% for their sale.[15]

Yet commissions are a comparatively small part of the profits accruing to the investment banking cartel. Its main role is in the network of financial arrangements through which control over giant corporations is established, with the resultant access to hundreds of millions in the profits of control. And a corollary is the access to enormous profits from personal investments. The capital of the investment bankers' companies is but a small fraction of their personal funds and those of their associates. Their operations, perhaps more than any other type, provide the information required for the realization of rapid profits through stock market transactions.

The TNEC hearings thoroughly exposed the cartel arrangements of the investment bankers, and the interlocking of financial and industrial monopolies through their firms. As an aftermath of these

hearings, the government launched an anti-trust suit against seventeen leading houses, charging among other things that they exercised domination over industry: "By securing control over the financial and business affairs of such issuers by causing partners or officers of defendants to be elected to the boards of directors of such issuers, by utilizing defendant's influence with commercial banks with whom such issuers do business, and by controlling the reorganization committees of issuers . . . by using their control over issuers to increase their volume of business by promoting consolidations and mergers."[16]

After three years of depositions, and trial, the judge threw out the case, despite mountains of documentary evidence. Judge Harold R. Medina could find no conspiracy. While he was preparing this case for trial, he presided over the trial of 11 leaders of the Communist Party for conspiracy under the Smith Act. They were convicted and given maximum sentences.

For his role in both of these cases, Medina became a hero of high society, and received a major promotion in judicial rank. Cleveland financier Robert R. Young charged that the judge's obvious favoritism in the investment banking trial involved more than general class bias:

> When the Government's Investment Banking case against Morgan Stanley & Co., Kuhn-Loeb & Co., et al., came to trial in 1948, it was assigned by a Federal judge who sits on the Equitable Life board to another Federal judge who has one son in the Morgan law firm and another son in the Kuhn-Loeb law firm. The canons of judicial ethics adopted by the American Bar Association provide that a judge may not be the director of a lending institution. They also provide that a judge should not sit when a close relative is either a litigant or a counsel for a litigant.*[17]

The government attorneys did not object to this strange state of affairs, and the head of the Antitrust Division responsible for the case left it in process to return to work for one of the law firms which was defending the banks.**

During the period of the anti-trust suit and after its dismissal in 1953, the leading houses continued to carry out all of the "overt acts"

* The assigning judge was John C. Knox, director and member of the executive and finance committees of the Equitable Life Assurance Society, and trustee of the Union Dime Savings Bank, N. Y. The judge was Harold R. Medina, promoted to the Court of Appeals in 1951. One son, Harold R. Medina, Jr., was a member of the firm of Cravath, Swaine & Moore, representing Kuhn, Loeb and Union Securities in the investment banking case. Another son, Standish F. Medina, was employed by Davis, Polk, Wardwell, Sunderland & Kiendl, representing Morgan Stanley and Harriman, Ripley.

** John F. Sonnett, member of the firm of Cahill, Gordon, Zachry & Reindl, counsel for Dillon, Read & Co.

of the "non-existent" conspiracy. They continued to manage the securities issues of the same companies, to concentrate almost all of the business in their hands, to be represented directly and through connected banks on the same boards of directors. Table 8 shows the distribution of business among the 21 largest investment banking houses during the six-year period 1950-1955. The list includes 16 of the 17 concerns named as defendants in the government suit. Seventeen of the twenty-one companies have their principal offices in New York.

TABLE 8. LEADING INVESTMENT BANKING HOUSES, 1950-1955

Company	*Corporate Security Issues Managed or Co-managed* Value (*millions*)	Percent of Total
Morgan Stanley & Co.	4,398	14.7
Halsey, Stuart & Co. (Chicago)	4,243	14.2
First Boston Corp.	3,635	12.2
Blyth & Co.	2,151	7.2
White, Weld & Co.	1,214	4.1
Lehman Brothers	911	3.0
Merrill Lynch, Pierce, Fenner & Beane	897	3.0
Salomon Brothers & Hutzler	866	2.9
Dillon, Read & Co.	811	2.7
Kidder, Peabody & Co.	800	2.7
Smith, Barney & Co.	779	2.6
Union Securities Corp.[a]	748	2.5
Harriman, Ripley & Co.	725	2.4
Kuhn, Loeb & Co.	644	2.2
Stone & Webster Securities Corp.	562	1.9
Glore, Forgan & Co.	529	1.8
Goldman, Sachs & Co.	288	1.0
Paine, Webber, Jackson & Curtis (Boston)	267	0.9
Eastman, Dillon & Co.[a]	256	0.9
Equitable Securities Corp. (Nashville)	230	0.8
Drexel & Co. (Philadelphia)	196	0.7
Total, 21 leading companies	25,140	84.2
All others (about 500)	4,735	15.8
GRAND TOTAL	29,875	100.0

[a] Merged in 1956.

NOTES: Where two or more companies co-manage an issue, the value of the issue is divided equally among the co-managers. Total excludes $850,000,000 of Israel Government bonds, which were not distributed through ordinary investment banking channels.
SOURCE: Compiled from *Investment Dealers Digest,* annual Corporate Financing Directories.

A number of the companies are parts of centrally controlled groups. Morgan Stanley & Co., Smith, Barney & Co., and Drexel & Co., are all part of the Morgan financial empire. Blyth & Co. and Harriman,

Ripley & Co. are both related to the First National City Bank. White, Weld & Co., Kidder, Peabody & Co., Stone & Webster Securities Corp., and Paine, Webber, Jackson & Curtis constitute an integrated group of companies based on related New York and Boston interests. This group of companies also has important ties with the First Boston Corp. and its associated banks notably the Rockefellers'. Lehman Brothers and Goldman, Sachs & Co. have worked as a virtual joint partnership for many decades.

The dollar figures are not the sole measure of relative importance. If attention is restricted to the very large issues of the decisive industrial corporations, the lead of Morgan Stanley & Co. is more pronounced. During the six-year period covered by the table, there were 20 stock and bond issues each involving $100 million or more. Morgan Stanley & Co. managed eleven of these, First Boston Corp. managed three and co-managed one, Halsey, Stuart & Co. co-managed three.

Morgan houses are investment bankers for the largest companies in each of the main American manufacturing industries—oil, steel, autos, chemicals, and electrical equipment (the last shared with Goldman, Sachs), in addition to many companies close to the top in these industries, and leaders in other industries.

Nevertheless, a comparison of figures over the past three decades brings out certain shifts in relative position among the leading banking groups, insofar as their strength is reflected in this type of activity. During the depression, when weaker concerns could scarcely function, Morgan dominance increased sharply. But the Morgan position relatively declined during and after World War II, and in the latest six-year period the share of the Morgan companies was less than in the late 1920's. The investment banking business of the Rockefeller interests and their allies almost doubled. That of the National City Bank declined during the 1930's but regained the lost ground during the 1950's. The position of Halsey, Stuart & Co. and its midwestern allies, almost eliminated during the depression, was more than restored by virtue of competitive bidding.

LIFE INSURANCE COMPANIES

The life insurance companies have become much more important in the chain of Wall Street financial control. Today four-fifths of the population buy life insurance and half the net savings of individuals flow into the hands of the life insurance companies, a much larger proportion than during the 1920's.

The reason for the almost universal purchase of life insurance is not hard to see. Workers and small businessmen, well aware of their economic insecurity, seek thereby to provide a minimum of safety to their survivors. This protection is often thwarted by the general economic environment. Periods of unemployment, business losses, or illness, force discontinuation of premium payments. Even in recent "good times," many more policies have been closed out because of lapses or surrenders than because of the death of the policyholder or the maturing of his endowment. Less than half of the premiums paid in are returned as benefits. In the case of the small industrial policies sold to wage-earners, roughly two-thirds never get the benefits they have partly paid for. And inflation has slashed the real value of benefits received by the others.

Thus the insurance companies accumulate huge sums of money, which yield more billions in interest as they are invested. In 1955, $12.5 billion in premiums and $4.0 billion in investment and other income were collected. After payment of benefits, taxes, commissions and expenses of all kinds, as well as dividends, the companies had left a net gain in assets of $6 billion, and total assets reached $90.4 billion.[18]

Those in control of these vast billions use their power against the interests of the overwhelming majority of the policyholders.

The premiums charged have always been far higher than necessary to cover the actual risk of death. And during recent decades, while mortality rates were declining, the insurance companies sharply increased their rates. Between 1937 and 1952 the Metropolitan Life raised by 26% the net premium for a 35-year old man purchasing a given amount of ordinary life insurance. Ruthless cancellation of policies and expensive suits to contest claims are other forms of attack on policyholders.

The life insurance companies spend millions of the policyholders' money to advertise their concern with the people's health. But they themselves are the leaders in the big business lobby which fights against every extension of social insurance benefits, thereby opposing practical measures to improve public well-being and health.

During the great depression, the insurance companies foreclosed on about 200,000 farmers. The Metropolitan became the largest owner of farm land in the country and sold it at a handsome profit during the World War II inflation. In recent years the life insurance companies have again become heavy farm mortgagees, and in addition have taken mortgages on some two million small householders, who in event of

depression or individual financial difficulty will face imminent danger of eviction by these gargantuan creditors.

Some of the largest insurance companies have built huge apartment developments with tax-free concessions from state and city governments. Most of these have been strongholds of racial discrimination, and fights by tenants of Metropolitan to break down exclusion of Negroes met with arrogant company reprisals including eviction of tenants.

As employers of 400,000 workers, the life insurance companies are notorious in their refusal to recognize unions, and in their gross racial discrimination.

The provisions of the tax laws virtually exempt them from payment of income taxes. Premium income is totally exempt, and the effective rate of tax on investment income has been about 6%, enabling the insurance companies to expand their assets more rapidly than other companies.

Only for the small minority of large policyholders is the purchase of life insurance a really sound investment. They are unlikely to suffer cancellation through inability to make payments; they can afford to purchase larger policies at reduced premium rates—a practice instituted by leading companies in 1954. Much more important, the insurance companies cooperate with high income policyholders in complicated tax-gimmick arrangements involving loans on insurance policies and receipts of deductible interest on these, whereby the fortunate ones compel the government—that is the general public—to pay the bulk of the cost of their insurance.

The actual profits of the life insurance companies run into many billions each year. Yet the largest have no stockholders—they are "mutual" companies, while those which remain stock companies pay only nominal dividends. In these companies the Midas-men have carried to the ultimate the process of acquiring for themselves all profits through control of the corporation, rather than dividing them with smaller stockholders.

As early as the 1890's the insurance companies became important as a source of funds for the financing of the great trusts. The Morgan, Rockefeller, Kuhn Loeb, and other interests engaged in bitter struggles for control over these reservoirs of billions. Controlling shares were bought up at prices 1,000 times the dividend yield. By the first decade of the present century the large insurance companies were firmly in the hands of a few money lords.

Soon the vestigial payment of direct dividends was abandoned by

the most important companies, and they were "mutualized." A "mutual" company is nominally the joint property of the policyholders. Actually the laws designed by company lawyers make it virtually impossible for the policyholders to have any voice. The real purpose of mutualization was to eliminate any possibility of competing interests buying up control. The mutualization of Prudential, for example, was designed by Morgan lawyer Richard V. Lindabury to defeat the efforts of New Jersey bankers with large shareholdings to gain control.[19]

A historian friendly to big business described the motives for the mutualization of Metropolitan as follows: "Everybody dies, and his estate passes into other hands. Haley Fiske therefore held that Metropolitan should order its affairs so that there could never be a possibility of its stock coming into the possession of people who might try to install a management which would neglect or endeavor to tear down the work to which he and Mr. Hegeman had devoted a quarter of a century of their lives."[20]

The group in control at the time of mutualization maintains its position through a self-perpetuating board of directors, which replaces men on death or retirement with other representatives of the same interests, and selects trusted people as key executives.

The New York State Armstrong Committee hearings of 1905 exposed the many ways in which the profits of control were derived from life insurance companies. The exposé was a great scandal of the time, and "corrective" legislation was passed. But nothing really changed. The TNEC hearings of 1939, the Celler Committee hearings of 1949, and the New York State investigation of the Equitable Life in 1953 showed that the same practices continued.

By and large, these methods of extracting profits are the same as those shown for corporations generally in Chapter III. Particularly important for life insurance companies, with their huge reserves, are the profits they yield to controlling banks. In 1939, the nine leading life insurance companies kept on deposit in the Chase National Bank an average of $200,000,000 *without interest*,[21] a sum which could yield the bank a profit of $8 million yearly if loaned out at 4%.

James G. Harbord, a retired general and corporation official, was a director of Bankers Trust. In 1931 he was also made a director of New York Life, which thereupon deposited a million dollars with the bank. Harbord wrote a letter of appreciation to New York Life, adding: "I regard the directorship in those two companies as quite the best thing that has come to me in business life."[22]

During the past two decades, such uses have been surpassed by the new role of life insurance companies in the financing of industrial expansion. Here is how Marquis James describes the financing of Rockefeller Center by the Metropolitan Life Insurance Co. in the 1930's: "It was the largest single advance on real estate Metropolitan—or probably any other lender—ever made. . . . Rockefeller Center was, for practical purposes, identical with John D. Rockefeller, Jr. . . . At a club in South Carolina where he went for a little golf for the winter, Mr. Ecker (president of Metropolitan Life) met his friend Thomas Debevoise, attorney for Mr. Rockefeller. . . . Mr. Ecker proposed that Metropolitan purchase, up to $65,000,000, all the bonds Rockefeller Center had to offer. . . ."[23]

It should be mentioned that Metropolitan has three directors in common with Rockefeller's Chase Manhattan Bank, including the chief executive officers of each.

Between 1929 and 1955 corporate bonds held by insurance companies increased from $4.6 billion to $36.1 billion, and from 10% of total corporate debt to 39%.[24]

Life insurance companies supplied more than half the long-term funds for postwar corporate expansion. Moreover, they extended their range of activities, previously limited largely to railroads and public utilities, to industrial corporations as well.

The prewar $65-million Metropolitan loan to Rockefeller Center gives way to a 1953 total of $1,200 million in loans by Metropolitan and Equitable to the oil companies and their tanker fleets, including those of the Rockefeller-Standard Oil group.

In addition to formal loans, insurance companies engage in "sale-and-leaseback" arrangements with retail trade, real estate, railroad and trucking corporations, among others. Under these schemes, the insurance company purchases real estate or equipment, and rents it on long-term leases. The using corporation, through this device, reduces income tax liability. And the insurance company obtains 7-10% on its money instead of the 4-5% on mortgage loans.

The Armstrong Committee hearings exposed the use of life insurance company funds to buy up controlling shares in corporations, and legislation was passed which temporarily curtailed this practice. But fifty years later, by 1955, life insurance stock holdings had multiplied 20 times. In 1954 Equitable Life was the largest single holder in the Great Northern Railroad, Pacific Gas & Electric and Southern California Edison.[25]

The rapid development of life insurance industrial lending has cut into the position of the investment bankers. In recent years roughly half of all new bond issues have been "privately placed" with insurance companies, instead of being underwritten by investment bankers. This has led to considerable rivalry between insurance companies and investment banking houses. The rivalry, however, is tempered by identical Wall Street power centers of institutions of both types.

Through an agreement reached in 1942 (according to the government charge), insurance companies have refrained from competitive bidding for railroad and utility bonds, and purchase these mainly through the investment bankers.[26] For the private placement of industrial bonds, many large insurance firms retain investment bankers as financial advisors. The commissions these receive are smaller than for underwriting securities, but so are their expenses. Private placement has curtailed the availability of industrial bonds to smaller life insurance companies.

TABLE 9. THE BIG FOUR LIFE INSURANCE COMPANIES

Company	*Assets, 1955 (millions)*
Metropolitan Life Insurance	$13,936
Prudential Insurance Co. of America	12,521
Equitable Life Assurance Society of the U. S.	8,047
New York Life Insurance	6,051

The Big Four had almost half the assets of all life insurance companies, and, two-thirds of their industrial bond-holdings. They had, among them, 24 New York City bank directors on their boards in 1948. Interlocks extend beyond that throughout the range of industry and finance. The Celler Committee hearings used 32 pages to merely list the interlocking directorates of the 17 largest life insurance companies.[27]

It is characteristic of financial reform legislation that the New Deal law which limited interlocking directorates between commercial banks and investment banks did nothing to limit the equally important personal ties between the insurance companies and banks and trust companies.

The Metropolitan and Equitable, respectively first and third largest, are solidly in the camp of Rockefeller-Chase National Bank which dominates the third largest investment banking company. Morgan has a leading position in the Prudential and New York Life, plus ownership of the leading investment banking house (for details see Appendix 2).

Thus the strengthened position of the life insurance companies means a much stronger monopoly on the part of the two greatest Wall Street Goliaths while changing the balance of forces between them. This fact overshadows in importance and puts in proper perspective the real, but subordinate rivalry between the insurance companies and the investment bankers.

FIRE AND CASUALTY INSURANCE COMPANIES

These companies have not had the same mushroom growth as have the life insurance companies. But they figure more prominently in the apparatus of control through large scale ownership of shares in key corporations, the volume of such investment having multiplied fourfold between 1929 and 1954. For example, the Continental Insurance Co., of a group in which the Hanover Bank has a predominant place, holds large blocks of shares in that bank and in Union Carbide & Carbon, largest industrial corporation with which the bank is connected. It also conducts many of its securities transactions through the Hanover Bank and keeps its largest deposits there.

This business is very profitable. Premiums are set at about twice the average loss rate. But the main profits are derived from investment income and transactions. During the five year period 1950-54 the American Fore group, of which Continental is a part, cleared $15 million from its underwriting activities, $44 million in investment income, and $123 million in securities transaction profits. On the total of $182 million it paid federal taxes of only $14 million, or less than 8%.[28]

The five largest fire and casualty insurance groups, with their 1955 assets and principal connections, are given in Table 10.

TABLE 10. PRINCIPAL FIRE AND CASUALTY INSURANCE COMPANIES, 1955

Company	*Assets (millions)*	*Principal interests*
American Fore group, N. Y.	$993	Hanover Bank, some Rockefeller influence
North American group, Phila.	820	Morgan-Drexel
Hartford group	754	Morgan-Hartford insurance men
Home Insurance group, N. Y.	525	Manufacturers Trust, Chemical Bank
Royal Liverpool group	486	British controlled; U. S. Trust Co., American Trustee

INVESTMENT TRUSTS

The investment trust combines the funds of thousands of small investors to purchase a "portfolio" of stocks and bonds, in which each small investor has a *pro rata* share. Formally, the investment trust ment of the bank performs for the men of substance. In reality the functions are opposite. The trust company is itself controlled by and is the genuine agent of its large customers. The investment trust is controlled by a group of financiers interested mainly in profiting themselves from their small investors.

During the late 1920's investment trusts were organized as a means of inveigling thousands of hopefuls into the securities markets. The investors were promised that their funds would be protected by the guidance of the "experts." These kept for themselves substantial blocks of promoters' shares, and exacted management fees for the operations. A number of these trusts were virtually annihilated during the great crash.

During the past decade, these investment trusts have been revived and expanded in a new form, presumed to protect the buyer from the extreme dangers of the old "closed" type. In these new "open-end" trusts, or "mutual funds," the buyer can at anytime sell out at the market value of his share of the stocks held by the trust. The catch is the price the investor pays for the "service." In the typical "open-end" or "mutual" fund, the investor of less than $25,000 (the great majority are in this group) pays a commission of 8% on buying his shares, equivalent to two years of average dividends. Additional management fees consume more than one-tenth of the dividend income each year.

As during the 1920's, the managers of these new types of trusts have been singularly unastute in advancing the interests of their customers. Taking 1939 as 100, the Henry Ansbacher Long index of mutual stock fund values at the end of 1955 was 283.3, as compared with 361.1 for the Standard and Poor's 90 stock price index. In other words, the investor could have done much better by simply buying the shares used in the standard "averages," and paying much lower commission fees to regular brokers. Only two of the twenty-one funds included in the index did better than the "averages."

While of dubious value to investors, these funds are of considerable use to their promoters, not only as sources of operating profits, but also as a lever for influencing the affairs of corporations whose shares are purchased.

Massachusetts Investors Trust is the largest single outfit, with assets of close to a billion dollars. It is buttressed by five smaller trusts under common management. This grouping has significant holdings in almost all of the decisive industrial corporations, which can be performs the same function for the "little fellow" as the trust depart-coordinated with the holdings of the large Boston insurance companies and personal trust funds.

Tapping the midwestern market is the rapidly-growing Investors Diversified Services group of Minneapolis. By the end of 1955 this group controlled over a billion and a half dollars worth of investible funds, approximately as much as the Boston group. Robert R. Young of Cleveland and his associates* control these Minneapolis companies, and coordinate their activities with those of Young's holding company, the Alleghany Corp. They are most active in railroads, smaller utilities, banks and real estate.

Seven investment trusts and holding companies disposing of about a billion dollars, are controlled by or affiliated with Morgan banks, and have large holdings in mining companies and utilities in which the Morgans have a major interest. The First National City Bank controls Fundamental Investors, and influences Dillon, Read's U. S. & Foreign Securities, which is important in oil. The Seligman and Lehman interests each control important groups of investment trusts. The du Ponts utilize the $200-million United Funds, Inc. of Kansas City as a buttress for their positions in industrial companies outside of their main core of investments.

FOUNDATIONS AND COLLEGE ENDOWMENT FUNDS

During the past decades of high income taxes, the overprivileged have placed billions of dollars in foundations, as a means of preserving their estates tax-free, while retaining control over the funds. There are now over 4,000 foundations in the United States, with total assets of well over $10 billion, including stockholdings of over $5 billion. However, a few foundations dominate the field. By far the largest is the Ford Foundation. Until the end of 1955 its $3 billion of assets consisted almost wholly of Ford Motor Corp. shares. Following the sale of over 20% of these shares, it will doubtless become an influential factor in the affairs of other corporations as well. Besides the

* During 1956 Young turned over formal control to one of these associates, Texas oilman Clint Murchison. The real significance of this maneuver is not yet clear. In the New York Central fight (Chapter 6), Murchison was made a large stockholder, but as later revealed, was merely a stalking-horse for Young.

Ford family, the Chase National Bank and associated interests are most prominent in the affairs of this foundation.

The half-billion-dollar Rockefeller Foundation plays a significant role in holding large blocks of Standard Oil and allied stocks for the Rockefeller interests. The quarter-billion Carnegie Foundation, in which Morgan interests predominate, has been less aggressive in the expansion of its stock holdings.

Financial circles have become quite brazen in discussing the profit and control advantages of establishing a foundation. Paine, Webber, Jackson & Curtis asks its clients: "Have you considered the possible business and tax advantages of establishing a personal charitable foundation? Is there a danger that your family may lose control of your business in case of your death because of the necessity of selling stock in your business to pay estate taxes? Are you aware of the income and estate tax savings you may achieve by making contributions to a personal charitable foundation? Do you realize how little it need cost you to make such gifts?"

The investment banking house's pamphlet shows how one's estate tax can be cut 60%, and control of his corporation retained by use of a charitable foundation. In another example, a corporation president increases his after-tax income from $43,000 to $79,000 and in the course of 15 years saves $892,000 in estate and income taxes by judicious use of a foundation.

The "charitable" aspect can be wholly incidental, with a relative or agent placed in charge of this newly developed form of business instrument: "Since the charitable foundation may remain under the direction of the creator either directly or indirectly, its assets may be used to complement the general financial activities of the creator while still achieving specific desirable charitable goals." The "creator" may borrow from the fund, engage in sale and lease-back transactions, and use it for a variety of purposes ranging from tax deduction to battles for corporate control.[29]

The whole device becomes a "charity" for the donors; paid for by the John Does who cannot afford foundations.

College endowment funds, controlled by financier-trustees, are also elements in the network of corporate control. The largest is the $400-million fund of Harvard University, a leading shareholder in a number of corporations. Morgan and Boston interests are prominent in its affairs.

In addition to these standard types of institutions, there are a variety

of forms of private and family holding companies. Almost every plutocratic family active in financial affairs maintains one or more of these companies. Through them, financial operations can be screened and taxes reduced. Most famous is the Christiana Corp., two-billion-dollar holding corporation of the du Pont family. Other important family holding company companies include Rockefeller Brothers Inc., and J. H. Whitney & Co., which belongs to John Hay Whitney, heir to Standard Oil and traction system millions.

LAW FIRMS

Cleveland financier Cyrus Eaton said at a Congressional inquiry: "New York has half a dozen law firms manned by people of great intelligence and great energy, and they like to practice before governmental bodies, and they like to represent big corporations, and they like to supervise the financing of these great corporations; and there is the club that is the real one. Those tremendous law firms . . . are big business in the biggest possible way."[30]

The giant law firms (not all in New York) are involved in all new financing, in tax manipulations, in struggles for corporate control. They are primary links of the economic royalists with political power. Besides handling the manifold relations of the corporations with government agencies, the lawyers are particularly active in the affairs of the major political parties, serving directly as representatives of the ruling group in the government, forming a majority in the legislatures and holding all of the judgeships, besides many key executive posts.

The top lawyers are far more than hired hands. They are rich businessmen, with places on the boards of major industrial corporations, and especially banks and trust companies. Their income from fees is very large, probably larger in total than the commissions of the major investment banking houses. In addition, they are large stockholders and manipulators in their own right. By and large they come from wealthy families.

The most powerful of all Wall Street law firms is that formerly headed by Eisenhower's Secretary of State, John Foster Dulles. That is the firm of Sullivan & Cromwell, whose ramified financial and political connections are discussed in Chapter XVI. At least a half dozen law firms represent the varied Morgan interests, and a similar number are affiliated with the Rockefellers and other Standard Oil

families, with which Sullivan & Cromwell also has close connections. (Appendix 3 lists some of the principal corporation law firms and their main clients.)

Each of the great banks, trust companies, insurance companies, and investment banking houses* wields enormous power. They complement one another functionally, so that their coordinated might is truly impressive. One would be hard put to say which type of institution is the *most* important. If a choice had to be made, it would probably be the leading banking institutions, which combine under one roof the commercial banking and trust company functions.

The weavers of the web are the key groups of men in ultimate control of the financial-industrial empires. Many are identified later.

* Besides the types of institutions discussed in this chapter, there are others of significance. These include stock market brokerage houses, "mutual" savings banks, savings and loan companies, sales finance companies, factoring companies, small loan companies, and large accounting firms.

CHAPTER V

Details of Corporate Control

WITH KNOWLEDGE OF the financial intricacies described in the previous chapter, one can penetrate further the mysteries of the anonymous corporation.

The general public can learn little about the identity of controlling shareholders in the great American corporations. In response to the anti-monopoly movement of the New Deal period, Congress passed legislation which was supposed to disclose the real powers behind the corporate thrones. However, representatives of the oligarchy in Congress and the administrative agencies saw to it that these disclosures should be fragmentary, and their intent easy to evade.

SECRECY OF LARGE STOCKHOLDINGS

At no time has systematic information been published concerning shareholdings in the banks, the key centers of power. So far as other large corporations are concerned, certain details—not always the most important—are available. These are not published, but merely kept on file for inspection. Few individuals can afford the time and expense required to dig the facts out of the files.

Most substantial corporations, whose securities are listed on stock exchanges, are required to file statistics on stockholdings and transactions of directors, officers, and large stockholders. The rub is that large stockholders are defined as those holding 10% or more of the total shares. In the large corporations, controlling shares are held by a number of individuals and banks, each having considerably less than 10%, and with the entire group sometimes owning less than this proportion. Therefore, the 10% requirement draws information only about ownership of smaller companies. This is useful mainly to the most

powerful interests, in keeping track of what goes on in the financial affairs of their lesser competitors. Similarly, the shareholdings of directors and officers are usually reported as quite modest. The directors *represent* groups of stockholders. There is no need to place the shares in the directors' names and let every Tom, Dick and Harry know the ownership position of the group!

Under the Public Utility Holding Company Act the Securities and Exchange Commission required electric power holding companies to file lists of their 20 largest stockholders.* The holding companies were supposed to supply the names and holdings of the *real* or "beneficial" owners, rather than the "owners of record." But they usually report only the owners of record. As an example, consider the 1952 report of the Ohio Edison Co., an electric power holding company. The largest stockholder was the New York brokerage firm of Merrill Lynch, Pierce, Fenner & Beane, reporting ownership of record of 3.50% of the common stock. Probably much of the 3.50% was held for one or a few groups through Merrill Lynch. But who? In compliance with the law, the brokerage house was asked to supply the information. Here is its answer: "Merrill Lynch, Pierce, Fenner & Beane advise that compliance with registrant's request for information regarding beneficial owners of the above shares would, in their opinion, be a violation of the trust and confidence placed in them by their customers."[1]

Serious legislation and enforcement could overcome these arrogant and transparent evasions of the supposed intent of Congress. But attempts to so legislate and enforce are few and feeble.

Holdings of the giant banks and trust companies are recorded in the names of nominees or "street names" (that is Wall Street names). The uninitiated, perusing the records of the Federal Power Commission, might be puzzled to find that one Mac & Co., with a Pittsburgh post office box, owns over 200,000 shares of Niagara Mohawk Power Co. Is Mac a nickname? An abbreviation? The citizen doesn't know. However, a Wall Street house interested in the utility can consult its code book of banker aliases, and discover that Mac & Co. is a "street name" of the Mellon National Bank & Trust Co. The largest banks use at least a half dozen different street names. Here are a full dozen used by a single bank, Guaranty Trust: Lynn & Co., Douglass & Co., Kugler & Co., Ince & Co., Murley & Co., Schmidt & Co., Tegge & Co., Kelly & Co., Garner & Co., Scheu & Co., Scott & Co., Zink & Co.

* In 1954 this requirement was cut to the reporting of stockholders of over 1%. Other reports required: electric power and gas companies—largest ten holders; railroads—largest thirty holders; airlines—holders of over 5%.

Fortunately for the serious researcher, enough of the reports on file "slipped," and gave the real names behind the aliases, so that it is possible to piece together one's own "code book" of street names or nominees.

However, even this gives only a partial answer. Let us suppose that Lynn & Co., representing the Guaranty Trust, is listed as one of the ten largest stockholders in a power company. There is no information as to how many additional shares Guaranty Trust may hold in the names of its eleven other nominees (providing they are not among the top ten holders), or even through brokerage houses.

The only systematic information about stockholdings in industrial corporations was made available when the TNEC published the details of a Securities and Exchange Commission study of the 20 largest record shareholders in each of the 200 largest non-financial corporations —and that was inconclusive for many corporations owing to the widespread use of the "street name" system.

The secrecy and evasion concerning large stockholdings and transactions is designed not only to veil the facts from the public. It is part of the struggle among competing financial groups. When a particular group seeks to buy up a controlling interest in a corporation, it does so over a period of time and through a myriad of channels, so as to cover its tracks. At the same time, the incumbents use their excellent sources of information to uncover any attempts to unseat them. The American Telephone & Telegraph Co. keeps a dossier on every stockholder of 500 shares or over. Banks which have transfer agencies maintain elaborate files of holdings, and changes in holdings, of stock in the corporations which they represent.

The public is told the virtues of stock ownership, as part of the "American way of life." But the owners of America conduct their affairs as if they were conspirators, concealing their activities from one another and from the people.

THE WALL STREET BANKS AS DOMINANT STOCKHOLDERS

Some holders appear again and again in the 20 largest stockholder lists of giant corporations compiled by the TNEC. Table 11 identifies those which were among the top 20 stockholders of 3 or more of the 10 largest non-financial corporations in the country in 1938.

The eight banks shown are among the ten with the largest trust departments, and their holdings consist mainly of trust accounts. The Morgan interests are represented by three banks, Bankers Trust, Guaranty Trust, and J. P. Morgan & Co. Adding their representations,

but eliminating duplications, it turns out that the Morgan banks were among the largest stockholders in eight of the ten largest companies, the same number as the National City Bank.

TABLE 11. BANKS AND OTHERS APPEARING MOST FREQUENTLY AMONG LARGE STOCKHOLDERS IN 10 LARGEST CORPORATIONS, 1938.

	No. of Corporations
BANKS AND TRUST COMPANIES	
National City Bank[a]	8
Central Hanover Bank & Trust Co.[b]	6
Bankers Trust Co.	5
United States Trust Co.	5
Brown Brothers Harriman & Co.	5
Chase National Bank[c]	4
J. P. Morgan & Co.	4
Guaranty Trust Co.	3
BROKERAGE HOUSES	
Dominick & Dominick	8
E. A. Pierce & Co.[d]	5
E. F. Hutton & Co.	4
J. S. Bache & Co.	4
INVESTMENT TRUST	
Massachusetts Investors Trust	4
INDIVIDUAL	
Edward S. Harkness	4

[a] Now known as First National City Bank. Holdings usually in name of its trust affiliate, City Bank Farmers Trust Co. [b] Now known as Hanover Bank. [c] Now known as Chase Manhattan Bank. [d] Subsequently merged into Merrill Lynch, Pierce, Fenner & Beane.

SOURCE: Compiled from TNEC Monograph No. 29.

Among the brokerage houses listed, Dominick & Dominick plays a special role. Its holdings were mainly those of European banks that it represents (see Chapter X). The large holdings of the other brokerage houses shown are of a different character. These were leading brokerage houses, in which much of the "floating" stock, traded for speculative purposes, was concentrated. They are less active than the banks in the affairs of the corporations in which their scattered clients hold shares. So these large brokerage holdings of record usually do not represent an integrated group active in the control of giant corporations.

The one individual, Harkness, was a Standard Oil heir who has since died. Much of his stockholdings are now recorded in the names of the Commonwealth Fund, a family foundation, and the New York Trust Co., the main bank of the Harkness family.

Considering the great expansion in total trust department stock holdings since 1938, it is likely that the stock position of the listed banks in the giant corporations is at least as decisive as before World War II. Public records confirm this for railroads and utilities.

PERSONAL UNION

The common control of banks and industry is personified in the system of interlocking directorates. Five banks lead in this respect. All of them are among the ten largest in trust business, and four of them among the ten largest in commercial business. Table 12 summarizes the personal ties of these five banks with other corporations as of mid-1955.

TABLE 12. INTERLOCKING DIRECTORATES, MID-1955

		Assets, Dec. 31, 1954 (billions)			
Bank	*No. of Companies*[a]	*Manufacturing, Mining*	*Transport & Util.*	*Financial*	*Total*
First National City	115	$13.7	$12.7	$44.0	$70.4
Chase Manhattan	104	13.7	15.7	39.1	68.6
Guaranty Trust	91	8.7	14.1	33.8	56.6
Bankers Trust	84	8.8	3.0	33.9	45.7
J. P. Morgan & Co.[b]	92	22.0	8.2	14.6	44.9

[a] Includes only companies for which asset figures are available.
[b] Includes directorships of partners in Morgan Stanley & Co., and Drexel & Co.

GENERAL: Includes outside directorates of officials of the listed banks but not of members of advisory boards.
SOURCE: Compiled from financial manuals.

The majority of the 53 largest manufacturing corporations are included. Most of the remainder interlock with others of the leading banks and trust companies.

Statistics of cross-directorships are subject to variation, depending on the time of the listing, and matters of definition. For example, the death early in 1955 of John W. Davis, director of the American Telephone & Telegraph Co. and of the Guaranty Trust Co., temporarily removed $14 billion from that bank's total. Again, Bankers Trust and the Chase Manhattan Bank have important advisory boards. Members of these boards, holding posts in corporations with many billions of dollars, are excluded from the tabulation.

These qualifications (and others) signify that statistics such as these are only rough indicators of the extent of the personal ties between

given banks and allied industrial and financial corporations. Nonetheless, certain conclusions are justified:

(1) The five banks listed have personal links with most of the major corporations of the country, and many smaller ones.

(2) The structure of interlocking directorates is not too different from that prevailing before World War II.

(3) J. P. Morgan & Co. continues to have the largest volume of cross-directorships with mining and manufacturing corporations.

(4) Adding interlocks of the three Morgan banks, Guaranty Trust, Bankers Trust, and J. P. Morgan & Co., while eliminating duplications among them, gives companies with combined assets of $106.1 billion, considerably exceeding those of any other financial group.

However, this obvious personal relationship is not the sole criterion of financial connections. Thus the $7-billion Standard Oil Co. (NJ), is under the same ownership control as the Chase Manhattan Bank, but they have no directors in common. As will be seen, the overall balance between the Morgan and Rockefeller interests differs from that implied by cross-directorships only.

STOCK OWNERSHIP AND CONTROL IN A "MORGAN" COMPANY

The leading electrical combine, General Electric, was put together by J. Pierpont Morgan and his associates almost 60 years ago. Boston bankers were junior partners in the venture. It has borrowed or issued new securities infrequently. Hence, stockholdings were particularly important for continued control.

The prewar Securties and Exchange Commission study showed that this basis was retained. The 20 largest stockholders, combined, had 10% of the stock outstanding, distributed as shown in Table 13.

The Morgan and Boston holdings together exceeded the combined total of all other New York banks. By maintaining their alliance, these two groups could avert any possible challenge from other Wall Street interests, even if these should all combine. The Morgan shareholdings, if maintained intact, were worth $155 million by the end of 1955. An enormous capital investment would be necessary to challenge Morgan control—a venture that would be rendered all the more difficult by the comparatively small "floating supply" of stock, and the certainty that any attempt to buy up a large quantity would bid up the price and put the Morgan interests on guard.

TABLE 13. GENERAL ELECTRIC STOCKHOLDINGS,* 1938

Holder	*Percent of Total Shares*
Morgan banks and associates	3.38%
G. E. Employees Securities Corp.	1.84
Boston interests	0.74
Seven New York banking houses	3.70
Dutch banking interests	0.33
Total	9.99

* In considering this and subsequent tabulations, it is important to remember that each of the groups listed is likely to have additional shares in smaller "holdings of record." The Morgan banks and associates, for example, might easily have 5% or more of General Electric stock, but the listings do give a rough picture of the relative positions of different groups.

SOURCE: TNEC Monograph 29, p. 933 (see Appendix 4 for further details).

The Morgan control was further consolidated by the large internal holdings of the corporation, through the Employees Securities Corporation. GE executives, selected by the Morgan interests, could be counted on to vote the stock together with that of the associated banks. This raised the effective voting block of the Morgan-Boston alliance to 5.96%, a decisive majority of the large stockholdings.

For anybody to challenge the Morgan position, it would be necessary to break the Morgan-Boston alliance in this company, involve the Boston interests in a new grouping of important Wall Street holders, and then buy up tens of millions of dollars worth of shares from small and medium-sized holders. Certainly it would be a prize worth winning—not only for the direct profits, but also because historically control of General Electric has been the key to control of electric power companies dependent on it for equipment. But evidently the difficulties are too great.

As yet, nobody has attempted to challenge the status quo in GE. The directorate, much the same in composition as before World War II, closely reflects the balance of forces of the controlling interests. The sixteen directors at the end of 1954 were connected as follows:

7 were directors of Morgan banks.
2 were presidents of industrial corporations whose main banking connections were with Morgan interests.
2 were directors of Boston banking houses.
1 was a partner in Goldman, Sachs & Co. of New York.
3 were directors of different banking houses in Chicago, Pittsburgh, and Cleveland.
1 had no outside connections.

Here there is neither Burnham's "management control," nor "a

board of directors . . . familiar with the product of laboratories and research and fully appreciative of 'long-haired know-how'"[2] which Berle mysteriously attributes to General Electric. Instead there is a thoroughgoing bankers' board, and one overwhelmingly dominated by the House of Morgan.

Publicly reported financial business is divided between Morgan institutions, those of the Boston group, and Goldman, Sachs—with the Morgan bankers leading. J. P. Morgan & Co. is trustee of the 1956 bond issue. Morgan Stanley and Goldman, Sachs jointly headed the underwriting syndicate. Stock fiduciary assignments are divided between the First National Bank of Boston and the Guaranty Trust Co. of New York. In the latest General Electric lawsuit to come before the Supreme Court (October 1954 term), it was represented by the Morgan law firm of White & Case, which also serves for Bankers Trust and U. S. Steel.

JOINT CONTROL BY ALLIANCE OF WALL STREET INTERESTS

General Foods, the largest processed food corporation, exemplifies the joining of the two lines of financial influence explained in Chapter III. Some allies in the control group are there because of their large stockholdings in the corporation, others because of their huge general financial resources, to which General Foods needs access.

A number of families, once owners of companies merged into General Foods during the 1920's, retain a significant interest in the company, directly or through banks. One of these, the Hanover Bank, has enough shares to determine General Foods' affairs, in alliance with the largest family shareowner, the Post family. But the Hanover Bank lacks the resources to assure the predominance of General Foods in its industry, so it is necessary to grant a major voice to other interests, with smaller stockholdings but with decisive access to capital.

Thus some directors of General Foods represent the largest shareholders, others sit for key financial interests. The representation of large stockowners on the Board is shown in Table 14.

Three directors represented primarily financial interests, Robert Lehman of Lehman Brothers, Sidney J. Weinberg of Goldman, Sachs, and Carl J. Schmidlapp of the Chase National Bank. Of these, only Lehman Brothers was reported among the largest 20 stockholders, with 0.37% of the stock. In addition, there was one partner in a minor Wall Street house, and four corporate functionaries, here a distinctly minority representation of the "management" function.

TABLE 14. LARGE STOCKHOLDERS AND DIRECTORS OF GENERAL FOODS CORP., 1938

Stockholder	*Common Shareholdings Pct. of Total*	*Directors Representing*
Post-Davies family	8.62%	Marjorie Post Davies
Hanover Bank-Woodward family[a]	6.25%	William S. Gray, Jr., Colby M. Chester[b]
Security Trust Co. of Rochester	2.36%	Daniel M. Beach
Warren Wright	1.71%	not known
Igleheart family	1.63%	A. S. Igleheart
Guaranty Trust Co. of New York	1.57%	indirect—S. Sloan Colt[c]
Cheek family, Third National Bank, Nashville, Tenn.	0.96%	Robert S. Cheek

[a] The Woodward family are the largest stockholders in the Hanover Bank. They accounted for 3.33% of the 6.25% total shown, the remainder being bank-held stock for unidentified interests.

[b] Colby M. Chester was Chairman of the Board of General Foods, and personally the tenth largest shareholder, and also a director of the Hanover Bank.

[c] S. Sloan Colt was chairman of Bankers Trust, which like Guaranty Trust, is under Morgan control.

SOURCES: Compiled from TNEC Monograph No. 29, pp. 436 and 936-7; and directories.

The current directorate of General Foods shows little change from that of 1938, except for the replacement of deceased or retired individuals by successors representing the same interests.*

What is the basis of the financial influence of Goldman, Sachs, Lehman Brothers, and Chase National Bank? The first two historically lead as merger promoters and investment bankers for the food and retail industries. They provide important sales connections and securities outlets for the corporation. Chase National Bank and its affiliated insurance companies provide the large credit facilities needed by a company like General Foods. Bankers Trust provides similar facilities, in addition to its indirect representation of Morgan group shareholdings.

Without these varied banking interests, General Foods could not have acquired nine other food companies in the three-year period 1944-46 alone, nor further expanded its leading position in the industry.

The relation between the directorships, stockholdings, and financial connections of the company are shown by these details of General Foods' fiduciary services as of the end of 1952:

*During 1955 Charles G. Mortimer, Jr., current president of General Foods, was elected to the board of the First National City Bank. The basis of this new financial connection is not publicly known.

Goldman, Sachs and Lehman Brothers headed all syndicates selling public bond and stock issues.

Bankers Trust was the bond trustee, and Chase National Bank the fiscal agent for bonds.

Metropolitan Life Insurance Co., associated with the Chase National Bank, held one issue of notes. Bankers Trust, Chase National Bank and the Hanover Bank equally divided another.

Hanover Bank and Manufacturers Trust were transfer agents, Bankers Trust and Chase National Bank were registrars of stock issue.

Of these banks, only the Manufacturers Trust has no interlocking directorate with General Foods. The explanation is that when the stock was issued and the transfer agency established, Goldman, Sachs, the leading underwriter, had a major interest in Manufacturers Trust.

This detailing of the financial interrelationships of a corporate giant exposes again the false propaganda concerning the "intense competition" among banks for corporate business, and the "independence" of industrial corporations from the leading financial institutions.

The reality is that the affairs of large industrial corporations are dominated by banks and investment houses representing large shareholdings and those able to supply the funds needed for survival and expansion of monopoly profits. In turn, the profits from fiscal management of the corporation are channeled to these same interests. Whether this diversion of profits is embodied in some secret written agreement such as that cited in Chapter III in connection with Standard Power & Light, is of little consequence. With or without a written agreement, the division of the spoils in General Foods has remained virtually unchanged for almost two decades (and probably longer).

SHIFTS IN CORPORATE STOCKHOLDINGS AND CORPORATE CONTROL

There is a continual shifting and juggling of investments by the dominant financiers. Their holdings are not determined by sentiment, or by responsibility to "their" corporations, but by the search for increased profits and the extension of control to new areas. The owner of a growing fortune can reinvest his profits in existing portfolios, strengthening his influence in these companies, or he can place his gains elsewhere so as to obtain a voice and share in the profits of companies previously outside his sphere. Generally both are done, and not by individuals, but by groups coordinating their activities through banks and other channels. Other groups, with less profits to reinvest, must decide which holdings to curtail in order to protect their most

important control positions against rivals. At a certain point, shifts in the balance of shareholdings create the basis for a shift in corporate control.

It is possible to trace approximately the major changes in ownership of those corporations required by government regulations to report the identity of the largest shareholders annually. Shifts have been especially pronounced in the railroad companies. These have not enjoyed such high profits as concerns in other industries and investors have been anxious to transfer to more profitable lines. There is a substantial "floating supply" of shares. New interests, seeking control, can buy up stock cheaply and inconspicuously.

Here are two examples of shifts in the balance of railroad stockholdings, as indicated by these reports.

UNION PACIFIC: Table 15 shows the interests holding 1% or more of the outstanding shares in 1938 and 1954.

TABLE 15. UNION PACIFIC STOCKHOLDERS, 1938 AND 1954

1938		*1954*	
Harriman-Kuhn, Loeb	4.2%	Morgan interests	2.5%
Dutch interests	2.7	Boston interests	2.3
Chase Bank-Standard Oil	2.6	Harriman interests	1.8
Morgan interests	1.7	United States Trust	1.6
National City Bank	1.6	National City Bank	1.5
Hanover Bank	1.3	Hanover Bank	1.4
		Dutch interests	1.2

The Harriman holdings in what was traditionally their main railroad have declined, while their main financial associates in railroad enterprises, Kuhn, Loeb & Co., no longer hold a major block. The Chase Bank-Standard Oil interests have virtually dropped out of the railroad. On the other hand, the Morgans have increased their holdings and various Bostonians have acquired stocks which, if combined, amount to the second largest block.

The Morgans now have a basis to challenge their erstwhile railroad rivals for control should they so desire. But their own holdings are far from sufficient. They would have to break up the existing system of alliances and create a new grouping. So far, they have not done so. The situation remains as it was during the 1930's. The Harrimans continue in undisputed control of the company, holding both the Chairmanship and the Chairmanship of the Executive Committee; while the Morgans and certain other interests retain representation on the Board of Directors.

NEW YORK CENTRAL: In the case of the New York Central, there was a far more radical change in stockownership which set the stage for the strenuous proxy fight of 1954. Harold Vanderbilt reduced his shareholdings from 173,000 in 1928 to 90,000 in 1939 and 10,000 in 1953. He and other Morgan-allied investors counted on the solidity of the Wall Street banking fraternity to retain control while they shifted their investments to greener pastures. But Robert R. Young and his allies in Cleveland and elsewhere bought up a large block of the floating shares.

In 1938 the Morgan-Vanderbilt interests had 11.1% of the New York Central stock, while the Harriman interests had 4.8%. By 1953 the Harrimans were out of the picture, the Morgan-Vanderbilt holdings had been reduced to 4.5%, and Young had accumulated 10.0% of the stock. The Wall Street interests in New York Central refused Young's demands, first for a position on the Board, and then for the Chairmanship. An open struggle became inevitable. Both sides bought up additional shares. By 1954 the Young interests held about 17% of the shares, the Morgan-Vanderbilt interests about 7%, setting the stage for the Young group's victory.

AMERICAN TELEPHONE & TELEGRAPH

This $14-billion corporation, largest of all, has undergone a major change in the balance of control since 1939. The change has taken place quietly, without fanfare or proxy fight. It has been based on a shift in the balance of shareholdings, as well as in the balance of overall financial resources. At the same time, there has been a struggle, involving all of the leading banking groups, for a larger slice of this very profitable pie.

The telephone company enjoys an almost perfect monopoly in a growing business. And it uses its position to squeeze its customers unmercifully. Between 1940 and 1954 it more than doubled its average charge per telephone call, despite the economies resulting from a doubling of volume and extensive automation of operations. At the same time it has rapidly expanded its arms business, especially in the fields of nuclear weapons, guided missiles, and military communications systems.

As a result, profits after taxes surpassed a half billion dollars in 1955, and the dividend yield to stockholders for a number of years has been in the range of 7-8%, including the value of "rights" to subscribe to bonds which permit tax avoidance by large stockholders.

No company offers greater opportunities in terms of the indirect profits of control. Capital expenditures now surpass $1.5 billion yearly, almost all financed by new capital. AT&T and its subsidiaries account for one-fifth of all the corporate securities issues in the country and borrow heavily from banks. It has the largest pension fund in the country. The financial business generated, therefore, is without parallel. The company boasts that its construction expenditures in nearly every state of the union exceed those of any other company. The opportunities provided in the channeling of construction equipment and material contracts, legal, printing, and advertising fees, are truly extraordinary.

Even in the early decades of its existence, the telephone company was a football of competing financial groups. But by 1907 the House of Morgan, with Boston in a secondary position, obtained solid control of AT&T which it maintained through succeeding decades as the company multiplied in size and profits. N. R. Danielian, who exhaustively analyzed the history and structure of AT&T for the government, wrote in 1939: "The available information points, not to the existence of a democracy of control based upon public, or even stockholders' franchise, but on the contrary, it reveals, through historical evolution, the rise of a financial oligarchy based upon the control of a political machinery of self-perpetuation. . . . Cordial relations have existed between the operating management of AT&T and the group of bankers who in 1907 succeeded in establishing a management friendly and responsive to their wishes."[3]

Danielian believed that the company had become so large, and the cost of a significant block of shares so formidable, that the existing Morgan control could never be challenged. But never is a long time. The Second World War and its aftermath created enormous capital reserves. A shift in the distribution of these reserves led, in fact, to an unpublicized struggle for control and a change in the balance of power.

Whereas formerly AT&T was dominated by the Morgan interests, control is now shared about equally by the Morgan and Rockefeller groups.

One reason for this outcome has been the shift in general financial and economic resources, so that today the holdings of the Rockefellers and their associates equal those of the Morgans (see Chapter VII). In view of the huge scale of AT&T transactions, general financial power has particular weight in determining the control of its affairs.

A redistribution of company shares has played an equal role. In 1955

there were 1,409,000 AT&T stockowners, more than in any other company, and double the prewar number. The company boasts that "no individual owns as much as one-thirtieth of one percent of the stock."[4]

It is the example "par excellence" of the company with completely scattered shareholdings, supposedly excluding the possibility of stock control.

But in fact, substantial concentrations do exist, held not by individuals, but by banks for individuals. The 30 largest holders "of record" in 1954 controlled 5.4% of the stock outstanding, and 7.6% of the stock actually voted (mainly by proxy), at the company's annual meeting. Precisely because of the scattering of most of the stock, this 5-8% of the total is wholly adequate for effective control.

The number of shares has tripled since 1937, and doubled since 1950, with the growth of the company. But the percentage held by the largest stockholders actually increased. This was encouraged by the device through which the additional shares have been issued, the "convertible debenture," a form of bond which may be exchanged or converted for common stock on payment of additional capital funds to the company. Stockholders are given "rights" to buy these convertible debentures. But only those with substantial capital have the resources to take full advantage of these rights. The large banks and their clients, besides exercising their own rights, buy up those of the weaker stockholders, and use them to increase their proportion of the total stock.

The House of Morgan inaugurated this system in 1906 and used it as a means of gaining initial control of the corporation. Since World War II it has been used to the extent of billions of dollars. But others beside the Morgans have been able to use it effectively. And other factors (discussed in Chapter VII) had caused a marked shift in the balance of shareholdings during and immediately after World War II, as shown in Table 16.

In 1937 the three Morgan banks, taken together, held more shares than any other single bank. The Chase National Bank held an insufficient number to be included among the listing of largest holders. Between 1937 and 1950 the holdings of the Morgan banks, among others, actually declined, and were surpassed by the Chase National Bank which showed the largest increase of any bank.

During the next four years all of the leading banks joined the competition to increase their AT&T stock. The Morgan bank clients increased their purchases more rapidly than others, investing at least

$40,000,000. By 1954 they again held more shares than Chase Manhattan, but the margin was narrower than prior to World War II. And it disappears altogether if one adds to each group's total the holdings of closely associated institutions among the 30 largest holders (577,000 for the Morgan interests, 590,000 for the Rockefeller interests).

TABLE 16. SHAREHOLDINGS IN AT&T

(Thousands of shares)

Banking House	*1954*	*1950*	*1937*
3 Morgan banks	317	70	130
Chase Manhattan Bank	240	88	0
U. S. Trust Co.	211	96	51
First National City Bank	204	114	84
Hanover Bank	145	96	46
Dominick & Dominick	84	29	51
Brown Bros. Harriman	82	26	33
Total shares outstanding	48,162	28,559	18,687

NOTE: Figures for 1937 refer only to holdings shown among 20 largest record holders, for 1950 and 1954 to 30 largest record holders. Total holdings of any of the banks listed could easily be double the figure shown.

SOURCE: 1938, TNEC Monograph 29; 1950 and 1954 Annual Reports to Federal Communications Commission.

The changed balance in general financial resources and in stockholdings has been clearly reflected in the operating control of AT&T.

The prewar president, Walter S. Gifford, was a director of the Morgan-associated First National Bank of New York. Both postwar presidents have been directors of the Chase Manhattan Bank. In 1939 four of the AT&T directors were directors of Morgan banks, one a director of the Chase National Bank. But by August 1955 the position was reversed. There were four officials of the Chase Manhattan Bank on the AT&T Board, two former directors of Morgan banks, neither currently active as bank directors.* The six-man executive committee of AT&T included three of the Chase Manhattan Bank, only one of the Morgan men.

In financial relations, the Morgan banks have lost their one-time virtual monopoly, but still retains an advantage. Underwritten bonds of AT&T are now all sold by competitive bidding, which results in an approximate division among the leading investment banking houses. Bond trusteeships are rotated among the leading New York banks, and bank borrowings are divided in much the same manner.

* An interlocking directorate with a Morgan bank was reestablished in Nov. 1956 with the appointment of William C. Bolenius, vice president for finance of AT&T, as director of the Guaranty Trust.

But the Bankers Trust receives millions as agent for handling the execution of rights under the convertible debenture issues, as trustee for the AT&T pension funds, and as registrar (along with out-of-town banks) for AT&T stock.

During the five-year period 1950-54 the main legal work of AT&T was divided evenly between the Morgan law firm Davis, Polk, etc. and the firm of Dewey, Ballantine, etc., which is closer to the Rockefeller interests. Owing to the death of John W. Davis, who was not replaced on the AT&T board, and the shifting of Elihu Root, Jr., to another law firm to make way for Thomas Dewey as senior partner of his former firm, marked changes in the distribution of the AT&T legal business are possible.

On the whole, control appears to be about evenly divided between Rockefeller and Morgan interests. This balance of power situation lacks the stability of the decades-long rule of the Morgans, and sets the stage for further intense struggles for control of the telephone monopoly.

CHAPTER VI

Financial Marriages and Shotgun Weddings

WHETHER PEACEFUL OR combative, the shifts in corporate control are part of the general process of increasing monopoly in the entire economy. We have already seen statistical evidences of the growing percentage of business handled by a few giants of industry and finance, and of the tightening of control over the individual giants by the financial oligarchy. Here we discuss the means by which increased concentration is effected.

The growth of monopoly takes place in many forms. In the world of finance these include bank mergers, formation of virtual partnerships between investment banking houses, and establishment of close alliances among financial power centers. Within industry there are mergers of industrial firms; the passing of "privately-held" companies into the orbit of major financial centers; partial consolidations, exclusive purchasing contracts, and other arrangements which unite certain operations of nominally separate corporations. The amalgamations of financial and industrial properties are, of course, closely related, owing to the prevalence of common control. At the same time, through government action and the militarization of the economy, monopoly advantages accrue to the most powerful groups far beyond the simple statistical measurement of mergers (see Chapter XV).

MERGER MOVEMENTS

Concentration in the United States does not proceed evenly. Financial crises with their resulting bankruptcies have spurred the process. Mergers are most frequent in prolonged boom periods, especially towards the end of the uptrend. Then, weaker companies are already experiencing financial stringencies which presage the coming crisis.

Speculators with access to money are willing to pay high prices for these and other corporations, so as to obtain access to the profits of control. And the competitive race for supremacy among the strongest giants leads them to grab every purchasable company in sight.

There have been three major waves of mergers in American corporate history. The first, around the turn of the century, led to the establishment of the great trusts in the basic industries. Undoubtedly this was the most important of all, because it decided irrevocably the monopoly character of American capitalism which has been strengthened ever since. The second was the merger movement of the 1920's, and the third was that beginning around 1952. Both of these included, besides the further concentration of finance and basic industry, the extension of the unification process to certain formerly scattered fields of light industry and trade.

The merger movement of the 1950's has been particularly far-reaching in the central control area of banking. Besides the continued gobbling up of small banks by large, a particular feature has been the fusion of very large banks. When the Bank of the Manhattan Company was absorbed by the Chase National Bank in 1955 its assets exceeded $1.6 billion, close in size to the giants of the 1920's. Disappearance by absorption of such venerable institutions as the First National Bank and The Corn Exchange Bank of New York, the First National Bank of Philadelphia, the Second National Bank of Boston, the Anglo-California National Bank of San Francisco, were moves involving significant shifts in financial power.

In industry, the recent wave has so far included fewer mergers than during the 1920's, and comparatively few instances of really giant enterprises being taken over. However, mergers need not be large to be important. A number of corporations have reached the top ranks through a series of smaller absorptions. By picking up a small company with strategic patents, an industrial giant with access to broad financing can set the stage for a vast increase in its business. Such, for example, was the acquisition of the Electromotive Corp. by General Motors, which paved the way for GM's domination of the locomotive industry.

Rapid concentration through mergers has been conspicuous in industries weakened by economic shifts, notably textiles. New fibers have come to the fore, and these are produced by du Pont and other giants, setting a monopoly pattern in the supply of raw material. At the other end, the decline in the share of the consumer's dollar going for clothing broke down price-fixing attempts among the comparatively scattered producers of textile fabrics. The resulting mergers brought to the top companies with hundreds of millions in assets, such as Burlington Industries Inc., Textron Inc., J. P. Stevens & Co.; and the disappearance of such former fixtures of the industry as American Woolen and Pacific Mills.

Among the most publicized mergers have been the crazy-quilt corporations created by financial "operators." These "industrial imperialists, out to build bigger and bigger companies for power, must merge if their objectives are to be met in a lifetime."[1]

A group of men of moderate means, with the aid of credit, buy up corporations right and left, and merge them all into a seemingly inchoate corporate shell. Wolfson's Merritt-Chapman & Scott Corp., for example, originally an industrial construction concern, added companies making paints, chemicals, building materials, power shovels, trailers, steel, and ships. Wolfson's empire also included a transit company, but he was defeated in his attempt to add the well-known mail-order house, Montgomery Ward.

Fortune aptly describes groups of this type: "Lesser capitalists, banded together and following a leader are running in packs to control a wide variety of enterprises."[2] The *Fortune* writer, William B. Harris, argues that while in the olden days mergers were "evil," today's are for "sound business reasons" and not monopolistic.

He proceeds to describe some of the "sound business reasons." There are the "conglomerate" mergers of companies, which having rapidly expanded as far as possible in a given field, spread out into others. For example, Continental Can, already sharing a monopoly in the can industry, strives to get a similar one in other forms of packaging.

Then there are the "market mergers," where a manufacturer buys up sales outlets, or sources of raw material. Whatever one may say of the "soundness" of these forms, they increase monopoly in almost classic fashion.

"Tax mergers" are very prominent nowadays. Indeed, there is one or another tax gimmick in most mergers. Most common is the tax loss device. A company purchasing another which lost money in previous years can thereafter charge those past losses against its own future profits. In one famous case, the corporate shell of a motion picture company, whose main asset was a "loss" of $20 million, was sold for many millions of dollars. Frequent advertisements of "tax losses for sale" appear in the financial pages. Again, the public pays for this far-from-accidental "quirk" in the tax laws.

Finally, there are the "mergers for survival," of "sick" industries and companies, which join with others in order to cut costs and get

into growing lines of activity. A classic example was the three-way Textron-American Woolen-Robbins Mills merger of 1954. This was followed by the closing down of American Woolen's New England mills, the use of American Woolen's cash to buy up a dozen companies in industries with no relation to textiles, but with good chances for military orders, and the use of fancy figuring to keep the tax collector from getting a share of the resulting profits.

A Congressional report, noting the liquidation in two years of textile mills that had employed 68,135 workers, commented: "These figures regarding mill closings do not reveal the great hardship and tragedy of persons whose means of livelihood are thereby removed. Whether these mill closings are caused by the move to the South, by the merger movement, by financial manipulators seeking a tax advantage, by the basic fact of textile overcapacity, or for some other reason is one of the key questions in the textile field."[3]

MERGER BY JUDO

The corporate "marriages" which are hailed in the financial pages would often be better described as rapes. The "empire builder" quietly, and through a variety of channels, buys up a block of stock in the intended quarry. Frequently, he will find some member of the control group that he can seduce so as to annex his shares. Then, when a sufficient position has been acquired, he will notify the incumbents that they must yield. They may or may not do so, depending on the estimate of forces. Often, then, these raids are resolved by proxy contests or court cases.

The American Institute of Management tabulated a rising trend in proxy contests during the early 1950's—11 in 1952, 21 in 1953, and 27 in 1954. The 59 contests during these three years involved companies with $5.5 billion of assets. Included were nine contests for large companies with over $100 million of assets each.[4]

Fortune describes the three-way textile merger mentioned above as "Merger by Judo." The main protagonist was Roy Little:

> When World War II gave him the opening, he jockeyed his way up from running a small parachute company to control of a large textile enterprise, whose site of operations he gradually transferred from New England to the anti-union hinterland of South Carolina. In accomplishing all this, he bought companies and sold them; closed mills, opened them, and closed them again; hung in effigy in a New England town that later was to praise him . . . and left such a dizzying trail of stock purchases, asset sales, mergers, spin-offs*, charitable trusts, and sales and lease-backs that Internal Revenue is still brooding over ten-year-old Textron tax returns.

* Establishment of part of a company as a separate corporation, the shares being distributed to the stockholders of the main company.

His main antagonist was American Woolen president and former governor of Massachusetts, Joseph B. Ely.

Textron put over the merger "after more than a year's resistance by the object of its desire—American Woolen"—and with it obtained the $50 million of cash or equivalent in that company's till.[5]

At that, the ultimate decision was made neither in the courts nor in the numerous stockholders' meetings. It resulted from Little's hiring Choate, Hall & Stewart, the Boston law firm of the First Boston Co., and getting the inside track with the First National Bank of Boston; and the terms were made by a group of investment banking companies, of which the best known is Dillon, Read & Co. In the end, everybody in the battle was paid off handsomely out of the tax savings and the closed-down mills, and all principals were given top executive jobs in the merged company, on whose board appears the one-time Dixiecrat Senator from South Carolina, and champion builder of runaway shops, Charles E. Daniel.

In this case, the big money remained in the background while the formal antagonists wrestled over terms. In other cases, the tycoons by inheritance, rather than the war-made Royal Littles or Wolfsons, carry out the operations themselves. Such "reputable" men as the Rockefeller brothers and John Hay Whitney are among the most active buyers of companies—and among the most successful because of their inside track for obtaining military orders.

The Rockefellers were involved, along with the Morgan affiliated Smith, Barney & Co. and Bankers Trust, in a recent "merger by Judo" of some prominence—the acquisition of Colonial Airlines by Eastern Air Lines.

When General Motors sold Eastern in 1938, Smith, Barney & Co. was the leading investment banker, and Laurance Rockefeller and associates bought up the controlling block of shares. This airline and the smaller National Airlines, under Lehman Brothers' financial wing, competed for acquisition of Colonial Airlines, a connecting line to Montreal. The president of Colonial Airlines, Sigmund Janas, Sr., had milked it too well, and it was showing losses; whereupon the Civil Aeronautics Board in 1951 forced his resignation and recommended the buying up of Colonial Airlines by another carrier.

National Airlines made the best offer, which was accepted by the new Colonial management in March 1952. But Rockefeller, his financial adviser, Lewis L. Strauss, and Smith, Barney partner William Barclay Harding, had other ideas. They organized a proxy fight against

stockholder acceptance of the merger proposal, and proceeded to buy up 22% of the stock to that end, a large part of it from the discredited Janas. They won by a very narrow margin—although the votes in favor of the National Airlines proposal were a majority of those cast, they fell short of a majority of the stock outstanding owing to abstentions. Whereupon the Rockefeller group wrote the Colonial management demanding a special meeting solely to consider the Eastern proposals, signed by stockholders hiding behind dummy names (e.g. Eddy & Co. for a Bankers Trust broker; Flumen Corp. for Strauss). The Bureau Counsel of the Civil Aeronautics Board wrote of this letter:

> Its coercive effect upon the badgered and bewildered Colonial management still reeling from the stockholder rejection of their recommendation of approval of a merger with National needs no amplification. Faced with the full realization of all the threats implicit in the notice the Colonial management accepted the inevitable and on July 18, 1952, approved and accepted the offer of Eastern.
>
> A more brazen and willful demonstration of the employment of stock control power to compel a corporation management to accept the offer of a designated bidder, in this case Eastern, by pointedly demanding a meeting for the sole purpose of considering only that one offer is difficult to imagine.[6]

The Civil Aeronautics Act prohibits one airline or its control group from buying up control of another airline without specific authorization. Hence this whole procedure was strictly illegal. There followed a series of hearings before the Civil Aeronautics Board in which the details, in all their corruption, were laid bare. In the meantime, the Eisenhower Administration had come into office, liberally aided by Rockefeller campaign funds. Laurance Rockefeller's brother was a subcabinet member. Strauss was Atomic Energy Commissioner. But the Lehmans of National Airlines had no comparable influence in this Administration.

Economic and political power prevailed over legality and logic in this recommended decision of the Civil Aeronautics Board examiner, which was submitted to President Eisenhower for approval:

"Recommended, that the Board find that Eastern has acquired control of Colonial in violation of section 408 of the Civil Aeronautics Act as 1938, as amended.

"Recommended, that the Board approve the proposed acquisition of Colonial by Eastern, subject to terms and conditions."[7]

The Administration was fearful of the political consequences, and turned down the recommended acquisition. Whereupon the Rockefeller-Smith, Barney group engaged in some more "hidden ball plays" with their holdings, and the Civil Aeronautics Board informed the President in 1955 that the illegal relationship had been ended, but without holding a public hearing to subject its conclusion to controversy. The Administration's skirts thus "cleared" by its own agency, Eisenhower approved the "marriage." It was consummated in 1956, over the strenuous protest of National Airlines, the rejected suitor.

The attorney for Eastern Airlines, and participant in the secret and illegal acquisition of Colonial control, was E. Smythe Gambrell, prominent Atlanta Democrat and 1955-56 president of the American Bar Association, whose Canons of Professional Ethics assert: "No client, corporate or individual, however powerful . . . is entitled to receive nor should any lawyer render any service or advice involving disloyalty to the law . . . or corruption of any person or persons . . . or deception or betrayal of the public."[8]

At the time of the final Administration decision, both Nelson Rockefeller, then presidential cold-war aide, and Strauss were meeting weekly with the top policy body of the government, the National Security Council.

YOUNG AND THE NEW YORK CENTRAL

The most dramatic proxy fight of the postwar decade was that over the $2 billion New York Central Railroad. A Cleveland group headed by Robert R. Young succeeded in wresting control in 1954 from a Wall Street combination in which the Morgan-affiliated First National Bank had the leading place. In this case there was no apparent Morgan-Rockefeller alliance.

The preconditions for Young's victory in stockholdings was described in the previous chapter. However, in a proxy fight, the issue also turned on the distribution of support by the other shareholding interests, not directly engaged in the fight for control.

The peculiar feature of the New York Central fight, as of others involving Young and his associate Cyrus Eaton, is their free use of anti-Wall Street propaganda. In advertisements, and in testimony before Congressional committees, they have revealed intimate details of the Wall Street octopus, showing how a clique of banks and insurance companies dominate railroads and other corporations, and how they extract special profits from that control. The Clevelanders' criticism is quite valid—and the reader will note citations from both Eaton and Young in this volume.

But their fight can hardly be called a principled one! For these

gentlemen use the very methods they decry in building their own financial-industrial empire. In particular, Young won the New York Central fight mainly by his more successful uses of the devices of high finance, being aided by conflicts among the Wall Street groups. Interestingly enough, despite the propaganda aimed for their votes, most small stockholders voted against Young. He corralled the big money.

Most of the Young group's New York Central holdings, 800,000 shares, had been acquired six to seven years earlier by the Chesapeake & Ohio Railroad, previously the mainstay of the Eaton-Young railroad empire. To prevent the extension of monopoly by common control of these two great railroads, the Interstate Commerce Commission had required that the stock be placed in trust with a "neutral" bank (a dubious means of restraining monopoly!), which Young did.

To create conditions for voting this stock in the proxy fight, Young arranged for its sale to two Texas oilmen, Murchison and Richardson. Now, claimed Young, the stock is owned by private individuals, who may vote it. The bank trustee so considered, and yielded its proxies to Murchison and Richardson.

The price of the 800,000 shares was $20 million. It was all loaned to the Texans by the Young forces. Furthermore, the Alleghany Corp., top Young holding company, agreed to and did repurchase the entire 800,000 shares from Murchison and Richardson after the proxy fight. Obviously, the Texans were mere stalking horses for the Young group, used to evade the ICC restriction and thereby to extend their centrally controlled railroad network.

During and after the proxy fight, the price of New York Central stock went up, owing to competition for shares, the general uptrend in stocks, and the well-founded belief that Young would increase the railroad's profits by reducing employment. The Young forces made an immediate financial killing thereby, in the process of winning control of the railroad. Said Young: "It was one of the most attractive deals in history, out of which we made $10 million without one dollar of risk, and I am proud of it."[9]

The "we" here is the Alleghany Corp., in which the Young group holds the controlling shares. In addition, Young personally made $2 million out of his New York Central stockholdings, and many millions more were garnered by Kirby, Murchison, and Richardson.[10]

Obviously much turned on the bank trustee yielding its proxies to the Texans, against the objections of the New York Central and its lawyers. Young had chosen the "neutral" trustee with a cleverness

worthy of his profitable stock transactions. He selected the Chase National Bank. The Rockefeller interests were little involved in the New York Central. In this instance, at least, they were not unwilling to strengthen the "foe" of Wall Street, Young, if that meant the weakening of the Morgan interests, their own Wall Street associates and rivals.

Young and Eaton frequently denounce the Wall Street law firms. But Young hired for the proxy fight the firm of Lord, Day & Lord. This is not only a downtown corporation law firm, but also happens to be the firm of Attorney General Brownell, who is a close political associate of Winthrop Aldrich of the Chase National Bank.

Young denounced the use by banks of trusteed stock to control corporations—the overwhelming majority of such stock was voted for the White slate, presumably because the Morgan banks held so much of it. But Young justified the voting of stock by Wall Street brokerage firms, which are intimately connected with the banks. The great majority of stock held in brokers' names was voted for the Young slate. According to *Fortune,* Merrill Lynch, Pierce, Fenner & Beane, largest of the Wall Street brokerage houses, and also a member of the investment banking cartel, threw its weight to Young.[11]

During the proxy contest, Young denounced the Wall Streeters for charging New York Central stockholders for the costs of the battle. But after he had won, he charged his larger outlays to the stockholders of the Alleghany Corp. While fighting for control, he demanded cumulative voting—a system akin to proportional representation ensuring a place on the board of directors for a substantial minority interest. But after winning control, he refused to adopt that system.

The Eaton-Young hostility to Wall Street, then, is purely opportunistic. It stems from specific historical reasons, and is designed not to destroy Wall Street's power, but to partake of it.

JOINT COMPANIES AND EXCLUSIVE CONTRACTS

Methods other than outright mergers have become more pervasive in advancing concentration among the very large industrial corporations. The size of the leading companies is now such that the "classical" concept of competitive buying and selling has become irrelevant. Consider the purchases of a corporation like General Motors. It now makes many parts previously purchased from smaller suppliers. In obtaining other parts, it buys up the entire output of particular supplier

companies, which become effective subsidiaries of GM. On the selling side there is a similar relationship, whereby GM auto dealers buy only from GM, and are usually deeply in debt to GM in the bargain.

The natural gas pipeline companies illustrate the situation even more sharply. Their gas is purchased from certain oil companies according to arrangements covering a long period and involving definite quantities of natural gas. Their sales, to public utilities engaged in retail distribution of gas, are governed by similar long-term contracts exactly specifying the quantities. Very little is left of the market place outside of retail trade, where the buyer lacks bargaining power, and farm products, where the seller has no bargaining power.

Monopoly price fixing is quite effective in most sections of basic industry. Instead of cartel schemes, whereby participants exchange views and adjust their interests in arriving at a price, the price-leader system prevails in the United States. By this method, the largest corporation sets the price and all others follow. U. S. Steel is the price leader for the steel industry; American Smelting & Refining for custom-smelted metals; Standard Oil (NJ) for crude oil.

During the postwar decade there has been a rapid flowering of the joint company, or partial merger. It is part of the tradition of American politics for Congressmen and Department of Justice officials to periodically cry alarm over outright mergers. But these partial mergers have not yet been subjected to such attacks. Indeed, they are encouraged in various ways by the government. Over 100, usually involving two or more corporate giants, have been reported during the past decade.

The joint company has certain advantages over the outright merger for big business. It permits the use of the combined financial and industrial weight of two groups in strategic directions, while retaining their basic control systems intact. The joint companies, without small stockholders, do not have to publish or submit to government agencies detailed financial reports, and can, therefore, operate with a maximum of secrecy. Through manipulation of intercorporate transactions, taxation can be reduced. The insiders can extract more liberal profits of control.

The oil industry, with its particularly advanced monopoly status, has been an outstanding user of the joint company system. Domestically, this applies mainly to certain pipelines, special purpose refineries, and shareouts of particular crude oil properties. Abroad, these coalitions characterize the entire industry, especially in the newer production fields. All of the Asian properties of U.S. companies are operated through joint companies.

Not all joint companies are formed by concerns in a single industry. It is significant of the trend towards increased use of this device that the new synthetic rubber industry in the United States is owned about 40% by joint companies, mainly of giants in oil, tires, and chemicals.

General Motors, du Pont, and Standard Oil (NJ) engaged in gasoline chemical research, developing different processes. They pooled their information and processes in the Ethyl Corp., owned 50% by General Motors and 50% by Standard Oil, which enjoyed the monopoly of marketing the tetraethyl lead compound produced by du Pont and used by almost all gasoline companies. Since the patents expired in 1947, there has been a rearrangement of functions, but a continuation of an exclusive monopoly by the participants. While the more than $20 million annual profits of Ethyl Corp. is but a small part of the total profits of its owners, the monopoly weapon held over all rival oil companies is worth many times more than $20 million yearly to Standard Oil.

General Motors and Standard Oil are grandfathers, so to speak, of yet another joint company, Ethyl-Dow Chemical Corp., which extracts bromine from ocean water and sells the resulting compounds to the Ethyl Corp. Ethyl's partner in this enterprise is the Dow Chemical Corp., which has grown five-fold in size since the end of World War II, helped by a whole series of such coalitions with other major corporations, including the Asahi Chemical combine in Japan.

Metals companies also engage extensively in these ventures. Kennecott Copper, besides having agreements for smelting of much of its ores by American Smelting & Refining, has two subsidiaries in common with the latter. It owns two-thirds of Quebec Iron & Titanium, for production of the newly important titanium ore, with New Jersey Zinc owning the other third. It owns extensive mining properties in Africa in a fifty-fifty partnership with British interests in Kennecott-Anglovaal Exploration Corp. It has spread into aluminum less directly, through a minority stock ownership in Kaiser Aluminum & Chemical.

The railroad industry is an old scene of joint companies which operate railroad terminals and lesser railroads. The government in 1940 filed an anti-trust suit against Pullman Inc., monopolist of the manufacture and operation of railroad sleeping cars. The suit was finally settled by Supreme Court decree seven years later, in a way which the Justice Department charged would merely substitute a

"more powerful monopoly."[12] Under the terms of the decree, the Pullman Co., a subsidiary which operated the sleeping cars, was sold to a syndicate of 57 railroad companies, and became in effect a joint company of all the leading railroads in the country.

Important joint companies have appeared in the electric power industry also, in connection with the huge electric power consumption of the Atomic Energy Commission for production of atomic weapons. Two of these, Electric Energy, Inc., and Ohio Valley Electric Co., Inc., are among the largest producers in the country.

Joint companies in banking include such special-purpose corporations as the five-bank American Overseas Finance Corp., for export credits, and the Discount Corp. of New York, owned by the leading Wall Street banks, which acts as a distribution and trading center for government bonds and other types of banking paper. These companies do not play a major role in financial affairs. However, the entire financial business of the country is organized on the basis of syndicates. Almost every really important credit is advanced, not by a single bank or insurance company, but by a group or syndicate of these institutions. Similarly, the distribution of sizeable blocks of securities is invariably through a syndicate of investment bankers. Actually the country's central banking system, the Federal Reserve Banks, are nothing but joint companies owned by the commercial banks. These central institutions rediscount loans, issue money, redistribute and regulate reserves. Thereby the banks have a series of joint companies, in turn controlled through the Federal Reserve Board, which constitute a single central cartel for the entire banking industry. Of course, despite the formal protections for smaller banks and for industry, and despite the formal role of the Federal Government in the Board, the dominant Wall Street banks essentially control the entire system.

PUBLIC UTILITY HOLDING COMPANIES

During the 1920's and '30's the public utility holding companies were often regarded as the acme of monopolistic organization. The high point of New Deal anti-monopoly efforts was the legislative attack on these structures. Recent events have dramatized the fact that this method of monopoly growth has not been abandoned, but is also carried forward, although still with certain disguises.

The battle against the power trust has been the most persistently

fought by foes of monopoly over many decades, and there have been significant partial victories. The Public Utility Holding Company Act of 1935 called for the cutting off of intimate ties between the great banks and the power companies. It ordered simplification of the crazy-quilt utility empires which covered the country, extracting enormous profits which nobody could trace through the maze of holding companies, superholding companies, and affiliated "service" companies. Most dramatic of all, it decreed a "death sentence" for the top "grandfather" and "great-grandfather" holding companies which stood astride the power pyramid.

This law was associated with other New Deal legislation which most directly affected the coffers of Wall Street. The Tennessee Valley Authority established a new kind of public power project, as part of a broad regional development scheme. The Rural Electrification Administration provided for cooperative supply of power to farmers.

In this complex of legislation, then, the financiers foresaw the threat of a broader movement for the nationalization of big finance and big industry, of a basic attack on their entire position.

Serious critics of state aid to monopoly regard the Holding Company Act as the shining example of successful legislation to curb the trusts —see for example Adams and Gray.[13] It is all the more important, therefore, to examine the effectiveness of this law in some detail, as a clue to what is needed for a really successful approach to anti-monopoly legislation.

Actually, the fight to nullify this Act began with its passage, and became the most bitterly fought economic policy issue of the New Deal period. Wendell Willkie, the Morgan utility lawyer who spearheaded the battle in the courts and in public speeches, became the hero of Wall Street, which chose him as Republican presidential candidate in 1940.

Seemingly these efforts succeeded only in delaying the impact of the law. Court cases were decided in its favor over a period of years ending in 1946. Finally, in 1947, twelve years after passage the breakup of the top holding companies was actually begun.

Actually, this delay was all that was needed. For great changes had occurred in those twelve years. The trend had turned from progress to reaction. The enforcement agency, the Securities and Exchange Commission, could hardly be considered New Deal in outlook by 1947. Inadequacies in the law made effective enforcement difficult in any case. The methods used in practice permitted the most

convenient adaptation of operations to the new forms, without any change in substance.

Most of the large utilities within the holding systems were "divested" by distributing their shares by gift or sale to the stockholders in the holding company. Thereby, the group in former control of the whole succeeded automatically to control of each major piece.

There were a few exceptions. Commonwealth & Southern was forced to sell one of its units to the government-operated TVA. Some units were transferred from one financial clique to another, either by direct sale or by "sale to the public," which for this purpose consists of the major groups able to buy up large blocks of shares.

RETENTION OF THE MORGAN UTILITY EMPIRE

The two largest holding company groups were the United Corp. and Electric Bond & Share. Between them they controlled over one-third of the commercial electric power in the country. The House of Morgan directly organized the former in 1929, and was most prominent in the alliance controlling the latter.

Analysis of what really happened to these empires shows that "reports of their demise were premature." The main segments remained under the same control, the total scale of operations was increased, and the devices for centralized monopoly administration were strengthened.

The successor companies of United Corp. and Electric Bond & Share include eleven of the 100 largest non-financial corporations in the United States, and numerous smaller units. The major components include eight of the 14 largest domestic electric power companies, the largest U.S. owner of foreign electric properties, and two of the largest domestic gas companies. These eleven alone had, by 1954, combined assets exceeding by almost 50% the entire prewar assets of the two top holding companies.

Morgan-associated financial institutions continue to hold the largest blocks of shares, and management remains in the hands of the same individuals as in the former United Corp. subsidiaries. Financial relations continue with Morgan investment banking companies, and legal relations with Morgan law firms. Electric Bond & Share continues to act, in most respects, as an effective superholding corporation for the units which had been formally under its control, as well as many other power companies through the country (see Appendix 5 for details). Ebasco Services, the engineering subsidiary of Electric Bond & Share, has almost doubled its sphere of operations, and in the 11-year period 1942-53 engineered over one-fifth of the private power capacity installed. Next to the U.S. Government it is the largest single customer of General Electric Corp., which prior to 1924 directly owned Electric Bond & Share.[14]

During the New Deal period the people obtained real relief from power trust depredations. TVA and other government and cooperative projects supplied cheap power to millions. Public Service Commissions, fearful of popular sentiment, cut power rates. The profit rate for public utilities temporarily declined, even while it was rising in most other major industries. But in the reactionary postwar atmosphere, power rates were increased again, and with them the profits of the power trust. A fresh attack has been launched on public and cooperative power, with the aggressive and politically-powerful Rockefeller interests leading the way and prying into the Morgan utility empire in the process.

THE DIXON-YATES SCANDAL

This attack reached a high point in the Dixon-Yates scandal of the first Eisenhower Administration. The Atomic Energy Commission signed a contract with two holding companies of the United Corp. and Electric Bond & Share groups to construct a power plant to supply electricity to one of the atomic materials plants, and to the city of Memphis. This was in an area normally served by the TVA, and that agency's budget was cut to eliminate it from the scene. Edgar H. Dixon and Eugene A. Yates were the chief executives of the two companies involved.

A Senate Committee investigated the deal and found:

> The influence of large banks, insurance companies, and other Wall Street financial institutions behind the two-pronged drive to eliminate competition and extend the grip of monopoly over the country's electric power business is suggested by evidence of the following:
>
> (1) The Dixon and Yates combination . . . points to the possibility that new superholding companies are coming into being which will accentuate monopoly problems in the industry. . . .
>
> (2) A community of great banks, insurance companies, and investment trusts, with interlocking directorates among themselves, is shown with large stockholder and director ties into both Electric Bond & Share Co., sole owner of Ebasco Services, Inc., and Middle South Utilities, with Ebasco Services rendering a wide range of . . . services . . . in a manner suggesting that it represents holding company control.[15]

Further evidence was adduced showing how the control group extracted special profits of control by "milking" the operating companies, and interfered in the state and local politics of the areas served.

Because of changes in the financial and political balance of power—discussed in following chapters—the utility trust turned mainly to Rockefeller-influenced institutions to put over the deal. The First Boston Corp. was financial advisor to the Dixon-Yates syndicate, while its law firm, Sullivan & Cromwell, represented the syndicate throughout. First Boston placed one of its directors, Adolphe Wenzell, in the Budget Bureau to draft the Dixon-Yates project, revealing in his memoranda the ultimate objective of completely liquidating TVA. The Rockefeller financial man, Lewis L. Strauss, as Chairman of the Atomic Energy Commission, pushed through the Dixon-Yates contract over the opposition of the majority of the Commissioners. And Attorney-General Brownell, political agent of the Dewey-Aldrich machine, sent FBI agents to "investigate" the City of Memphis which opposed the deal. Other government official accomplices were Budget Directors Joseph Dodge (Detroit Trust Co.) and Rowland Hughes (First National City Bank), and SEC Chairman Ralph Demmler, a partner in the Mellon law firm, Reed, Smith, Shaw & McClay.

With such connections, it is no wonder that Senator Estes Kefauver said: "In the Teapot Dome (oil scandal of the 1920's), they had to bribe some public officials in order to get some of the oil company representatives into the government. In this case they did not have to bribe any government officials. They were invited in and welcomed with open arms."[16]

Actually, there was an unseen payment, not to the government officials personally, but to the dominant interest group they represented. The financing of the Dixon-Yates syndicate was entrusted not to the House of Morgan, traditional financial power in the constituent companies, but to the Metropolitan Life Insurance Co. and the Chase Manhattan Bank, leading Rockefeller financial institutions.

Despite its impressive array of forces, Wall Street overreached itself in the Dixon-Yates syndicate. It underestimated the popular anti-monopoly trends in the United States, which rose to the occasion despite the then prevalent atmosphere of McCarthyism and political repression.

Tennessee politicians and businessmen who had benefited from TVA, secondary utility financiers seeking a niche in the monopolized network, and Democratic Party politicians seeking political ammunition for use against the Republicans, joined in a broad exposé which

created the most important scandal of the scandal-ridden Eisenhower Administration. Ultimately, in 1955, under pressure of this exposé, the President was forced to cancel the Dixon-Yates contract.

But the power trust offensive continued on other fronts, and not without victories, as in the case of the Hells Canyon project in Oregon, where waterpower resources were turned over to another Electric Bond & Share unit, the Idaho Power Co., against the protests of the local population that demanded public development.

The moral is clear: anti-monopoly legislation cannot hope for decisive, lasting success so long as it stops with partial measures. In the long run, nothing less than the ending of private ownership and control of the key industrial and financial concentrates can prevail over the manifold devices of the financial oligarchy.

Part Two: The Empires

CHAPTER VII

The Eight Major Groups

EARLIER WE EXAMINED the "spider web" of financial institutions at the nerve center of the American economy, and the anatomy of their control over industry. Some writers have presented this too simply, as virtually a single integrated unit (e.g. Lewis Corey, *The House of Morgan*). Others—the apologists—use the complexity of relationships to obscure their existence. The real truth is that a definite financial structure does exist, but not as a single unit.

The economy is clustered around several major empires and a number of minor duchies. The boundaries are shifting, and indistinct, with many border provinces under divided rule. The prewar study of the National Resources Committee, *Structure of the American Economy,* identified eight of these empires, or interest groups. These included 62% of all the assets of the 250 decisive corporations in America.[1] This work underestimated the scope of the empires, because it omitted lesser companies and those with divided control. Rochester's *Rulers of America* analyzed in greater detail, and with more regard for the complexities and interrelationships, the Morgan, Rockefeller, and Mellon interest groups, but gave little attention to the remainder.

Here we consider the principal financial empires in a more complex frame of analysis than the prewar studies. The newer evidence of large stockholdings is used to provide a more complete picture of the structure of corporate control. Particular attention is paid to the changes in the spheres of influence of the different power centers.

The positions of Wall Street financial empires are far from static, and in some ways can be compared with the rise and fall of national empires. Nobody would claim that the changes in imperial boundaries following World War I meant the end of the colonial system. However, conservative writers wrongly interpret the shifts in power among

American plutocrats to mean the end or at least the gradual demise of monopoly capitalism. In recent years wide publicity has been given to the findings of a book called suggestively enough, *Big Enterprise in a Competitive System,* sponsored by the Brookings Institution and written by Mr. A. D. H. Kaplan. What was the main fact used to justify this title? Of the 100 largest industrial corporations in 1909, only 36 were among the 100 largest 40 years later.[2]

In reality this has nothing to do with the *monopoly* features of capitalism. The present 100 corporations have more combined economic weight than those of 1909. Monopolistic practices have been intensified, and concentration of capital has become more pronounced, as shown in Part One.

But Kaplan's findings do signify the very real, very intense competition that prevails within the upper reaches of finance and industry. Monopoly power directed against the public, combined with competition for a larger share of the spoils of monopoly, are joint features of our present-day economy. The kinds of competition include rivalry between industries, reshuffling of cartel quotas, competition for acquisition of weaker companies, for raw material sources, for access to financing, for government contracts, for control of great corporations.

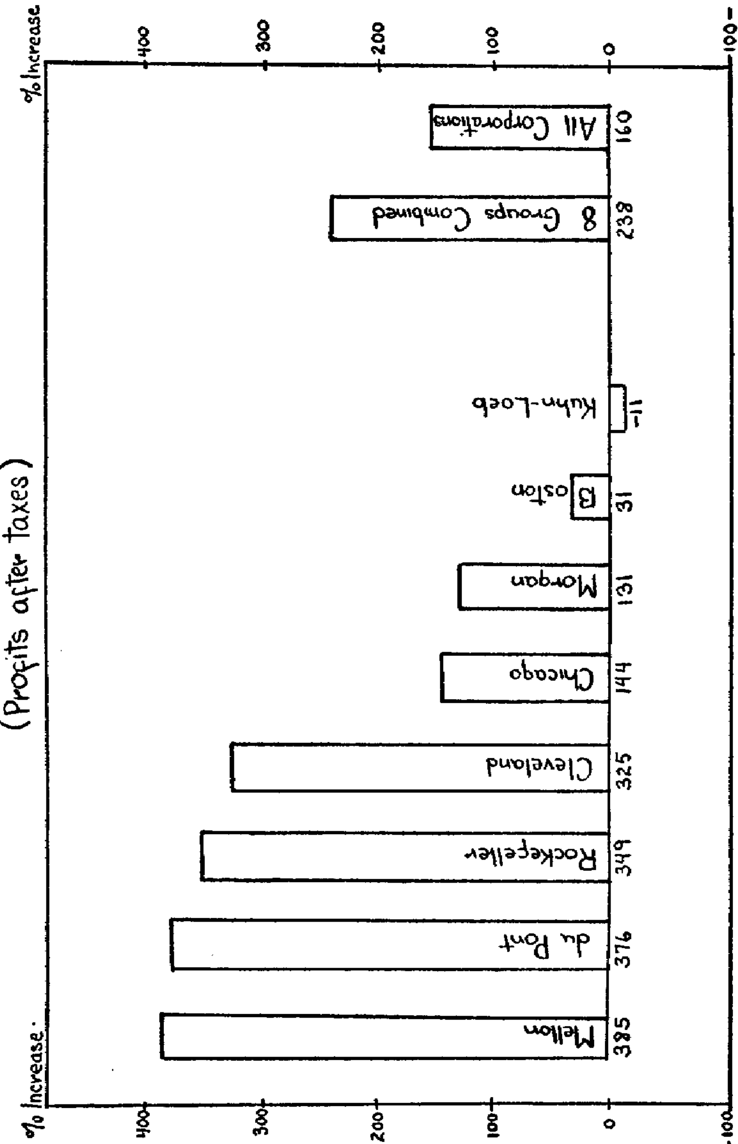
Realistic analysis must study this rivalry. Here we examine the most far-reaching aspect, the changes in power and position of the super-empires of the oligarchy—the rise of some and the decline of others, the breaking of old alliances and the building of new ones, the causes and consequences of these changes.

THE EIGHT INTEREST GROUPS

Chart II indicates the unequal rates of growth of the eight major interest groups identified by the National Resources Committee. It shows the percentage change in profits between 1929 and 1955 of the principal companies controlled by each group. (The companies are listed in Appendix 6.)

Four of the groups—Mellon, du Pont, Rockefeller, and Cleveland—enjoyed very rapid gains of from 325% to 385%. The Chicago financiers and the Morgans had more moderate profit increases, 144% and 131% respectively. The two others showed either a small rise (Boston) or a slight decline (Kuhn, Loeb).

The chart shows only part of the differentiation which has actually taken place, because it is limited to identical corporations in both



years. Control of other major companies has shifted from one group to another. Usually the shifts have been such as to accentuate the variations shown in the chart. Thus the total picture would show a more drastic weakening of some groups (e.g., Kuhn, Loeb), and a more dramatic growth of others (e.g., Rockefeller).

Underlying the changes shown in the chart are features of the uneven development of economic life. These include the growing predominance of heavy industry over light (the other groups at the expense of Chicago and Boston), substitution of autos and aircraft for railroads (du Pont at the expense of Kuhn, Loeb), and the increasing economic weight of oil, aluminum and chemicals (Rockefeller, Mellon and du Pont). The changes also encompass the results of rivalry within a specific industry (e.g., the gains of the Cleveland-controlled steel companies at the expense of Morgan-controlled U.S. Steel).

While the distribution of profits changes, the share divided among the great empires increases. The two bars at the right of Chart II illustrate this partially. They show that the combined profits of the leading corporations of the eight groups taken together increased 238%, as compared with 160% for all U.S. corporations.

A full understanding requires knowledge of the relative sizes of different economic kingdoms, as well as their rates of growth. A rough measure of size is contained in Table 17, listing the assets within the area of control or major influence of each of the eight interest groups. The companies included are listed in the appendices.

TABLE 17. SIZE OF EIGHT MAJOR INTEREST GROUPS BY ASSETS CONTROLLED, 1955

(millions)

Interest Group	*Chapter Discussed*	*Manufacturing & Mining*[a]	*Transport & Utility*	*Financial*	*Total*
Morgan	VIII	$12,550	$16,495	$36,261	$65,306
Rockefeller	IX	17,303	9,083	35,023	61,409
First National City Bank	X	2,682	2,394	8,107	13,183
du Pont	XI	9,366	0	6,655	16,021
Mellon	XI	8,040	252	2,208	10,500
Cleveland	XII	5,127	5,383	5,154	15,664
Chicago	XII	9,564	2,914	9,527	22,005
Bank of America	XIII	1,218	57	13,127	14,402
		$65,850	$36,578	$116,062	$218,490

[a] Includes some trading companies.

SOURCE: See Appendices 8-15.

The eight groups shown are not identical with the eight of the National Resources Committee. Two of the prewar groups, Kuhn, Loeb and Boston, can no longer be considered major, largely independent, centers of financial power (see Chapters X and XI). But two new groups, not included in the prewar analyses, are now added. One is the First National City Bank, which should have been regarded as major before World War II as well. The other is the Bank of America group, of the California magnates, which has expanded so in size and scope as to bring it up to the leading ranks.

Many companies have been reclassified since publication of the prewar volumes that have been mentioned. This is because control centers have shifted in some cases, and because additional data now available make possible a more accurate appraisal. Also, for the latter reason, a larger number of companies are included in this tabulation than in the prewar studies, although some are omitted because available information does not clearly establish their current prime affiliation.

These figures cannot be regarded as an *exact* index of power. In the first place, the statistics are incomplete, omitting companies for which insufficient information is available and those where control is divided among several groups. Secondly, assets of different kinds of corporations are not comparable. In general, a million dollars of assets of a manufacturing or mining company yields two or three times as much profits as a million dollars of assets of transport and utility companies, and five to ten times as much profits as a million dollars of financial assets. On the other hand, a clique with large financial assets is able to exert a considerable influence even on the industrial companies belonging to others, and thus obtain through its minority investments a share in their profits.

However, the totals shown have significance as a measure of overall power. At the same time, the manufacturing and mining figures have a special meaning in terms of profits and of the possibilities for growth.

The combined assets of the eight groups, as now defined, came to $218 billion in 1954. That is more than one-fourth of the total resources of all corporations. However, their combined share of total corporate profits is much larger. And their combined economic influence signifies almost complete domination of the basic economy.

As can be seen, the Morgans and Rockefellers still stand out as the giant empires of America, with $127 billion of assets between them. The Chicago group, with its $22 billion of total assets, leads among the lesser kingdoms.

Considering only manufacturing and mining assets, with their high

profit yield, the division is different. Here the Rockefellers have a definite advantage over the Morgans. And the gap between the two leaders and certain other groups—Chicago, du Pont, and Mellon—is narrowed.

THE DUUMVIRATE

Fifty years ago John Moody charted the domination of monopolized industry by two leading groups of financiers, the Morgans and the Rockefellers.[3]

They have ruled high finance ever since, and have extended their domain over more and more of the American economy, as it in turn has grown, and have also enlarged their positions abroad.

Other oligarchies which have arisen remain subordinate to the duumvirate in size, industrial scope, and degree of independence. In particular, they lack the vast financial resources of the Morgans and the Rockefellers. They must often turn to these top interests for financing at crucial points, and in return yield a degree of participation in control.

The Morgans and Rockefellers were obvious opponents in battles for control of the steel industry and of the railroads to the Northwest at the turn of the century. Subsequently their rivalry has been mainly beneath the surface, consisting of the manipulation of investments and the quiet building of power positions in industry and government. It also appears in squabbles between corporations of the two groups. In public fights for corporate control, they have not been so directly opposed, and have sometimes joined forces against common rivals in industry and politics.

Analysts of monopoly, observing the surface harmony and the growing concentration of capital, have sometimes thought that this trend would end in a single great supertrust embracing the economy of the whole country. In 1904 Moody wrote of the Morgans and Rockefellers: "it will be only a matter of a brief period when one will be more or less completely absorbed by the other, and a grand close alliance will be the natural outcome of conditions which, so far as human foresight can see, can logically have no other result."[4] Sixteen years later he wrote that this merger had already taken place.[5]

While Moody was expressing his theory of a single superempire within the United States, European experts, notably Hobson and Kautsky, wrote of a coming international union of finance capital that would peacefully rule the entire world. The first World War shattered their theory.

Similarly, within the United States unequal growth of particular industries and companies prevents a super-merger of all, and leads instead to the adjustments in the areas of rival financial domains noted previously and more precisely examined later.

Thus the capitals of the Morgan and Rockefeller empires remain distinct. The Rockefellers have no voice in J. P. Morgan & Co., nor in U.S. Steel, the Morgans no voice in Chase Manhattan Bank, and but a secondary position in the Standard Oil companies.

Yet the spheres of influence overlap at many points. Morgan Stanley is investment banker for most Standard Oil companies. And the First Boston Corp. is investment advisor for Morgan's New York Life Insurance Co. The two groups work together for common ends in many of the corporations in which both have substantial interests. Here the balance of power sometimes changes, as in the case of AT&T (Chapter V). Such shifts, and the separation of the basic property holdings of the two groups, necessarily involve continuing conflict, however that may be hidden from the public view.

A parallel might be drawn with the Anglo-American alliance. The two countries, besides their formal alliance in NATO, work together in advancing the general interests of empire in its modern guise. But the shifting balance of power between the two allies leads to frequent conflicts, which in this case sometimes appear openly. And the central areas of control of Britain and America, industrially and geographically, remain distinct, even though the boundaries of their spheres of influence change with the shifts in power.

Of course, this parallel is very rough and partial. But it is valid and significant to treat separately the Morgan and Rockefeller empires within the United States, as it is to treat separately the British and American world spheres of influence.

The Morgans were more powerful than the Rockefellers during most of the present century. During the period 1940-55, however, there was a definite change. The relative position of the Morgans has declined, that of the Rockefellers has increased. Economically this shift has been associated with the burgeoning of the oil cartel to unchallenged dominance as the largest, most ubiquitous source of profits in the world. Politically it has been associated with the emergence of the U.S. Government as the most militarized and geographically expanded power of the new and disguised forms of colonial empire.

The shift, however, has been relative. The Morgans and their associates are wealthier and control more assets and profits than ever before. They have more influence in government than during the late 1930's, although less than at some earlier periods. But they have lost some specific positions of supremacy and their predominance over the Rockefellers has narrowed and disappeared.

It is certainly absurd to speak of the vanishing of the Morgan power, as some do. Indeed, there are significant signs of a developing attempt by the Morgan interests to restore their previous leadership, or at least to maintain their present rough parity with the Rockefellers.

More generally, the balance of power among the vested interests is always in process of change or adjustment. Economic and political developments not yet visible could restore Morgan dominance, or lead to clearcut Rockefeller mastery, or result in some new regroupment of the highest financial circles.

OIL VERSUS STEEL

The basic reason for the shift in relative economic power from the Morgans toward the Rockefellers has been the change in the industrial structure of the country. Morgan supremacy in the present century was closely associated with its organization in 1901, and its subsequent control of the U.S. Steel Corp. This not only brought great profits to Morgan clients, but helped assure leadership to Morgan-backed enterprises in all of the heavy steel-using industries. Their domination of U.S. Steel remains (see Appendix 7), but this company is no longer the pace-setter of American industry.

As steel has been the untouchable core of the Morgan power, so oil has been for the Rockefellers. And what has happened is that oil surpassed steel in scope. Between 1901 and 1953 production of steel increased seven and one-half times while production of oil increased 34 times. In 1909 steel companies accounted for 30.8% of the assets of the 100 largest industrial companies; oil companies for 7.4%. Forty years later (in 1948 to be exact) these proportions were almost reversed, oil having 28.8% and steel 11.9% of the assets of the 100 largest companies.[6]

As of 1954 the 53 largest manufacturing corporations included 14 oil companies with combined assets of $23 billion, eight steel companies with assets of $9 billion, three auto companies with assets of $8 billion, and six chemical companies with assets of $5.5 billion.[7]

The giant oil companies had more assets than the combined total of the next three largest industries. The distribution of profits was more or less similar.

As a result of this industrial change, the Rockefeller interests now control about as much profits and funds for investments as the Morgan and allied interests.

EVIDENCE OF SHIFT IN POWER

The ending of unchallenged Morgan financial supremacy is the surest proof that the cause cited has had a major effect. In investment banking, the Rockefeller-Boston-Mellon controlled First Boston Corp. rose to approach parity with Morgan Stanley & Co. (Chapter IV).

The shift in commercial banking standing has been more dramatic, as shown in Table 18.

TABLE 18. RESOURCES OF MAIN MORGAN AND ROCKEFELLER BANKS AND FIRST NATIONAL CITY BANK, 1929 AND 1955

(year end figures in millions)

Bank	*1929*	*1955*
MORGAN BANKS:		
J. P. Morgan & Co.	$600[a]	$975
First National Bank of N. Y.	568	merged
Guaranty Trust Co.	2,017	3,191
Bankers Trust Co.	818	2,785
Total	$4,003	$6,951
ROCKEFELLER BANKS:		
Equitable Trust	1,014	merged
Chase Manhattan Bank	[b]	7,509
FIRST NATIONAL CITY BANK	2,206[c]	7,201

[a] Estimated. [b] Then controlled by other interests. [c] National City Bank in 1929.

SOURCE: Compiled from financial manuals.

In 1929 the combined resources of the four main Morgan banks totalled $4 billion, four times the resources of the principal Rockefeller bank and almost double the resources of the National City Bank, the other major bank not tied decisively to either of the two super-groups. In 1955 the three Morgan banks still in existence had combined resources of just under $7 billion. Both the Rockefeller bank and the First National City Bank had well over $7 billion each.

The percentage increase in Morgan banking resources scarcely exceeded that required to compensate for the formal devaluation of the dollar during the 1930's. It fell considerably short of the increase in

the total banking resources of the country, which rose to two and one-half times the 1929 figure. Meanwhile the Chase Manhattan and First National City Banks, through mergers and establishment of additional branches, increased their resources more rapidly than the national average.

Personal trust assets of the Chase Manhattan Bank and certain closely allied institutions now exceed somewhat the corresponding total for the Morgan interests.

There has been a similar shift in control of life insurance assets. Around 1910 the three largest life insurance companies were all under Morgan control. Twenty years later, as a result of changes in control and in the relative sizes of individual companies, the Rockefeller position was quite important, although the Morgan-controlled assets were still larger. Since 1940, the Rockefeller-dominated Equitable Life has surpassed in size the Morgan-led New York Life, while the Mutual Life Insurance Co., one of the original Morgan "Big Three," has fallen considerably in rank. At the end of 1955 the Rockefeller interests predominated in the first, third and eighth largest life insurance companies, with $25 billion assets, while Morgan interests led in the second, fourth, and ninth largest, and some smaller companies, with combined assets of $24 billion.

All in all, an approximate parity in financial resources has been established between the two groups.

A corresponding shift has taken place in the volume of industrial assets and profits. On the eve of World War II, the National Resources Committee classified five of the ten largest non-financial corporations as under Morgan control, one under Rockefeller control. Of the ten largest now, only one is definitely under Morgan control, three are under Rockefeller control, and one is jointly controlled (Table 19).

While the ten largest have a special significance, they do not tell the whole story. As shown in Table 17, the Rockefellers control $17.3 billion of manufacturing and mining companies, as compared with $12.6 billion in the Morgan camp. Against this, the Morgans still lead in utility and transport assets, with $16.5 billion compared with $9.1 billion for the Rockefellers. Moreover, the Morgan power is measured not only by those companies within its area of direct domination, but also by its wider ranging sphere of partial influence. For example, while General Motors is controlled by the du Ponts, and so classified in the table, the Morgans have an intimate participation in its direction. Rockefeller power also reaches beyond the group's control boundaries, but less extensively.

TABLE 19. LEADING FINANCIAL INTERESTS IN TEN LARGEST NON-FINANCIAL CORPORATIONS, 1935 AND 1955

1935		1955	
Company	*Leading Group*	*Company*	*Leading Group*
Amer. Tel. & Tel.	Morgan	Amer. Tel. & Tel.	Morgan-Rockefeller
Standard Oil (NJ)	Rockefeller	Standard Oil (NJ)	Rockefeller
Pennsylvania RR.	Kuhn, Loeb	General Motors	du Pont
U.S. Steel	Morgan	U.S. Steel	Morgan
Southern Pacific	Kuhn, Loeb	Pennsylvania RR.	——
New York Central	Morgan	New York Central	Cleveland
Consolid. Edison	Morgan	Socony-Mobil Oil	Rockefeller
General Motors	du Pont	Standard Oil. (Ind.)	Rockefeller
Commonwealth & Southern	Morgan	Southern Pacific	——
Baltimore & Ohio	——	Gulf Oil	Mellon

SOURCES: 1935, U. S. National Resources Committee, *Structure of the National Economy*, Part I, Appendix 13. 1955, see Appendices.

On the whole, the two halves of the duumvirate are about equal in industry, as they are in finance.

This approximate parity represents a marked change from the prewar balance (Table 20).

TABLE 20. ASSETS CONTROLLED BY MORGAN AND ROCKEFELLER GROUPS, 1931, 1935, AND 1955

(*billions*)

		Morgan	*Rockefeller*
1931	(Rochester)	$43	$21.5
1935	(National Resources Comm., 250 large cos. only)	30.2	6.6
1955		65.3	61.4

SOURCES: 1931, *Rulers of America*, pp. 40, 56; 1935, *Structure of American Economy*, Table II, p. 317; 1955, see Table 17.

There are differences in method as between these tabulations. Miss Rochester included within the Morgan empire all corporations with a Morgan partner as a director. The 1955 tabulation omits those with J. P. Morgan directors on their boards when other influences are stronger, notably General Motors. The National Resources Committee excluded insurance companies from its tabulation, and was more restrictive with respect to the Rockefellers than to the Morgans: "The Rockefeller group has been limited to companies about which there can be very little argument."[8]

Allowing for these qualifications, the Morgan empire was definitely

larger than the Rockefeller empire before World War II, while now they are close together.

JOINT POWER AND RIVALRY

The leading financier-industrialists, despite the different concentrations of their investments and power, constitute the upper and dominant circles of a single class, the owners of property, the capitalists. They have the common interests of that class. As the manipulators of the giants of industry and finance, they form a more or less cohesive caste or super-class within the capitalist class—the "Power Elite," or financial oligarchy.

Members of the topmost families intermarry, mingling their respective fortunes and investments. Thereby, and through the policy of "diversification," the investments of the plutocracy are spread over a wide range of corporations. The Morgans lead in General Electric, but the Chase Manhattan Bank also holds investments in GE. The Mellons and Rockefellers have the largest voice in Westinghouse, but Morgan clients also have a sizeable interest.

Thus, in varying degrees, there is a community of interest in almost all of the great corporations. Among their owners there is harmony in the common aim of extracting great profits from the labor of millions of workers employed by these companies here and abroad; in suppressing weaker capitalists while strengthening monopolistic arrangements; in garnering armaments orders; in reducing their taxes at the expense of the rest of the population; and in controlling the government as a political instruments to these ends.

But the extent of mutual interest is limited, and alongside it there is rivalry and a tendency to new divisions. Each group attempts to establish an overwhelming and lasting domination for itself in important areas. The investments of the Rockefellers in Standard Oil, of the Mellons in Alcoa, of Morgan clients in U.S. Steel, have remained supreme for generations. The key banks are "closely held," as the expression goes in the financial world. Intermarriages have scarcely modified these sharp distinctions in the control of the most strategically placed corporations.

The owners of General Electric do not want their secondary investments in Westinghouse to be wiped out, but they do try to increase their company's share of the market so that their total profits will increase. In 1954-55 the competition between the two became so acute that the price-fixing arrangements for heavy electrical equipment broke

down and there was a "White Sale" in multi-million-dollar power plant installations.

Concentration of investments in specific industries also causes conflict. Aluminum is crucial for the Mellons, and competition between that metal and steel involves rivalry between the Mellons and the Morgans, despite the Mellons' secondary interests in steel. Similarly, the squabbles over importation of oil partly reflect rivalry between the Rockefellers and the Morgans, who are powerful in coal.

Billions of new profits filling the coffers of the corporate rich provide the wherewithal to enlarge their empires. And since the principal areas are already divided, only limited expansion is possible at the expense of minor grouplets or smaller family interests. Inevitably —and increasingly, as the process of concentration goes further—the major groups seek to expand by poaching on one another's terrain.

Each great financial power devotes no little of its private intelligence service to the task of guarding against stockbuying "raids" by rivals, while seeking opportunities for similar forays of its own. If each group increased its profits at an equal rate, these attempts might cancel one another out and be settled by compromises and a further mutual merging of interests, as they often are in fact.

But as we have seen, uneven economic development, often reinforced by political advantages, creates the basis for the success of certain of these challenges: for actual shifts in control of major corporations. The financial general with the largest army of new dollars, either his own or controlled through alliance, usually wins the war.

So even those relationships which seem "permanent" can be breached. The 40-year domination of AT&T by the Morgan interests can be ended, and that group forced to share control with the Rockefellers. The rising Cleveland group can take over the New York Central. And that "Rock of Gibraltar" of Wall Street, the First National Bank, can disappear from the scene.

Even within particular groups, breaches and new alliances arise. During World War I the du Ponts quarreled among themselves. One branch broke away and established its own minor duchy, now worth a billion dollars, in Florida. John D. Rockefeller's brother William and the latter's son sold a sizeable share of their Standard Oil stocks and became, with the Stillmans, participants in the more or less independent group around the National City Bank.

Elements of rivalry, rather than merging of interest, predominate especially between the Wall Street combines and those "regional" interests which were sufficiently powerful at the beginning of the

present century to prevent their annexation by the main empires—the Chicago group is the most conspicuous example. And new centers of population and economic life encourage attempts by local capitalists to rise to the topmost circles of finance, as in California.

Such rivalries lead also to political conflict. Each group strives for the main posts in government, in order to grant itself the largest share of public favors. Each supports policies conducive to the highest profits of its chief corporations and industries. High tariffs are important to one, harmful to another. All want to keep down labor costs, but while government welfare expenditures mean only higher taxes to some, they may signify added customers to others. Foreign bases and alliances are of decisive importance to some, a matter of indifference to those without investment opportunities in the area in question.

All of these tendencies towards conflict proceed alongside the tendencies for merging of interest, for "unity" among the over-privileged in all matters of policy. Historically, the "unity" has appeared strongest in time of war, when the opportunities for profit seem virtually unlimited for all of the monopoly groups, if not for the smaller fry squeezed by shortages and government regulations. The conflicts become most acute in times of crisis, when the economic basis of the entire system is weakened, when some of the very great fortunes receive near-shattering blows. On such occasions, the stronger, more depression-proof, have never hesitated to bolster their own profits at the expense of those most affected by the crisis.

This was especially pronounced in the crisis of the 1930's, not only because of its severity, but also because the actions of working people forming unions and intervening in politics made it more difficult than on earlier occasions to settle differences among the "elite" at their expense.

As the world-wide interests of Wall Street have expanded, and become more vital to its entire profit position, and as a militarized economy connected therewith has developed, the possibilities of division in the field of foreign and military policy have become much greater. This becomes all the more valid as counterforces on a world scale become stronger. Already it is impossible to carry out military and diplomatic actions on a scale and with a force sufficient to advance successfully all of the interests of all of the leading financial groups. World and domestic pressures make it difficult to hand out arms orders to all on a scale that each would desire. Today, and for some time, differences among the powerful, expressed in conflicting public statements of business "leaders," and within the administration in

power, have become noticeable and significant in their effect on foreign and military policy.

Because conflicts among the high and mighty concern matters of life and death importance to the millions of citizens, they are of real moment to the whole population. As the public takes an increasingly active part in these affairs—for it surely will—its interests, quite different from those of Wall Street, will be more effectively advanced with an understanding of conflicts within the oligarchy, and with the pursuit of methods designed to take advantage of these conflicts.

With this in mind, the study of the major interest groups of high finance, the boundaries of their respective empires, their particular strong and weak points, their rivalries, becomes more than a mere academic exercise.

At the same time, it must be kept in mind that the conflicts among the powerful are limited, that they do constitute a ruling oligarchy of a particular class in society, that their internecine battles are not wars of mutual annihilation, that their policy quarrels will never be resolved in the public interest so long as these issues are left as their exclusive preserve. Only when there is the impact of powerful action by other and antagonistic social forces, notably of labor, of farmers, of national minorities, and within certain limits of small business, do the divisions among the rulers become of value to the population as a whole.

CHAPTER VIII

The Ebb of Morgan Power

JUNIUS SPENCER MORGAN was a wealthy American who, moving to England, became head of the first British merchant banking house engaged in the flotation of securities and organization of corporations.

His son, J. Pierpont Morgan, established a U.S. branch of the firm during the 1860's. This became the main channel through which English capital poured into American railroads and other enterprises during the rapid industrial development after the Civil War. Through control of these funds, Morgan became the most powerful financier of the railroads and government bond flotations.

Meanwhile, American capitalists accumulated great fortunes from the rapidly growing industries.

HISTORICAL ROLE OF THE MORGANS

Morgan and his financial associates joined the streams of American and European capital in organizing the trusts, linked with the banks, which have dominated basic industry in the United States during the present century. U.S. Steel, General Electric, International Harvester, and American Telephone and Telegraph were either organized by the House of Morgan or brought under its sway. These companies represented more complete monopolies than the multi-unit cartels which characterized modern capitalism in Europe.

With the profits from financing the trusts and from handling the funds of European and American millionaries, Morgan and his associates acquired control of leading banks and insurance companies, thereby further centralizing the country's capital.

Morgan promoted the "community of interest" principle, whereby the wealthiest men tried to bury their conflicts for power and profit by linking their properties in a complex network of interlocking

directorates and stockholdings. More than any other, he organized the "spider web" through which the financial oligarchy extends its influence and extracts profits from every nook and cranny of the economy.

Morgan died in 1913. His firm continued, first as a partnership and since 1940 as a corporation, the Morgan family retaining the decisive share and acting personally in its affairs along with banking associates. Its power is not based on the fortunes of a single family, but on those of the many Morgan clients, combined by the banks.

J. P. Morgan & Co. has played an important part in the expansion of U.S. economic power abroad, especially in Europe and the British Empire. Linked with British and French capitalists, it became their sole purchasing agent for American munitions in World War I. The Morgans and their industrial concerns derived huge profits from this business. Also, they granted participations to other interests so that decisive sections of big business obtained a vested interest in Anglo-French victory, and hence in U.S. entry into the war .

Subsequently the House of Morgan organized the floating of loans for the most important European governments, and led in arranging for the revival of the German monopolies' financial and military power. Owen D. Young, head of General Electric, and J. P. Morgan, Jr. personally, headed the committee which drew up the Young Plan, the 1929 revised German reparations plan. Meanwhile, Morgan-connected companies invested heavily in Europe, especially in Germany and England.

The bank's predominance in domestic finance was reinforced after World War I. The du Ponts, having become a major power through wartime explosives manufacture, established a financial alliance with the Morgans in the acquisition of General Motors. The Rockefellers turned to them for assistance in raising capital to expand sufficiently to keep pace with the new automotive demand for gasoline. The Morgans organized the largest of the holding companies which arose during the 1920's for control of the rapidly expanding electric power industry.

During the late 1920's all really crucial decisions concerning the economics of great companies, their merging, their survival or bankruptcy in times of strain, were "cleared with the Corner"—the Corner being the nickname for the Morgan headquarters building at Broad and Wall Streets.

This power was enhanced in times of financial crisis. In the panics of 1893 and 1907 the Administrations in power turned to Morgan to bolster the weakened government credit by importation of European

gold; he decreed which of the big banks and speculative combines should have the financial fuel to survive and which should go under. For these activities the "Corner" exacted a price. In 1907, for example, the acquisition of the Tennessee Coal and Iron Corp. for U.S. Steel was a prime consideration, and the "trust-buster" Theodore Roosevelt agreed to it.

In 1929, as in 1907, the Morgans organized a pool to attempt to stem the stock market crisis. But to no avail. The crisis had to run its four-year course, shaking capitalism to its foundations. The contradictions of a weakened system proved far stronger than Wall Street's financial might. Yet with the failures of thousands of banks and industrial corporations, the main Morgan enterprises remained intact. Their share in the shrunken volume of financial business reached record proportions. Again they were in a position to emerge more than ever the masters. But there was no "normal" recovery from the crisis of the 1930's, and they were adversely affected by the course of history.

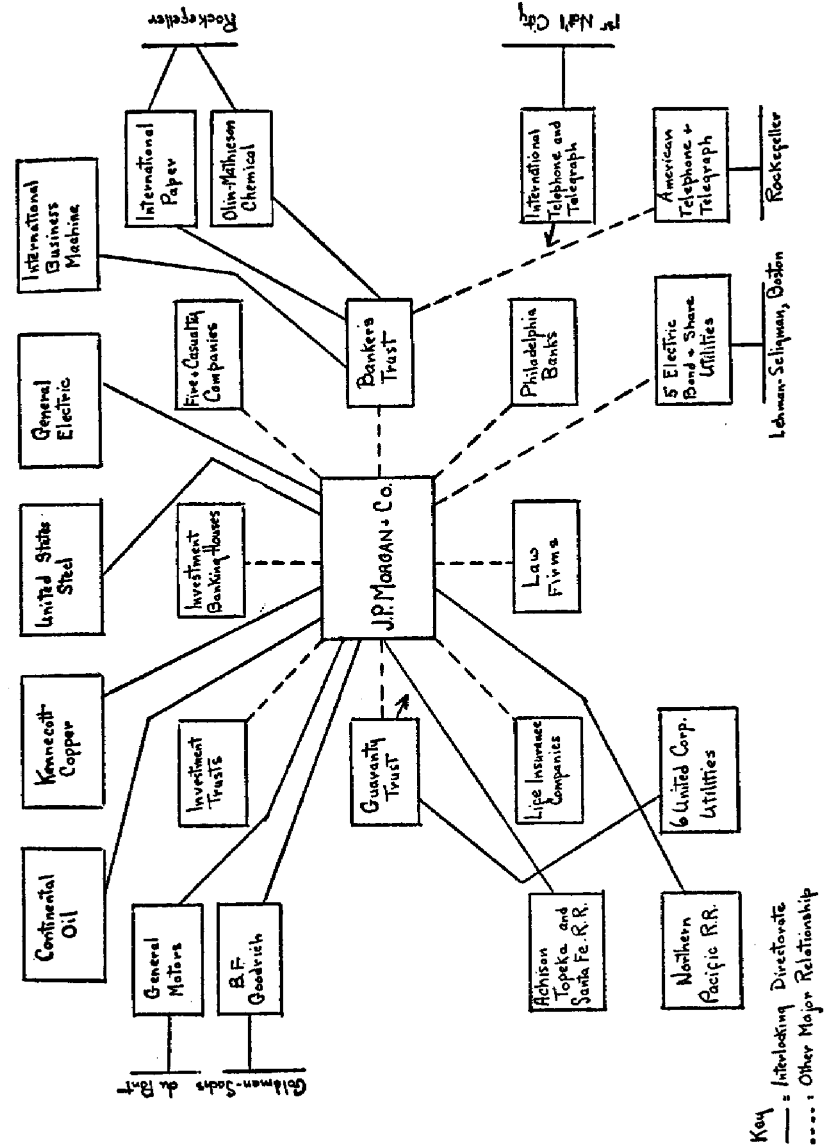
The House of Morgan through the decades has played a role in political life corresponding to its financial weight. Presidents Grant, Cleveland, Theodore Roosevelt, and Wilson were selected by or in close touch with the Morgans. Defeated candidates Davis and Willkie were also "Morgan men." The Morgan coterie was prominent in Republican Party affairs over a considerable period. It led in special financial commissions set up by the government, and contributed prominent White House advisers.

Politically, the Morgan firm stood for the wars and interventions of U.S. imperialism. It led the concentration-of-industry movement which crushed the "independent" capitalists. It gave backing and advice to the anti-union campaigns of coal and steel magnates, notably in the great steel strike of 1919. And it led the political counter-attack of the oligarchy against the New Deal reforms of the 1930's.

SCOPE OF THE MORGAN EMPIRE

Chart III shows the capital and major provinces in the Morgan corporate empire. In the center is J. P. Morgan & Co., flanked by its main commercial banks, Guaranty Trust and Bankers Trust. Directly above and below are the affiliated investment banking houses, insurance companies, investment trusts, law firms, and the associated Philadelphia banks. (Further details in Appendices 3 and 8.)

Around the periphery appear 24 of the 100 largest non-financial corporations in the country. The Morgans control some of these out-



right, have a share in control of the others. In the latter cases, connecting lines to the control partners are shown.

The chart includes the largest corporation in the country, AT&T, the largest companies in steel, autos, copper, machinery, business equipment, and paper, as well as important tire, oil, and chemical companies. Two of the 19 large railroads, and 11 of the 19 largest electric and gas companies, as well as the main corporation in the world-wide telephone industry, are shown.

For simplicity, only a single line links the central Morgan banks with each of these corporations. The totality of interlocking directorates, financial and legal connections, and other ties which hold together the Morgan empire is a complex skein that would require a sheaf of charts for adequate presentation.

Moreover, the chart is limited to those very large corporations where the Morgan influence is either leading or very important.

Among the 53 largest manufacturing and mining corporations, the Morgans act as investment bankers for the following not shown on the chart—Allied Chemical & Dye, American Tobacco, du Pont, Eastman Kodak, Shell Oil, Socony-Mobil Oil, Standard Oil (Ind.) and Standard Oil (NJ). They have interlocking directorates or act as fiduciaries, or have other significant financial and legal ties with almost every one of the 100 largest non-financial corporations.

These supplementary relationships do not involve Morgan control, but rather the performance of particular services by the Morgans for other financial groups, in return for a share in their profits and varying degees of secondary influence.

Beyond the largest corporations, Morgan control extends to at least 23 really important manufacturing and mining corporations, shown in Appendix 7. Among these are American Can, Texas Gulf Sulphur, Anderson, Clayton & Co. (cotton), Johns-Manville (asbestos and allied building materials), Merck & Co. (drugs), and Coca Cola, each of these being the largest corporation in its respective field. Also included are major producers of textiles, food, coal, industrial chemicals, lead, copper, brass, and railroad equipment.

Clearly, the Morgan empire embraces vital sections of basic industry, as well as significant positions in light industry.

Representative Emanuel Celler of New York, leading postwar antimonopoly crusader in Congress, asked at a hearing on a list of J. P. Morgan & Co. interlocking directorates: "Has there ever been in the United States a company which through its directors has ever wielded such great financial power?"

The witness, Securities and Exchange Commissioner Donald C. Cook, replied with the technician's caution that one might "reasonably . . . assume that this company is outstanding in that regard."

CELLER: It leaves one almost breathless; does it not?

COOK: It is a little difficult to visualize 25½ billion dollars. The roll of affiliations, of course, includes many of the substantial preeminent companies, industrial concerns, financial institutions, in the United States.[1]

Investigating Congressmen, from Pujo in 1913 to Celler in 1950, have been left "breathless" by the scope of Morgan power. And rightly so. But nonetheless, the positions now controlled by the Morgan group are somewhat less far-reaching, and the connections within the empire less secure, than before World War II—even though its wealth has grown and its power remains formidable. As shown in the previous chapter, the scope of its empire is now challenged by that of another group, the Rockefellers.

The most obvious sign of the ending of Morgan domination is its loss of the role of recognized Wall Street leader and bellwether of major policies.

In 1929, when the Morgans organized the United Corp., this was prominently hailed in the press as the largest of the utility holding companies. It is a long time since the Morgans have made front pages with a major economic venture.

Mr. Charles Blyth of Blyth & Co. wrote in 1935, when the Morgans reentered security underwriting: "Our main job is to get under the covers and as close to them as is possible."[2] And in 1937, the Morgans collected from other Wall Street houses confidential data about their finances "that we would not want to give to any other inquirer than Morgan Stanley or the Federal Reserve Bank."[3]

No longer do other investment bankers feel it necessary to cuddle up to or clear their affairs with "The Corner."

The Morgans had the leading role among U.S. bankers in the Bank for International Settlements, which arose during the 1920's. But they have been definitely second to the Rockefellers in the still more important institution, the World Bank, established after World War II.

The previous chapter examined the uneven development of different industries as a basic economic reason underlying such shifts in power. Additional causes, economic and political, contributed to the trend.

WEAKENING OF FOREIGN CONNECTIONS

A major factor in the ebbing of Morgan supremacy has been the lessened financial importance of West European countries, especially England and France. As noted above, the House of Morgan originated

and rose to power as a link with English and other European bankers. Later, the Morgan financial power extended to Western Europe. Morgan, Grenfell & Co., one-third owned by J. P. Morgan & Co., is one of the big five of British merchant banking, and interlocks with leading British financial and industrial companies. All the foreign branches of the three Morgan banks are in London, Paris, and Brussels. The group's industrial companies, such as General Electric and International Business Machines, have their major foreign investments in Western Europe.

These investments have increased, but not nearly as much as those for the extraction of raw materials in the underdeveloped areas, especially oil. So U.S. investments in Europe have declined *relatively*, from 26% of total U.S. foreign investments in 1943 to 15% in 1954.[4] Correspondingly, the Rockefellers' worldwide financial network is now more powerful than the Morgans'.

World developments have similarly effected the strength of Morgan control positions in domestic corporations. Long after American industry became independent of foreign capital, British, Dutch, French and Swiss investors retained and increased their shareholdings here as good income-yielding investments. They no longer could control many companies, but J. P. Morgan & Co., holding voting proxies for their shares in many cases, obtained a significant lever for increasing its power.

To this day French and Swiss banks and British insurance companies operating in New York have especially close links with the Morgan banks.*

In 1937 foreigners received 14.47% of the dividends paid on U.S. Steel common stock.[5] The importance to the Morgan interests of maintaining voting control over a substantial proportion of this is obvious.

But during World War II, British and some other European investors were forced to sell a large part of their U.S. shareholdings as a condition for establishment of the Lend-Lease system of munitions supply. Foreign holdings of American stocks fell from 5%-7% of the total value outstanding in 1937 to under 2% in 1954.[6]

* The American European Securities Co. is an investment trust owned by Credit Suisse, one of the big two Swiss banks. Its president, Charles L. Munson, Jr., is the son of a member of the Executive Committee of Guaranty Trust, which acts as custodian for American European Securities Co. shares. E. L. Brickhouse, Secretary and Treasurer of American European Securities, is a Guaranty Trust vice president. The French American Banking Corp., representing French interests, is similarly interlocked with Guaranty Trust. The North British and Mercantile Insurance Group has a number of Morgan directors on its United States boards.

One particular case where this evidently undermined Morgan control was AT&T. Between 1937 and 1950 the reported shareholdings of four large holders increased, while those of the Morgan banks, of Dominick & Dominick, and of Brown Brothers Harriman & Co., all declined. *Shareholdings of these last two banking houses are known to represent to an unusual extent the properties of foreign bankers and individuals.** The uniformity of the declines can hardly be coincidental.

WORLD WAR II MILITARIZATION

Another weakness of the Morgan position was related to the permanent militarization of the economy since the start of World War II. Through its positions in basic industry, the Morgan group was assured then, as in World War I, a sizable share of armament profits, even though it lacked the World War I special position as exclusive purchasing agent for European countries. But in World War II two new industries emerged as the very centers of munitions activity—aircraft and its raw material, aluminum. The Morgans were out of aluminum because of its tight-knit control by the Mellon family. They were not important in aircraft because, as a speculative, untried industry, they had not been interested in it.

At the end of World War I, when the automobile industry "proved itself," the Morgan group was in a position to move in on a major scale despite its previous aloofness to the financing of automotive ventures. But it has not been able to do as well with the post World War II aircraft industry, partly because government financing kept the need for security flotations to a minimum.

However, the Morgans from the start fought for and maintained a prominent position in the nuclear weapons industry, which may prove of considerable value to this group in the peaceful development of atomic energy.

Other factors undermining the Morgan position have been the marked gains of the Cleveland financial group in the steel industry (Chapter XII), and the new system of alliances built by the Rockefellers with the Mellon and Boston interests (Chapters X, XI).

* In a typical instance, Dominick & Dominick reported to the Securities and Exchange Commission that of the 33,335 shares of Electric Bond & Share stock it held in 1952, 24,828 shares were for foreign clients. 5,973 of the 39,302 shares held by Brown Brothers Harriman in the same stock were for foreign account. The Morgan banks do not report this information.[7] A similar pattern appears for other positions of these houses. No such breakdown is supplied for their AT&T holdings, but there is no reason to believe that foreign representations are less important here.

POPULAR ANTAGONISM TOWARDS THE MORGANS

The prolonged economic crisis and depression of the 1930's had political consequences which hastened the weakening of the Morgan position. The American people resented a system which doomed 10 to 15 million to unemployment, millions to starvation or near starvation, and tens of millions to acute poverty for a decade. This resentment was directed largely against Wall Street, and in particular against the House of Morgan at its apex.

The Roosevelt Administration, responding to this upsurge, directed the fire of anti-Wall Street publicity against the Morgans, and shaped its legislation against the financial satraps and utility holding companies to impinge most against the forms of control exercised by this group. As they worked out, these measures permanently weakened neither monopoly control of the economy nor the merger of financial and industrial capital, but they provided openings for rivals to encroach on the Morgan position in various areas. An example was the effect of compulsory competitive bidding on the distribution of investment banking business (Chapter IV).

In 1938 Richard Whitney, brother of a leading Morgan partner, broker for the House of Morgan, and former president of the New York Stock Exchange, was convicted as an embezzler. This tarnished the Morgan reputation as the sound, conservative protector of the investor's interests, remaining scrupulously free from the speculative "excesses" of weaker rivals. Also the revelations of systematic bribery through "preferred lists," whereby scores of industrial executives and even government officials were paid off by Morgan gifts of stock below market value, did not increase their popularity.

In the successful union organizing campaigns of the 1930's, the basic industrial workers of America repeatedly met with the ruthless anti-union tactics of the giant corporations. More than ever before, millions of workers became conscious of the name of Morgan standing behind some of the most important of these corporations. Thus it was not accidental that Wendell Willkie, the Morgan candidate for President in 1940, was roundly booed by the Detroit auto workers in his election campaign—although he was, if anything, less objectionable in his labor policies than other Republican candidates of recent decades who received a less hostile reception.

The attitude of the workers can no longer be ignored by the masters of capital. It affects not only their labor relations policies, but even

their financial actions. The wisdom of the Morgan industrial kingpin, U.S. Steel, in signing with the CIO without a strike in 1937, was certainly not unrelated to this political fact. The bloody atrocities against the steel workers were carried out by the "Little Steel" companies of the Cleveland financiers, some of whom were soon to appear as "people's champions" against the Morgan-Wall Street interests!

TACTICAL ERRORS

Finally, psychological factors and tactical mistakes contributed to the Morgan loss of stature. An erroneous tendency persists in many quarters to attribute primacy to these factors.

J. Pierpont Morgan was an outstandingly aggressive and ruthless personality. His descendants were not. But this personality difference obviously was not decisive, because the House of Morgan reached its peak of power in the second generation, long after the death of its founder. Moreover, the lack of aggressiveness displayed after 1940 was not mainly psychological in origin. It was dictated by the popular antagonism and political setbacks which compelled the Morgans to "pull in their horns."

Here, however, are particular "mistakes" that were made. The Morgans were slower than other leading groups to adopt the newest techniques for amassing the billions of middle class savings, particularly through branch banking. Also, they appear to have underestimated the possibilities of a prolonged militarized boom after World War II, and failed to conduct their economic affairs so as to take maximum advantage of it.

MAJOR LOSSES IN CORPORATE CONTROL AND CONNECTIONS

The huge Morgan empire, based on a degree of financial predominance which no longer existed, became a natural target for raids by other interests. Vulnerable politically, the House of Morgan did not dare to follow the old buccaneering methods in the struggles for corporate control which ensued.

Some of these losses took place without fanfare. Before World War II Morgan directors were dropped from the Board of International Harvester by the Chicago interests, and after the war from Pullman Corp. by the Mellons. The Swiss interests controlling Celanese Corp. of America (rayon) dropped the Morgans as their financial advisors, turning exclusively to Dillon, Read & Co.

Other losses involved open conflict. The Morgans disagreed on operating policies with Sewell Avery, the man they had placed in charge of Montgomery Ward, second largest mail order house. Lacking sufficient stock to oust Avery without a struggle, and not daring to risk an open fight, the two Morgan directors resigned in 1948. Control of the corporation passed to the Chicago financiers with whom Avery had become associated.

Another fight for control of Montgomery Ward broke out in 1954-55 when the Wolfson interests sought to capture the company, taking advantage of Avery's mismanagement which had resulted in a rapid decline in the company's position. However, the large eastern stockholders supported the Chicago group, which won the proxy fight. The secret deals, if any, have not been revealed. But shortly after the victory of the Chicago interests, they dropped the superannuated Avery as chairman and early in 1956 brought a Morgan director back to the Montgomery Ward board. This signifies restoration of a degree of Morgan influence, but not the return of the prewar Morgan control.

Robert R. Young and his Cleveland financial associates have been particularly successful in "raids" on "Morgan" companies, taking full advantage of the ill-repute of the Morgan name and of Wall Street. By 1941 the Morgans had lost control of a series of railroads to the Young interests (Chapter XII). More serious was the loss of the New York Central to Young in 1954.

Significantly, the politically weakened Morgan group dared not reply with equal force to Young's assault. *Fortune* commented that J. P. Morgan:

> . . . would have fulminated aloud and he would have put together personally a syndicate to buy stock before his opponent could get his hands on it. Today's Morgan men did not even make gestures toward forming an informal syndicate. . . .
>
> Why did Morgan not use its prestige? Perhaps the clamor about Wall Street domination is too fresh in memory. "We don't try to run other people's business," Alexander* explains, "and there have been so many charges in the past that we want to avoid the appearance of doing so."[8]

Moreover, the battle revealed the loss by the Morgans of that prestige and power which had once conferred uncontested leadership in Wall Street. Brokerage houses supporting Young no longer feared reprisals for opposing or withholding support from the Morgans.

The New York Central had been a major customer of the First National Bank. Its loss proved the death blow to that institution, which

* Henry Clay Alexander, president of J. P. Morgan & Co.

had been losing prestige and business over a prolonged period. Early in 1955 its stockholders sold out to the National City Bank. True, five of the First National Bank directors were given posts on the merged First National City Bank board. But these directorates did not carry the weight of stock ownership. The National City Bank refused to carry out the merger through an exchange of shares, and instead paid off the First National owners in cash. Thus the most closely allied of the Morgan banks, next to J. P. Morgan & Co. itself, disappeared from the scene.*

The extinction of the First National Bank was a severe defeat for the Morgan interests and the conservative policies which had prevailed in most of its banks. The *Journal of Commerce* published a revealing account of the final First National stockholders meeting. Many stockholders complained about the comparatively low price paid them for their stock:

> Replying, Alexander C. Nagle, First National president, made some unusual statements and admissions. . . .
>
> Mr. Nagle said directors had to be governed by the "bare facts" of earnings ratios and the fact that the bank had less to sell than any other bank, except for its famous name, and it could be sold only on terms acceptable to customers and the management. . . .
>
> Then, said Mr. Nagle: "I think we have made a great mistake in not changing long ago the policies and philosophies of the bank."
>
> The vote was announced and stockholders of the so-called Rock of Gibraltar of Wall Street prepared quietly to go home.[9]

Indicating the new situation, the First National City Bank advertised that Mr. Floyd D. Frost, formerly of the First National Bank of New York, is now a vice president of the First National City organization: "We feel he is a mighty good man to have in *our* corner."[10]

The dual significance of this play on words** was certainly not lost on the readers of the financial magazine where it appeared.

The directors and officers of the First National Bank, including Mr. George F. Baker, Jr., not only moved their desks to the merged institution, but took the great bulk of their business with them, despite speculation that much of it might be switched to Morgan banks. Baker himself, son of the original J. P. Morgan's closest associate,

* The Baker family was the largest shareholder in the First National Bank. Because of the particularly close relations with the Bakers, the Morgan group was sometimes referred to as the Morgan-Baker group.

** The reference is (a) to prize-fighting terminology, wherein the fighter's aides are in his "corner" of the boxing ring, and (b) to the designation "The Corner" of the Morgan headquarters.

was reported in the press to be enthusiastic about the new connection. Thus an important banking family, through the decades "indissolubly" linked with the Morgan interests, has now switched its connections to another leading financial group, the National City.

MORGAN COMEBACK?

The ending of the Korean War in 1953 was succeeded by a race for unprecedented expansion among the corporate giants. This involved the search for every possible dollar of new capital, and many companies turned to the elaborate Morgan financial network for aid.

The investment banking business of the Morgans in 1953-55 was the highest for any three-year period, and in 1955 its leadership over all other houses was more pronounced than in any previous year of the postwar decade.

The Morgans took steps to build closer alliances with other financial groups. A leading California industrialist, S. D. Bechtel, was placed on the board to establish a more intimate connection with the rising Far Western financiers. He was joined in 1956 by a New England industrialist, Carl J. Gilbert of Gillette Corp., the brother of a late Morgan partner. Also, early in 1956 the Morgans obtained for the first time representation on the boards of Corn Products Refining, a major company in the Rockefeller sphere of influence; Georgia-Pacific Corp., a growing company leading in plywood; Rome Cable Corp., and other concerns. The return of Morgan influence to Montgomery Ward was already noted.

The financial pages and big business journals began to publish articles stressing the continued importance of the firm, and its adaptation to new conditions. All these might be signs of an attempted Morgan comeback to financial leadership, based on a new stage in world affairs following the liquidation of the Korean War, and intensified financial centralization and maneuvering as the domestic boom approached its climactic phase.

CHAPTER IX

The Rise of the Rockefellers

I regret to believe that there are times in business in these days when men have felt themselves justified in making profits when they were in a company. Personally I never would stand for it. I do not believe in it.

—JOHN D. ROCKEFELLER, JR., in testimony before the U. S. Senate Committee on Public Lands, 1928.

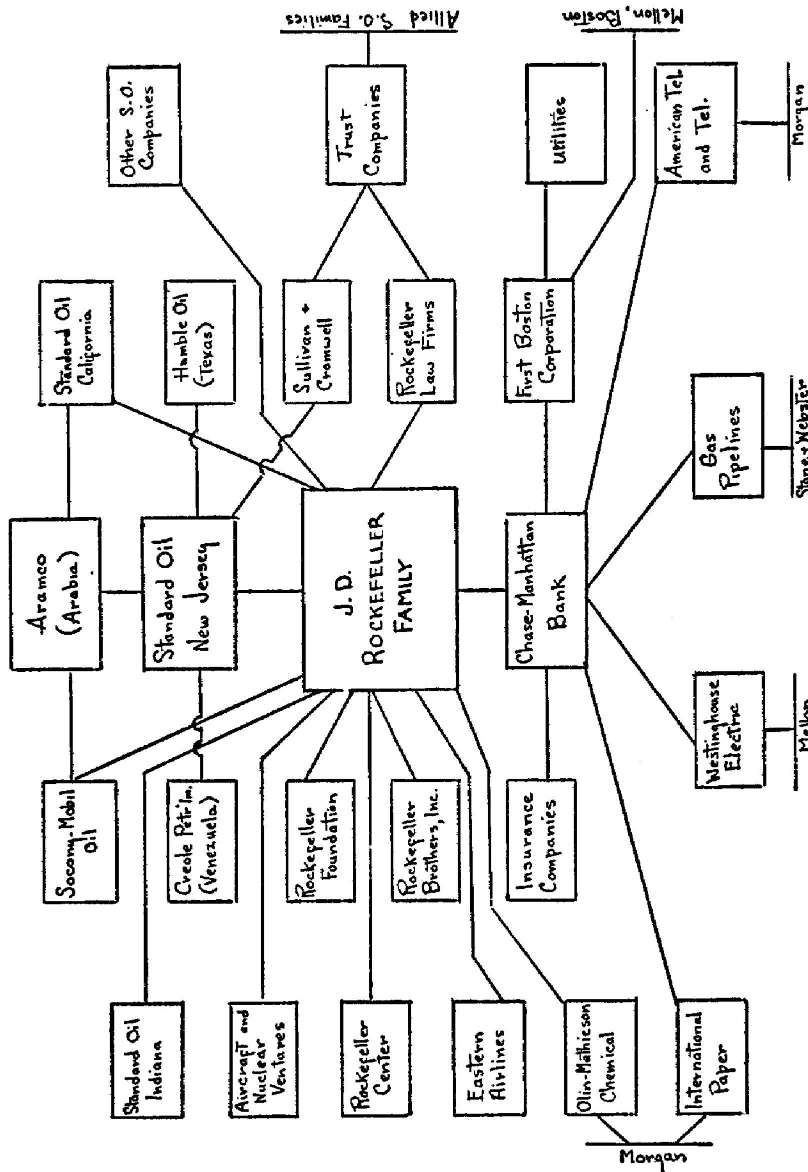
THE ROCKEFELLER FAMILY first established a virtual monopoly of the oil industry in the United States in the 1870's. It has lasted for 85 years. No other monopoly has maintained its position so long, so thoroughly, or so successfully as Standard Oil. Meanwhile petroleum has become the largest and most profitable industry in the world.

DEVELOPMENT OF THE ROCKEFELLER FORTUNES

The Rockefellers created the Standard Oil trust in a series of battles for the annihilation of all rivals, involving economic and political warfare with no holds barred. These were described in the classic *History of the Standard Oil Company* by Ida Tarbell, the daughter of one of the many independent refiners who were its victims. John D., the first, epitomized the extinction of "independent," "competitive" capitalism through which monopoly became supreme. Tarbell wrote: "He was awakening a terrible popular dread, and he would have foreseen that one day, with the inevitable coming to light of his methods, there would spring up about his name a crop of scorn which would choke any crop of dollars and donations which the wealth of the earth could produce."[1]

In 1899 the oil trust was reorganized as Standard Oil Company of New Jersey. *Life,* which can scarcely be accused of hostility to the Rockefeller interests, wrote: "The new set-up was established by John D. Sr. after maneuvers so ruthless that they made him one of the most hated men in America."[2]

Since World War I the most important growth of the trust has



been on a world scale. It dominates the oil of the capitalist world almost as completely as that of the United States.

The methods used in this world conquest were drastic, involving wars and the suppression of entire populations. Hatred for the Rockefellers—now considerably cooled off domestically—flares hotly among the populations of Venezuela and other countries of the Standard Oil domain.

The industrial monopoly of oil was transformed early into a center of financial power. Moody wrote: "In a little while, the Standard Oil Trust was really a bank of the most gigantic character—a bank within an industry, financing this industry against all competition and continually lending vast sums of money to needy borrowers on high class collateral, just as the other great banks were doing."[3]

By the 1890's, however, the Rockefeller interests turned to a formal banking institution—the City Bank, now the First National City Bank. Largely through this bank, they invested tens of millions of oil profits to form and gain control of monopoly corporations in other industries, including copper, steel, utilities, and railroads.

After World War I, the financial base of the Rockefellers broadened along with their oil wealth. They established their own bank, the Equitable Trust, in place of the National City, in which they had to reckon with other interests. Then they bought up the Chase National Bank, which through its merger with the Equitable Trust became for a period the largest in the country. It is now again the largest Wall Street bank, following its absorption of the Bank of the Manhattan Co.

During this period, in circumstances which remain obscure, the Rockefellers obtained control of two of the largest insurance companies, Metropolitan and Equitable. And through the merger described in Chapter IV, they obtained a major share in First Boston, one of the two leading investment banking houses.

The Rockefeller empire is shown in Chart IV. The pivot is the John D. Rockefeller family. Underneath appear its main financial institutions, the Chase Manhattan Bank, the First Boston Corp., and the insurance companies. At the top appear the principal Standard Oil companies, and a "catchall" representing smaller companies carved out of the original oil trust.

Three industrial giants in which the Rockefellers have an approximate parity interest—Westinghouse, International Paper, and Olin Mathieson Chemical—are shown in the lower left-hand corner. In the lower right are American Tel. & Tel., shared with the Morgans, the smaller utility companies linked to First Boston, and the natural gas

pipelines which the Chase Manhattan Bank finances for Stone & Webster.

To the right appear Sullivan & Cromwell, and other Rockefeller-associated law firms, and further out the New York trust companies, connecting links with the allied Standard Oil families.

The more personal family ventures are shown to the left—the Rockefeller Foundation, Rockefeller Brothers Inc. and, further out, Rockefeller Center, Eastern Air Lines, and the smaller aircraft and nuclear companies in which the Rockefellers have invested.

WHO'S WHO IN THE ROCKEFELLER GROUP

The Rockefeller aggregate is solidly controlled by a single family, the direct descendants of John D. This family is buttressed in the Standard Oil companies by a clique descended from John D. Rockefeller's close associates. The Rockefeller group is smaller numerically and more tightly knit than the Morgan group. Its industrial base remains highly concentrated in tha oil industry. However, the Rockefeller's influence is now felt in all major branches of industry through the financial power of its banks and insurance companies.

The Rockefeller family owns directly and through controlled foundations from 10-17% of the shares of the various Standard Oil companies, and over 5% of the shares of the Chase Manhattan Bank (see Appendix 1). It wholly owns Rockefeller Center, the largest real estate development in the world. The combined holdings in Standard Oil of the allied families approach that of the main family.

Today the active management of Rockefeller affairs is headed by six men. These are the five third-generation brothers, and their uncle Winthrop Aldrich, whose late sister was married to John D. Rockefeller, Jr.

Aldrich is the son of Rhode Island Senator Nelson Aldrich who dominated the U. S. Senate for a decade in the early period of the monopolies. Winthrop Aldrich was chief legal aid to the Rockefellers during the 1920's, managed its financial affairs as chairman of the Chase National Bank for two decades, acted as principal political manipulator of the Rockefeller group in the period 1944-52, and was then made Ambassador to Great Britain.

The five brothers work individually and also through a corporation known as Rockefeller Brothers Inc. According to an official biographer, the brothers meet in private conference as often as once weekly to thresh out their joint affairs.[4] Among them there is a division of labor, covering the group's broad range of economic and political interests.

Laurance Rockefeller is the principal family representative on the boards of non-oil corporations, including Eastern Air Lines, International Nickel, and Olin Mathieson Chemical. He has been active in promotion of ten or more small companies in the aircraft-atomics-armaments fields. The general approach is to buy up controlling shares of companies organized by engineers and scientists, and insure profits through the Rockefeller financial and political connections. Laurance Rockefeller brings his representatives into these companies "to assist with management reorganizations, with banking and credit relations, . . . or that all important matter of 'putting the company's best foot forward with the government.'"[5]

He "put his foot forward" most successfully for the McDonnell Aircraft Corp. With $450,000, he backed up an aircraft designer who had an experimental shop in St. Louis. McDonnell then obtained government orders and financing, and did $60 million of business during World War II—small as airplane companies went, but large, considering Rockefeller's small investment.

True, McDonnell's designing proved less than perfect. The $14-million contract he received for a new model was cancelled after the experimental number burned in flight. The money was made out of subcontracting.

After the war Rockefeller doubled the investment, and McDonnell obtained jet plane orders. The big breakthrough, in 1949, was the $300,000,000-order for F-3-H "Demon" Navy Fighters. On the basis of these orders, the price of McDonnell stock went up, and the Rockefellers sold part of their holdings at a goodly profit: "This time they had made some money on their investment and their labors . . . but . . . they regarded the technical contribution to the aviation industry as far more important."[6]

This "technical contribution" exploded as a major scandal some years later. Altogether 60 planes were produced. In 1954-55 test flights there were 12 major accidents, resulting in the deaths of four pilots. Responsibility was evenly divided between McDonnell's airframes and the engines, produced by Westinghouse (also having Rockefeller influence). No usable planes were received, and several hundreds of millions of dollars were wasted.

The Senate Committee on Armed Services, which investigated the matter, placed the blame on Navy procurement practices. Even here,

it steered clear of the role of Rear-Admiral Lloyd Harrison, who had opposed termination of the McDonnell contracts while in the Navy, and became vice president of the company the day after he resigned his naval job in 1955.[7] And it didn't mention, still less investigate, the role of the Rockefellers in getting ever-larger contracts for this company despite its history of failures.

Indeed, the magic wand of Standard Oil seemingly still waves over McDonnell Aircraft. Within a month of the Senate report exposing the "Demon" case, McDonnell received prime contracts for guided missiles and other orders raising its backlog to an all-time high of $658 million,[8] larger than those of such well established firms as Republic and Grumman.

David Rockefeller is vice chairman of the Chase Manhattan Bank, and heir-apparent to the top post in this family-controlled institution. He is also active in management of the large Rockefeller real estate holdings in New York City. He is president of Morningside Heights, Inc., a "non-profit community organization," established to clear out the dilapidated homes of working people in the area of Columbia University and other Morningside Heights institutions in which the Rockefellers have a special influence. The tenants called for a low-income housing project, but Rockefeller led the successful fight for razing existing dwellings and replacing them mainly with apartments renting for $150 monthly and thereabouts, completely out of reach of the worker-residents who were dispossessed.

David Rockefeller is also active in New York City political affairs, being a leading participant in the bankers' consortium which dictates city policies through control of its debt, the largest per capita of any city in the country. The special position of the Rockefellers in city politics was emphasized in 1933, when Lawrence B. Dunham, a former Laura Spelman Rockefeller Memorial staff member, became a prominent member of LaGuardia's "kitchen cabinet." In 1940 David Rockefeller himself was appointed Secretary to Mayor LaGuardia.

Another brother, Winthrop, is less active financially. He is the "oil worker" of the family, who was employed for most of the period 1934-51 (except for a year with the Chase Bank) by Humble (Standard of N. J.), and Socony. Winthrop Rockefeller received much publicity through his marriage to and subsequent multi-million dollar divorce from the Café Society woman, "Bobo" Sears.

In recent years he has resided at his $1.5 million Arkansas ranch, becoming an important factor in the affairs of that state. He has become chairman of the Arkansas Resources and Development Commission, and gained an entree for the Chase Manhattan Bank into Arkansas financial affairs.[9]

Winthrop Rockefeller is the family representative in the politically important attempt to win support among the Negro people. He is a director and financial angel of the National Urban League. He has obtained favorable publicity by naming as his "assistant" and "superintendent" of his farm a Negro social worker named James Hudson. However, according to the Rockefeller biographer, Hudson is also cook, cleaner, and chauffeur. Seemingly, Mr. Hudson is an "assistant" for public relations purposes, but functionally a valet.

The reality behind the pose of concern for the economic advancement of the Negro people can be seen in the practices of the Rockefeller companies. Only 0.7% of the workers employed in the crude petroleum and natural gas industry in 1950 were Negroes, as compared with 6.0% in all other mineral industries combined.[10] One will find no more Negro tellers at the windows of the Chase-Manhattan Bank than at any of the others. And the Metropolitan Life Insurance Co. attained notoriety with the militant segregation policies it followed in its enormous housing developments, including the eviction of tenants who tried to help Negroes obtain entry into the previously all-white Stuyvesant Town.

John D. III is the principal family representative on its various foundations, and directs its philanthropic and charitable activities. During the postwar period, this Rockefeller has also been the family specialist on the Far East, particularly Japan. He accompanied Dulles on the latter's mission to Japan in 1951 to prepare a peace treaty, and later served as an adviser to the U.S. delegation at the treaty conference, which arranged for permanent occupation of a network of bases there. He frequently visits Japan, and is president of the Japan Society, Inc., established for "cultural interchange."

The Far East is the richest potential area for future expansion of the oil cartel, and the only major producing area under capitalist control in which Standard Oil has not yet won leadership from the British-Dutch interests. Since World War II, however, Standard Oil companies have multiplied their producing, refining and sales facilities in Indonesia, New Guinea, India, and Japan, where oil accounted for 48% of all postwar foreign investments.

However, Rockefeller is not concerned narrowly with oil company investments. His personal attention is directed more to the political problems of maintaining imperialist control. In accordance therewith, he has led in promoting the reactionary "solution" of Asian hunger—

reduction of the population. He organized, financed, and became president of the Population Council, which: "is in the first stage of getting foreigners to recognize their need for help with the delicate and explosive problems of surplus humanity." As an initial accomplishment, it helped persuade the Japanese government to finance an abortion program "under which 850,000 pregnancies were terminated in 1953."[11]

Nelson is the Latin American specialist and political star of the Rockefeller group. More than half the profits of the largest Standard Oil company (New Jersey) are derived from Venezuela, in addition to those obtained from production in Argentina and Colombia, and marketing facilities almost everywhere in Latin America.

A primary feature of the Rockefeller interest in Latin America is to create the political "climate" required for retention and expansion of Standard Oil investments. At the same time, Nelson Rockefeller utilizes Standard Oil power in Latin America to promote profitable investments in other fields.

In pursuing these ends, he has moved freely between "private" and "government" operations (see Chapter XVI). Before World War II he conducted his business affairs in Latin America as a director of Creole Petroleum, the Venezuelan subsidiary of Standard Oil (NJ). After the war his hemispheric ventures were concentrated in a family company, the International Basic Economy Corp. In Venezuela this company operates with Rockefeller personal funds, oil company funds, and Venezuelan government funds. Among its Venezuelan enterprises were livestock, grain, and poultry farms, a fish producing enterprise, retail establishments, and a dairy company.

Supposedly, these enterprises were aimed at raising the very low consumption standards of the Venezuelan people. But their main result was to apply the classic Standard Oil methods of squeezing out weaker competitors and then raising prices to consumers. Several charges in the Venezuelan press were directly or tacitly confirmed by the Rockefeller biographer, Joe Alex Morris.

The dairy company, for example, began by mixing imported milk powder with Orinoco River water and fresh milk. Squeezing small milk operators to the wall, it then raised prices to 32 cents per liter—roughly 50% over the United States price.

Tenants were dispossessed for Rockefeller plantation operations. For one of these Rockefeller selected a national shrine—a plantation formerly owned by Simon Bolivar—moved in with bulldozers which razed the ancient trees, and converted it into a truck and hog farm.

The fish company's produce was priced so high that when the supply reached a mere 50 tons per *month* (one-tenth of a pound monthly for each inhabitant of Caracas): "The Caracas housewives shied away from them . . . it was a high price for the average Venezuelan, and fish remained a luxury item in a country where rice and beans are the basis of the worker's diet."[12]

Similar operations were carried out in Brazil, but less profitably, because the Standard Oil position was weaker and political opposition to it much stronger.

THE ROCKEFELLERS AND OIL

The Rockefellers range broadly in their personal activities, but all these activities are related to their basic interest and source of power—oil. The biographer Joe Alex Morris, who concentrates on their outside activities, concedes that the Rockefeller brothers "knew that the bulk of their own and the family's investments were not in such enterprises at all but in other concerns, principally oil companies and the Chase National Bank."[13]

In 1911, pursuant to a Supreme Court decision, the Standard Oil company was dissolved into 36 constituent enterprises. This was an inconvenience, not a fatal blow. As Moody wrote, "Such dissolutions have proved in the end, however, to be mere changes of form, for the various companies involved continued to be owned, controlled, and managed by practically the same men, with little if any real competition."[14]

The Rockefeller family retained its dominant stockholdings in the most important of the several companies. These constitute the most effective working monopoly of world capitalism, thanks to domestic and international cartel agreements which coordinate the supplies and pricing of the Standard Oil companies together with all of the other major U.S. and European oil concerns.

But the Rockefeller family, in the main, has withdrawn from open day-to-day management of the individual companies. Standard Oil (NJ) has for a long time had only "inside" directors, hired executives largely unknown outside the oil industry. These "faceless men" receive far less publicity and lower salaries than similarly placed executives of other very large companies. They have few interlocking directorates.

Formal separation of the Rockefellers from Standard Oil management has continued for so long that many people have come to believe that the family merely receives oil dividends, and no longer takes any

part in company affairs. They believe that Standard Oil is now run by a "managerial" bureaucracy, responsible to no outside financial interest. Harvey O'Connor, in his excellent book *The Empire of Oil* writes that 47% of the shares are owned by the largest 100 stockholders, mainly Rockefellers and other Standard Oil families, but: "Who controls Jersey? Not the Rockefellers, it appears. . . . Jersey is run by a collective of managers, perhaps the most powerful collective this side of the Soviet politburo."[15] O'Connor himself does not take this bow to the managerial-revolution theory too seriously, as evidenced by his frequent references elsewhere in the same book to Rockefeller maneuvers. What is really involved?

It serves the Rockefeller interests to separate their family name from the oil trust, whose continued depredations must necessarily make more and more enemies. What better way of doing this than to hire poorly connected, financially unimportant but loyal technical experts to manage day-to-day operations, while the Rockefellers pull the strings from behind the scenes?

One must separate the concept of management from that of control. That the oil corporations are *managed* by hired executives is beyond question. But it is equally certain that the executives are subject to the general supervision and broad policy guidance of the controlling stockholders.

In the fantastic quotation at the head of this chapter, John D. Rockefeller, Jr., was referring *not* to large stockowners like himself, but to hired officials, and serving notice that he would not "stand for" these employees sharing in the profits of control. This warning was put to a public test shortly thereafter, when the president of Standard Oil of Indiana—who *had* gone beyond the allotted scope and become involved in a scandal in the bargain—refused to resign at Rockefeller's request. He was forced out in a 1929 proxy fight by the massed vote of the Standard oil families.

The full mechanics of Rockefeller control over the oil companies are not known. But the broad lines of power are clear enough. They control the financial center of the petroleum industry, the Chase Manhattan Bank, and those major suppliers of long-term credits to oil companies, Metropolitan and Equitable Life. They are active personally in national politics, exerting a significant influence on major foreign policies vital to the expanding power of Standard Oil.

The third generation of the Rockefellers has moved in and out of oil company affairs in a way impossible for "outsiders." Winthrop Rockefeller "worked his way up" in Standard Oil in the typical

fashion of inheritors of corporate control. He divided his career among two Standard Oil companies, the bank and the real estate center. Clearly, for him the family control of the oil enterprises was fully effective.

When organizing his postwar business ventures in Venezuela: "Nelson Rockefeller's name gave him an inside track when it came to dealing with oil men."[16]

Obviously the name gave him an "inside track" not because a Rockefeller *once* controlled the oil industry, but because the family *still* controlled it. Consider what happened. The Rockefellers put up $1,200,000, for which they obtained *all* the voting stock in the Venezuela Basic Economy Corp. The oil companies put up $21,800,000, for which they received non-voting preferred stock.[17] Is it conceivable that great oil companies, exercising enormous power, would put up 90% of the money for an enterprise and surrender all influence over that enterprise? Certainly not, unless the minority partners are at the same time the controlling interests in the oil company—the actual situation!

Rockefellers stay off the board of Standard Oil (NJ), but in the case of Socony Mobil Oil, second to Jersey, the Chairman of the Board is B. Brewster Jennings, heir to two of the great Standard Oil fortunes.

Business Week, describing the 1954 President of Standard Oil (NJ), gives an excellent picture of the selection and function of Standard Oil managers:

"From youth up—Rathbone is really as much a product of the company as are the 2-million barrels of oil products it markets every day. His career is a living example of the philosophy of catching the bright ones young, training them in the company's traditions and inoculating them with its hopes for the future, testing them out with more and more responsibility, and picking off the best for the ultimate top leadership."[18]

Certainly the managers of Standard Oil companies have vast responsibilities, and impressive authority within their global operating sphere. But this responsibility is conferred by, and the power subordinate to, the ultimate control group.

Those most directly affected by the power of the oil trust have no illusions about "management control." Morris writes of Winthrop Rockefeller's brief stint in the oil fields: "Oil-field workers are an independent and hard-fisted crowd by tradition and when they discovered that one of THE Rockefellers had moved into their midst they were not particularly pleased."[19]

Similarly, the Venezuelan people have properly regarded the Rockefellers' ventures as new tricks of the oil tycoons who have robbed them for so long. In a country with a subservient government, an analysis of the Caracas press showed 37% "consistently hostile and often bitter," only 21% "pro-Rockefeller."[20]

ECONOMIC REASONS FOR ROCKEFELLER GAINS

The underlying reason for the Rockefeller gains of recent decades—the new primacy of oil—was discussed in Chapter VII. There were important contributing causes, some involving economic advantages, others the strengthening of alliances, and still other political gains.

The special tax provisions whereby the oil companies pay less than half the ordinary income tax rate (Chapter XV) have become a major item, in view of the high rates currently in effect. Political and economic conditions have enabled the Rockefeller oil companies to become the leaders in foreign investments with the very highest yield (Chapter XVII). Superprofits from these sources permit larger dividends which can be used by the owners to buy control of companies in other industries, and enable petroleum to spend more than other industries for expansion. The annual capital spending of Standard Oil (NJ) exceeds that of any other manufacturing or mining firm.

The great economic gains of the oil industry, resulting from the motorization of the American economy, were further extended during the postwar period by the dieselization of American railroads and the substitution of oil and natural gas for coal energy in heating. Nor is the end in sight. For now the earlier American gains in use of oil are being repeated on a world scale, a process in which the Standard Oil companies have a large share. Further domestic gains are also underway with the development of the petrochemical industry. It is predicted that ultimately 50% of all chemicals will be made of petroleum. This not only provides an added market for the raw materials but, owing to the surplus profits of the oil companies, they are able to finance and own a large proportion of the petrochemical plants.

ALLIED STANDARD OIL FAMILIES

John D. Rockefeller, Sr., had a number of associates. Some were original partners. Others were defeated rivals brought into the Standard Oil enterprises. These associates became multi-millionaires, who used

part of their Standard Oil dividends to buy substantial holdings in other industries and in banks. Besides the general community of interest based on oil, most of these families have retained other economic and political links with the Rockefellers through succeeding generations.

The directors and officers of the Standard Oil Company as of 1904 were:

John D. Rockefeller, president
William Rockefeller
John D. Archbold
Henry M. Flagler
Henry H. Rogers
Oliver H. Payne
C. W. Harkness (son of Stephen V.)
F. Q. Barstow
J. A. Moffett
Walter Jennings (son of O. Brewster Jennings)
E. T. Bedford
W. H. Tilford, treasurer
Charles M. Pratt, secretary[21]

Life, following various financial chronicles, lists companies in which they and their descendants have invested heavily. Besides the John D. Rockefeller family companies, these include the National City Bank, Anaconda Copper, American Tobacco, Corn Products Refining, U.S. Industrial Alcohol, Southern Pacific, New York Central, Virginian, Florida East Coast, and N.Y., N.H. & Hartford Railroads, U.S. Steel and Bethlehem Steel, Great Northern Paper, Minute Maid Corp., Time, Inc., General Electric, Pan American Airways, and Air Reduction Co.[22]

The most important of these associated families is that descended from William Rockefeller, the brother of John D. Rockefeller, Sr. This family has established its own major financial base, and is regarded here as the head of an independent center, although it retains significant connections with the John D. Rockefeller family (see Chapter X).

The secondary Standard Oil families are leading forces in three of the ten largest trust companies listed in Chapter IV—U.S. Trust Co., New York Trust Co., and Bank of New York. Each of these banks is trustee for hundreds of millions in Standard Oil shares, among billions in total investments.

The largest shareholder in the U.S. Trust Co. in the nineteenth century was the Astor family,[23] but Standard oil interests are more influential today, particularly through John Hay Whitney, a descendant of the Payne family, with the Pratt and John D. Rockefeller families also represented. The New York Trust Co. has seven Standard Oil family directors, as compared with five connected with the Morgan group, formerly regarded as leading in its affairs. Executive direction of the bank is by representatives of the Harkness family, which next to the John D. Rockefeller family, owns most Standard Oil stock.

The Bank of New York—"New York's First Bank—Organized by Alexander Hamilton"—was graced for many years with the presence on its board of John Foster Dulles, as outstanding a leader of reaction in the present century as the illustrious Hamilton was 150 years ago. Its three top officers are all trustees of Rockefeller-dominated institutions, and five other directors represent assorted family interests of the group.

Allied Standard Oil families and families associated with the Rockefellers through the Chase Manhattan Bank are the leading forces in a number of significant industrial and railroad corporations (See Appendix 9). Two of these, Armco Steel and Southern Railway, are among the 100 largest non-financial corporations. Most of the others are either first or second largest in their particular fields.

John Hay ("Jock") Whitney, now Ambassador to Great Britain, is the most active in business affairs and politics of the extant lesser Standard Oil heirs. He is descended from Oliver H. Payne of Standard Oil, William C. Whitney, the New York transit magnate, and John Hay, Secretary of State during the "Big Stick" period. Inheriting $150 million, he maintains a partnership, J. H. Whitney & Co., similar in its functions to Rockefeller Bros. Inc. In business deals he is closely associated with the John D. Rockefeller family, with the Boston bankers close to Chase-Manhattan Bank, and with the Stillman-Rockefeller family. James F. Brownlee, a partner in J. H. Whitney & Co., is a director of the Chase Manhattan Bank and of American Express, another Rockefeller-dominated financial company. Whitney and his aides have been virtual shadows of the Rockefeller family in political affairs.

From time to time there have appeared divisions within the Standard Oil ranks. But the continuing community of interest in Standard Oil, in banks and industrial enterprises, in Republican Party affairs and in government administration, establishes these families and their enterprises as within the orbit of the Rockefeller empire.

ALLIANCES WITH OTHER GROUPS

The advance of the Rockefellers has been speeded by a series of economic alliances with other financial groups begun during the 1930's and expanded after World War II.

Around the turn of the century the Standard Oil magnates formed alliances with National City Bank and Kuhn, Loeb & Co. While relationships with the First National City Bank remain, it can no longer be regarded as a decisive alliance (see Chapter X). The old alliance with the Kuhn, Loeb interests may have been resumed in new forms, with Kuhn, Loeb in a secondary position.*

More important alliances have been established by the Rockefellers during the past two decades. The Boston bankers and the powerful Mellon interests have shifted their main connections from the Morgans to the Rockefellers (see Chapter XI). These new alliances are intimate. They create a broader community of interest, wealthy and aggressive, having a tradition of foreign expansion and a combined political influence that is truly formidable.

PUBLIC RELATIONS, CHARITIES, AND SANCTIMONY

The "Ludlow massacre" of Rockefeller-employed steel workers in 1914, and the subsequent shooting of oil workers by Rockefeller guards, "plunged the Rockefeller name to its nadir."[24] Now the direct hatred of labor was added to the long-lived resentment of the small business interests. The Rockefellers launched a major campaign to "sweeten" their name, through that characteristic device of American capitalism, the public relations expert: "Thanks to the unremitting labor, over a period of twenty years, of Mr. Ivy Lee, the most adroit accelerator of public opinion since P. T. Barnum, Mr. Rockefeller has been canonized."[25]

This publicity campaign has continued through the decades, and has been intensified in recent years. A number of biographies and innumerable popular magazine articles have appeared picturing the Rockefellers as democratic, unacquisitive, pious devotees of human progress. Standard Oil (NJ) is now providing the main financing for a three-volume company apologia via the Business History Founda-

* Via the merging of the Bank of the Manhattan Co. into the Chase National, and the shifting of Kuhn, Loeb partner Lewis Strauss to the Rockefeller financial fold, while retaining directorates in Kuhn, Loeb corporations.

tion (the first, by Ralph W. and Muriel Hidy, is already out, and several conservative reviewers have criticized its one-sided apologetic character). Scarcely a month passes without a front page story in the *New York Times* about some new Rockefeller gift or public service activity.

While fostered primarily to overcome popular hostility, the main Rockefeller charities have had significant economic motives also. During the 1880's, long before the age of public relations specialists, John D. began his charitable activities in typical fashion. He was approached by Frederick T. Gates, chief fund raiser for the Baptist Church. Through Gates, Rockefeller obtained a grip on the valuable iron deposits of the Mesabi range. Then he gave $600,000 for Gates' church. In less than 20 years he sold the mines to the Morgans for $80,000,000, more than 100 times the "charitable" investment. And Gates became one of Rockefeller's most hard-fisted and useful business associates.

During the 1930's, gifts to Columbia University paid off in a similar way when the clan obtained from the college the extremely valuable midtown property on which they built Rockefeller Center.

The main contributions, to the Foundations, have been a means of increasing economic power at the expense of the small taxpayer (see Chapter IV). The hundreds of millions placed in the Rockefeller Foundation are used to hold for the group huge blocks of corporate shares, inviolable to decimation through inheritance taxes, while the tax-free dividends finance current foundation activities.

The cumulative total of Rockefeller and other Standard Oil family gifts was estimated at $1 billion by 1950.[26] Press stories, inspired by their publicity geniuses, contrive to give the impression that the bulk of the family wealth and income goes to charity. Actually, figures given by the Rockefeller brothers to *Fortune* indicate that perhaps one-fourth to one-sixth of their current income is donated.*

Rockefeller gifts to churches, and the traditional sanctimoniousness of the first two generations of Rockefellers, have also been turned to direct economic advantage. This is illustrated in the aforementioned proxy fight. Colonel Robert Stewart, Chairman of Standard Oil of Indiana, was involved in one of the criminal oil deals of the Harding-Coolidge epoch. John D. Rockefeller, Jr., demanded that he resign, on "moral" grounds, and Stewart, supported by his fellow-managers and the majority of small stockholders, refused. Even the old plunderer, John D. Rockefeller, Sr., entered the fray. The family retained Charles Evans Hughes—one-time apostle of corporate righteousness—as counsel for the proxy fight. The Federal Council of Churches of Christ in America came to the support of its pious patron, praising him for conducting a "moral crusade." The Rockefellers, with the aid of the other Standard Oil families, won two-thirds of the votes and expelled Stewart.

* *Fortune* reports that the brothers give annually $7 million out of a combined income of over $25 million. However, this $25 million is a very low minimum.

Outstanding liberals in Congress, such as Senator Norris, Walsh and Nye, were taken in by the performance and lauded the Rockefellers. The press went into raptures. Typically, the Louisville *Courier Journal* wrote: "In the sordid Teapot Dome affair the courageous stand of John D. Rockefeller, Jr. comes as a refreshing breath of pure air in an atmosphere polluted by the contaminating effect of big business on politics . . . shows that great financial power is not necessarily acquired at the sacrifice of moral rectitude."[27]

All this nicely covered up the real issues in the fight. According to *Mirrors of Wall Street,* Stewart, having obtained the rich oil fields of Venezuela, used their produce to compete with other Standard Oil companies on the eastern seaboard. After Stewart's ejection, the remaining managers, more pliable, turned over the Venezuelan bonanza to Standard Oil (NJ), where it would be under the immediate eye of the Rockefellers, without any dangers of conflict with special interests of midwestern oil officials.

While fighting Stewart, the Rockefellers voted their shares in other oil companies in favor of a merger into the Consolidated Oil Co. of Harry F. Sinclair, who had been released from jail after conviction of bribery in the Teapot Dome scandals. Nor did the Rockefellers ever answer the question put by Senator Borah of Idaho as to why they did not return the dividends they received from Standard of Indiana as their share of the Stewart deal which they denounced.[28]

The continuous outpouring of inspired publicity, presenting a favorable view of every Rockefeller charitable, business, political, and personal activity, has had an important effect in an America where there is no longer a widely circulated anti-monopoly press.

The Rockefellers have also striven to reduce the hostility of labor. To wipe out the curse of the Ludlow massacre, they went so far as to sell their steel company 30 years later: "For a long time the Rockefellers had wanted out of Colorado Fuel & Iron . . . they had been self-conscious about the company's identification with the scandalous 'Ludlow Massacre' back in 1914, when thirty-three lives were lost in a pitched battle between strikers and the state militia."[29]

Since 1917 the Rockefellers have avoided major strikes in their U.S. oil installations. They were aided by the tactics of "paternalism" and the then novel company unions worked out for them by Mackenzie King. After serving as Rockefeller labor advisor for many years, King returned to Canada to be chief of the Liberal Party, and later Prime Minister, retaining an intimate friendship with John D. Rockefeller, Jr., through the decades. But tactics were not the main reason for Standard Oil's domestic labor peace.

The English writer Hobson stressed the luxuries of the rentiers enriched by colonial pelf, and also the better conditions obtained by certain classes of workers dependent on imperialism. Lenin laid great stress on the political significance of the favored "aristocracy of labor" receiving a fraction of the superprofits from colonies. The Standard Oil companies provide a striking example of this phenomenon within the United States. In recent years, average earnings in the petroleum industry have exceeded those of any other major industry in the United States. At the same time, if one combined the earnings of all employees of Standard Oil (NJ) and its foreign subsidiaries and affiliates, the average would probably be considerably lower than for most American corporations. The $100 weekly earned by U.S. oil workers is intimately connected with the $20 weekly earned by their Arabian confreres. Undoubtedly, the device has succeeded. U.S. oil workers have not been a major source of anti-Rockefeller sentiment, nor have they interfered wtih the enormous expenditure of U.S. funds, and the risks of war, involved in U.S. government support to the foreign expansion of the oil trust.

From their extensive personal contributions and those of their corporations, the Rockefeller interests have gained an unusually prominent position in the various private organizations and institutions of big business, thereby exerting significant influence on the formation of the policies of their class, and achieving a certain degree of leadership in business circles. *Fortune* maps the Manhattan headquarters of eighteen educational, cultural, charitable, and policy organizations in which the five brothers of the third generation personally participate. These include all three top organizations dealing with foreign affairs —the Foreign Policy Association, the Carnegie Endowment for International Peace, and the Council on Foreign Relations. In the case of the last-named, for example, the chairman is John McCloy, Chairman of the Chase Manhattan Bank, while David Rockefeller is vice president.

The Rockefeller interests figure most prominently—although not

personally—in the affairs of the National Industrial Conference Board, perhaps the outstanding reactionary policy group of big business. Four of the six officers in June 1955, aside from paid functionaries, were officials of corporations of the Rockefellers and other Standard Oil families.

POLITICAL GAINS OF THE ROCKEFELLERS

The first John D. Rockefeller created within his Standard Oil Trust a thorough and far-flung economic and political intelligence agency. Through it he was able to anticipate the moves of his rivals, and discover how to dispose of them. He was also able to learn the weak spots of politicians, and how to bribe them. By the turn of the century the dominant individuals in the Republican Party were in the Rockefeller camp. Marc Hanna, Ohio political boss and mentor of President McKinley, was a Standard Oil associate. In 1901 Rockefeller Jr. married the daughter of Nelson Aldrich, master of the Senate, who thereafter acted for Rockefeller in that body. Close ties were also established with oil state politicians.

However, the widespread opposition to the Rockefellers resulted in repeated legislative investigations directed against them. The first really important—though temporary—victory of the government under the anti-trust laws was in the suit against the Standard Oil Trust commenced by the Morgan-backed president Theodore Roosevelt.

Economic setbacks accompanied these political attacks. The Rockefeller-sponsored Amalgamated Copper Trust collapsed, and the Morgans achieved clearcut financial dominance in Wall Street. As the Rockefellers turned to more secretive methods of control of the oil industry, and launched their vast publicity campaign, they also retired from open political activity.

For several decades Rockefeller political activity was mainly through the anonymous pressures of the oil companies. No other industry has penetrated government so thoroughly with its personnel, or exercised influence over such a wide range of Federal and state governmental activity. Most notable was the industry's entrance into foreign affairs after World War I, when Standard Oil began its unprecedented expansion abroad.

After World War I, and especially since World War II, the promotion of U.S. oil interests has been the leading preoccupation of the State Department, and their protection a major concern of American armed forces overseas (Chapter XVII). Robert Engler aptly sum-

marizes the political scope of the oil trust: "Oil is interested in the whole range of American foreign policy from Iran to fishing rights in the Gulf of Mexico, and from reciprocal trade to the decartelization of I.G. Farben. In its councils are discussed the statehood of Alaska, mineral leasing rights in Montana and the highway taxes of every state."[30]

Important domestic political victories were won also, notably the system of Federal-State oil regulation established during the 1930's. Through it the oil combine raised and held the price of oil products, and established production controls, more effectively than the 19th century Standard Oil trust ever could. It squeezed out the new East Texas refiners and made the oil trust virtually depression-proof, all through a cartel administered by the Interior Department and various State Commissions.

Meanwhile, the Rockefellers have made a personal political comeback, strategically devised along the lines of the general publicity campaign of the Rockefeller group. They attempt to appear not as reactionaries, but as reformers concerned with the common man.

This new strategy appeared at the 1933 hearings on proposed New Deal legislation to "drive the money changers from the Temple." Such Wall Street fixtures as J. P. Morgan, Charles Mitchell of the National City Bank, and Albert H. Wiggin, the pre-Rockefeller head of the Chase National Bank, were justly enough pilloried. But Winthrop Aldrich, financial spokesman of the Rockefeller group, dissociated himself from Wiggin and supported important parts of the New Deal financial legislation, going further than the Administration in certain respects. In practice, the measures adopted facilitated the advance of the Rockefeller financial interests, while measures opposed by Aldrich were not enacted.

The wooing of Harold Ickes by the Rockefellers is an amazing story told by the New Deal Secretary of the Interior in his posthumously published diary. Ickes was the most progressive, antimonopoly member of the New Deal cabinet. As Secretary of the Interior, he had most to do with oil. Thus Ickes was an active agent in organizing, together with the oil companies, the system of regulation that has proved so profitable to them ever since. His purpose was to overcome the chaotic oil market which was one feature of the profound economic crisis—but his methods played into the hands of the oil trust.

John D. Rockefeller, Jr., engaged in a studied campaign to make friends with Ickes. He would "accidentally" appear on trains with

the cabinet member, and engage him in conversation. He showered him with invitations and hospitality. Ickes' *Diary* contains pages of adulation of the "sincere, serious-minded, unostentatious man."[31] While Rockefeller engaged in the diplomatic softening-up process, his aides inside the government were getting what they wanted from Ickes' agency. Later, during World War II, Ickes arranged for the appointment of a Standard Oil man, Ralph Davies, as Petroleum Administrator for War.

So it came about that Ickes, an open foe of the Morgans and other Wall street interests and everything they stood for, became a personal friend and objective supporter of a Wall Street group fully as reactionary, powerful, and dangerous to American democracy.

Similarly, the personable Nelson Rockefeller, with pretensions of concern for the economic development of Latin America, won an appointment by Roosevelt as Coordinator of Inter-American Affairs. While Rockefeller was squelching German and Italian airlines in Latin America—to be taken over by U. S. companies—Standard Oil was continuing its cartel arrangements with I.G. Farben, delaying synthetic rubber production in the United States, and placing no obstacles in the way of German operation of its oil installations throughout occupied Europe.

After the death of Roosevelt, the influence of the Rockefellers in Washington grew rapidly in the changed political environment. They no longer stressed so much the false front of "reform and welfare." Openly participating in political affairs, they emerged as the leading force in the Republican Party, and then as the best-represented financial group in the Eisenhower Administration.

Through its political gains, the Standard Oil group has been able to reinforce the most effective domestic monopoly in terms of prices, production control, and the power to crush rivals. And it has been able to build and extend the greatest private economic world empire in history. Obviously, these political successes accelerated the growth of oil company assets and profits, the displacement of competing fuels, and the emergence of oil as the biggest of all big industries.

CHAPTER X

National City and the Lesser New York Groups

OTHER NEW YORK groups must be reckoned with in the financial power pattern. A distinct empire, embracing major industrial and financial corporations, has crystallized around the huge First National City Bank. It is not on the same plane as the Morgans and Rockefellers. Its area of domination is much smaller, and in most of its connections outside this area, it appears as an adjunct to the more powerful duumvirate.

The others—Hanover Bank; Kuhn, Loeb; Brown Brothers, Harriman; Dillon, Read; Lehman-Goldman, Sachs—are secondary duchies of the financial oligarchy. They are each powerful in important economic areas but lack the breadth of resources for independent control of giant corporations, so that the major groups participate in their chief ventures. Otherwise, these secondary houses control lesser corporations, and operate as junior partners in the varied affairs of the great empires.

FIRST NATIONAL CITY BANK

During the nineteenth century The City Bank was the bank of the importers of raw materials, and of American cotton firms. In 1891, under the presidency of James Stillman, it became the bank of the Standard Oil interests, and with these added deposits, soon became the largest in the country. Later the John D. Rockefeller family shifted their main interests, but the family of William Rockefeller stayed with National City. Two sons of William Rockefeller married two daughters of James Stillman, and the Stillman-Rockefeller family became the largest shareholders in the bank, a position they still hold.[1]

Other families having substantial interests in it include the Brady family, heirs to a New York utility fortune; the Winthrop family, descendants of Moses Taylor, a 19th century president of the bank; and the Dodge family, heirs to the fortune of the Phelps Dodge firm of metals merchants.

As American capitalism was transformed, so was the role of the bank. The importers of raw materials became foreign investors, and the bank went with them, "following the flag" in all of the major penetrations of American imperialism. When U.S. marines occupied Haiti during World War I, the National City Bank moved in behind their bayonets to handle Haiti's finances. Cuba and Puerto Rico, the first U.S.-occupied countries in the Western Hemisphere, have the largest number of First National City branches (ten and seven respectively). Following the rise of American interests to predominance in the Middle East, the First National City Bank established all of its current branches there and in Africa during 1955 (Egypt, Lebanon, Saudi Arabia, and Liberia). Of its employees, 5,382, or 41% served in its 66 overseas branches in 1955. Deposits abroad total about $725 million, two-fifths more than those of its nearest overseas rival, Chase Manhattan.

Domestically, the National City became the financial center for the industrial combines formed or bought up by William Rockefeller and his associates. During the 1920's its investment banking affiliate, the National City Co., under the guidance of Charles E. Mitchell, became the most active seller of speculative stock issues in Wall Street, draining the savings of tens of thousands of middle class people for the profits of the National City group. As noted in Chapter IV, its investment banking activities are now carried out through two houses, Harriman, Ripley & Co. and Blyth & Co. Its law firm is Shearman & Sterling & Wright. Unlike the John D. Rockefeller and Morgan groups, the First National City does not control any of the large life insurance companies, but it does control the Great American group of fire and casualty companies, and the Fundamental Investors group of investment trusts.

However, it exerts widespread influence over industry, not only as a source of funds for borrowing, but through the many billions of investments carried by its trust affiliate, the City Bank Farmers Trust.

Among the giants in the First National City Bank sphere are Anaconda, principal owner of Chilean copper; W. R. Grace & Co., main trading and manufacturing interest on the West Coast of South America; Corning Glass Works; National Cash Register Corp.; United

Aircraft and Boeing Airplane, first in aircraft engines and airframes; Consolidated Edison, the New York utility; and Deering Milliken, a large textile corporation. The bank took its present name in 1955 when it absorbed the First National Bank of the City of New York (see Chapter VII), and thereby acquired financial leadership of the Chubb group of insurance companies, the National Biscuit Co., and the Erie Railroad. It has gained a substantial share in control of International Telephone & Telegraph, the world-wide communications combine, formerly regarded as exclusively within the Morgan sphere of influence.

The bank has provided financial service to the Ford family over a considerable period. That relationship became more intimate with the public sale of Ford Motor Co. stock in 1956. First National City's law firm advised the Ford family, its investment banking affiliate, Blyth & Co., headed the selling syndicate, and the bank itself became Ford's stock transfer agent. The First National City Bank has acted for Firestone Tire in the same way, and this tie also was tightened in 1955 when the bank took over the Bank of Monrovia in Liberia, the locale of Firestone's rubber plantations. Ford and Firestone originally connected with this bank in order to avoid dependence on the Morgan-Rockefeller duumvirate. Despite the growth in relationships, neither Ford nor Firestone can be considered as controlled by First National City Bank.

The assets controlled by the First National City Bank are about one-fifth those of the Rockefellers or Morgans (see Appendix 10), and only a fraction of the assets of companies with which the bank has interlocking directorates representing non-controlling interests. The historical position of the bank is thus continued. First becoming eminent as an adjunct of the Standard Oil group, its later rise was as a follower of the Morgans, after they had established Wall Street leadership. In 1915 the aged James A. Stillman wrote his successor, Vanderlip: "Keep on good terms with J. P. Morgan. I have special reasons for writing this at this time, and am looking more for the future than for the present."[2] The head of the National City Bank during the 1920's, Charles E. Mitchell, also maintained close relations with the Morgans, and received great favors from them. However, since the 1930's, the Standard Oil influence in the bank has increased. Today the bank appears to have approximately equal relations with each half of the peak duopoly, in some respects subordinate to both, in others acting as an independent control center.

The low point in Standard Oil influence was reached in 1933 when Percy Rockefeller, the son of William, was forced out in the wake of Congressional exposures and his involvement in the Kreuger Match scandals. However, James Stillman Rockefeller was made an assistant vice president a month after his father Percy's resignation, and he became president of the bank in 1952.

During the 1950's interlocking directorates were established with each of the three international Standard Oil Companies (such ties had existed with two of them much earlier). It is the only American bank on the scene to service the principal Standard Oil foreign installations, in Venezuela and Saudi Arabia.

The Stillman-Rockefellers retain substantial blocks of Standard Oil shares, although less than other of the Standard Oil families. William Rockefeller and his descendants sold part of their holdings in order to expand in other industries. By the 1920's the bulk of the family fortune was apparently in non-oil enterprises. For this reason it should not be regarded as another family of the Standard Oil group, such as the Payne Whitneys and Harknesses. But it retains important ties with these families through intermarriage and joint investments in various enterprises.

Besides James Rockefeller, other descendants of William Rockefeller and James Stillman have a leading position in important financial institutions. Avery Rockefeller is a director of the J. Henry Schroder Banking Corp. and the Schroder Trust Co. He is also a partner and the American stockholder in its affiliate Schroder Rockefeller & Co. These Schroder companies are part of an Anglo-German banking group.

During the 1930's the German Steel trust and the Hitler government made the London Schroder Bank their financial agent in both Britain and America.[3] F. C. Tiarks of the British J. Henry Schroder & Co. was a member of the Council of the pro-Hitlerite Anglo-German Fellowship, as were 2 other Schroder partners, and the bank itself was a corporate member.[4]

Avery Rockefeller, Jr. is a partner in the powerful investment banking firm of Dominick & Dominick (see Chapter V)* and two grandsons of William Rockefeller are partners in Clark, Dodge & Co., another wealthy firm. Clark, Dodge works closely with the Morgans in the investment banking field. It leads all others in joint management with Morgan Stanley & Co. of industrial security issues.**

The continued wealth and power of the Stillman-Rockefeller family

* It is not known whether the extensive foreign representations of Dominick & Dominick include the Schroder interests.

** Including such important concerns as American Can, J. I. Case Co., Crane Co., and Kellogg Co.

is a lesson in the durability of the great fortunes. Few families have squandered as much in reckless personal living or lost as much through ill-advised investments. When William Rockefeller died in 1922, his son Percy's debts of $16 million exceeded his share of the estate by $2 million. The same Percy lost many millions in the collapse of the Kreuger enterprises in 1932 and in sugar investments.

What the family lacked in business acumen and conservative living, it made up in its talent for merging great fortunes through marriage. Families joined in this way included the Carnegie family with its vast steel fortune, the Marcellus Hartley Dodge family of Remington Arms and Clark, Dodge & Co., the McAlpin family of the famous hotel, and the Watjens, a German banking family. But on the whole, the Stillman-Rockefeller family has not remained a cohesive, aggressive, money-making and power-building group through succeeding generations, like the John D. Rockefeller family. Nor has it played a major role in American politics.

The Dulleses and their law firm, however, constitute an important link with the John D. Rockefeller family, economically and perhaps politically. Sullivan & Cromwell is represented on the board of the American Schroder banks and of sugar companies which they control. It is the law firm of Blyth & Co., one of the two investment banking companies connected with the First National City Bank.

THE HANOVER BANK

The Central Hanover Bank entered the monopoly era under William Woodward, originally the cotton business partner of National City's James Stillman. The Woodward family still has the largest stockholding in the Hanover Bank. This bank has important attributes of a center of finance capital. With almost $2 billions in deposits, it can grant large loans. With more billions in trust accounts, and control of the America Fore group, the leading fire and casualty insurance company, it commands influential positions in a number of the most important corporations. The Hanover Bank is the leading power in Union Carbide & Carbon, second largest chemical company and largest atomic weapons material contractor; in General Foods, leading packaged food manufacturer; in Chrysler Corp., third largest auto manufacturer; and Electric Auto-Lite, a parts manufacturer. Along with Chicago bankers, the Hanover bank has influence in the Texas Corp., $2 billion international oil company.

However, as shown for General Foods in Chapter V, the Hanover

Bank does not have sufficient resources to control these corporations alone, but must involve the more powerful Morgan and Rockefeller interests. This is also the case with Union Carbide & Carbon, which borrowed $300 million from the Metropolitan and Prudential Insurance companies in 1951, and with Chrysler, which borrowed $250 million from Prudential in 1954.

In these dependent relations, the student of financial affairs, Benjamin Allen, considered the Hanover Bank to be tied more intimately with the Rockefeller than with the Morgan interests.

KUHN, LOEB & CO.

This firm, founded by German Jewish bankers, and drawing capital into the United States from Germany, competed with the Morgans especially in the centralization of the railroads. Kuhn, Loeb acted as investment banker for the Harriman interests in their struggles with the Morgans for railroad control. After Edward Harriman's death, Morgan and Kuhn, Loeb more or less harmoniously divided financial control of the main railroad systems of the country.

To Kuhn, Loeb went the largest systems, the Pennsylvania, the Union Pacific—in association with Harriman's heirs—and other roads. The status of Kuhn, Loeb & Co. was indicated by its now senior partner George Bovenizer who wrote in 1935 that his firm "did not appear second to anyone but Morgan" in banking syndicates.[5]

Because of Kuhn, Loeb's traditional position in the railroad industry, the National Resources Committee classified it as one of the eight large financial interest groups, indeed as second in point of assets controlled. The report qualified this by stating that "Kuhn Loeb exercises less in the way of active control than J. P. Morgan & Co. . . . and should be considered . . . more in the nature of a loose alliance."[6]

However, the influence of Kuhn, Loeb & Co. has declined rapidly in recent decades. The railroads have become much less important in the economic life of the country and as a source of profits. The ICC regulation compelling competitive bidding for railroad securities has sharply reduced the volume of Kuhn, Loeb's investment banking business. And its foreign connections were largely shattered by the Nazis' expropriation of Jewish bankers.

In the years 1927-32, Kuhn, Loeb (with affiliated International Manhattan Co.) headed syndicates handling 8.1% of all bond issues. In 1938-47, it headed 6.6% of all securities issued, and in 1950-55, only 2.2% of the total.[7]

During the 1920's Kuhn, Loeb had its own bank, the International Acceptance Corp., which expanded through merger with the Bank of the Manhattan Co., in which Kuhn, Loeb shared control with other interests. However, during the 1940's Kuhn, Loeb representatives disappeared from the bank's directorate, and all vestiges of Kuhn, Loeb banking control were eliminated when the Bank of the Manhattan Co. was merged into the Chase Manhattan Bank in 1955.

The stockholding position of Kuhn, Loeb in railroads was largely represented by the holdings of the Harrimans, its allies; of the Union Pacific Railroad in other lines; and of a Kuhn, Loeb investment trust, Pennroad Corp. The Union Pacific stockholdings have been reduced, and the Pennroad Corp., after absorbing severe losses during the 1930's, has shifted its investments largely to non-railroad fields. It is not known whether Kuhn, Loeb has special relations with either of the two major Swiss Banks which are leading stockholders in the Pennsylvania and Baltimore and Ohio Railroads.

Whatever relationship may remain, Kuhn, Loeb appears to gain little from it. The "Kuhn, Loeb" railroads do not have representatives of the house on their boards of directors, and supply very little in the way of investment banking, financial advisory, or legal business to Kuhn, Loeb and its associated law firm.

The most significant financial connection of Kuhn, Loeb today is as investment banker to the steel companies of the Cleveland group, which, combined, rank next to U.S. Steel in size. This house also shares in the investment banking business for Bethlehem Steel and Westinghouse Electric. It controls some secondary industrial and transportation companies, such as General American Transportation, which makes and rents freight cars and allied equipment. Through Pennroad, which it still controls, it is able to take positions in various companies. Kuhn, Loeb has attempted to build new foreign investment positions in recent years, but so far these have not amounted to much.

Certainly Kuhn, Loeb & Co. can no longer be regarded as one of the leading financial powers.

BROWN BROTHERS HARRIMAN & CO.

Anna Rochester wrote of the merging of the Brown and Harriman interests in 1931: "Both the Browns and the Harrimans brought to the new firm a strong tradition of imperial finance along with a large measure of independence." [8]

The Browns, with the Seligmans, were the bankers who took over

the finances of Nicaragua when that country was occupied by the Marines before World War I. And Harriman, shortly before his death in 1909, was attempting to organize a round-the-world railroad, starting in Manchuria.

Of Harriman's extensive American railroad empire, the firm remains in control of the Union Pacific and the Illinois Central. It also has a substantial secondary interest in other lines and in such important industrial firms as Anaconda, Air Reduction, National Sugar Refining, North American Aviation, Columbia Broadcasting, and Freeport Sulphur. In these and other interests, it has more connections with the Rockefellers and other Standard Oil families than with the Morgan group. Robert A. Lovett, a prominent member of the firm who married into the Brown family, is chairman of the finance committee of the Rockefeller Foundation. At the same time, however, the company shares attorneys with the Morgans.

Brown Brothers Harriman & Co. is a private bank, holding in trust large investments for partners and clients. Its assets of a quarter of a billion dollars do not measure its importance. "Imperial finance" continues to play a large part in the Brown, Harriman operations. It has a London affiliate, Brown, Shipley & Co., and represents a number of the British insurance and reinsurance companies operating in the United States. It is also closely connected with Scandinavian concerns, including SKF Industries, American offshoot of the Swedish ball-bearing company. It headed the syndicate which floated Norwegian bonds here in 1955. Before World War II the Harrimans were active in Soviet manganese, and later with Anaconda Copper, in Polish mines and chemical works.

DILLON, READ & CO.

During the 1920's Dillon, Read was second only to the House of Morgan in floating foreign bonds. This type of business has declined in volume, but Dillon, Read is still in it, as evidenced by its heading the syndicate for the Malan Government's Union of South Africa bonds in 1955.

The firm devotes less of its resources than formerly to securities underwriting, although it maintains important investment banking accounts, specializing in major tire, textile, and finance companies. Its main energies have been devoted to building up controlled investments in the profitable oil industry. It acts as investment banker for the Texas Co., the largest non-Rockefeller oil company, for Texas

Eastern Transmission, second largest natural gas pipeline company; and Union Oil of California, largest of the California "independents." Dillon, Read owns controlling shares in Amerada Petroleum, a "blue chip" crude oil producer, and together with the Empire Trust Co., in Louisiana Land & Exploration, a similar concern. Dillon, Read may well be the leading influence in this secondary New York bank, since Dean Mathey, the bank's chairman, is a former Dillon, Read partner.

LEHMAN BROTHERS-GOLDMAN, SACHS

The Morgans, Rockefellers, Kuhn, Loeb, et al, marged the basic industrial enterprises of the country into giant trusts. The same tendency towards concentration made itself felt in light industry and trade. But who was to bring together the retail merchants, the garment manufacturers, and the cigar makers? The Morgans and Rockefellers were not interested. The business was too small. And the proprietors were not of the aristocracy but comparatively small capitalists, many of them immigrants, many of them Jewish.

In the 19th century the firm of Goldman, Sachs grew as "note shavers"—intermediaries between these companies and the banks. They bought up their customers' promissory notes and resold them to the Wall Street banks.* The Lehman firm, starting as cotton bankers, also developed contacts with many retail trading firms.

Following in the footsteps of the Wall Street giants, Goldman, Sachs and Lehman Brothers began in 1906 to consolidate these enterprises into large companies, with publicly-sold issues of stocks and bonds. The two banking firms work as a team, with an agreed division of profits.**

The most successful ventures have been in retail trade, where these houses have had much to do with the concentration of trade in chains of department stores and mail order houses. Once obtaining a position in a retail company, they press for mergers and acquisitions. Thus Goldman, Sachs became prominent in the finances of May Department Stores and of Kaufmann, the large Pittsburgh department store. These merged in 1946: "The May-Kaufmann deal in 1946 took the merchan-

* Goldman, Sachs continues this business, in its modernized form, as the largest seller to banks of "commercial paper" for large corporations, mainly in consumers goods and appliances. But its modern importance derives from other activities characteristic of the epoch of finance capital.

** The agreement was formally written down in 1926, abandoned in a dispute ten years later, but revived in changed form in 1938.

dising world by surprise. It was the biggest thing of its kind since the twenties. Negotiations were conducted quietly and swiftly in the New York offices of Goldman, Sachs. Spencer Shore, Goldman, Sachs' deft and debonair merchandising expert, represented Edgar Kaufmann in the conversations and 'leaned over backward' to dissociate himself temporarily from his partner Walter Sachs, a May director since 1915."[9]

By 1952 Lehman-Goldman, Sachs were investment bankers for seven of the eight largest department store chains* owning 290 stores, and selling $2.4 billion yearly or roughly 30% of all department store sales in the country. They also represented some of the smaller chains. Typically, Lehman-Goldman, Sachs hold directorates in these companies, and in some cases large blocks of shares. They are the main center of financial power of monopolized general retail trade.

Goldman, Sachs is also investment banker for Sears Roebuck, largest of the mail order houses, but here the function has become mainly technical. Financial control is in the hands of Chicagoans.

Lehman-Goldman, Sachs have attempted to spread their financial influence and profitable connections in other directions as well. They have gained the investment banking business of a number of important manufacturing companies—B. F. Goodrich, General Foods, Continental Can, National Dairy Products, Pillsbury Mills (flour), Endicott-Johnson (shoes). These are mainly consumers goods companies, or—as in the case of Continental Can—companies which depend on good relations with food manufacturers and trading companies. They share the investment banking business of other corporations, the most notable being General Electric, where Goldman, Sachs appears as co-manager with Morgan Stanley & Co. However, the general financial control of General Electric by the Morgan interests is unchallenged.

Lehman-Goldman, Sachs attempts to establish positions in heavy industry have not echieved major or lasting success. The group lost control of the Sloss-Sheffield Steel Co. (since merged), during the 1930's. Twenty years later it lost out in Studebaker, unable to operate profitably against the overwhelming pressure of General Motors and Ford.

As against these losses, Lehman Brothers has established new heavy industry connections of a secondary character,** and has important positions in two major arms manufacturers, General Dynamics and

* The seven are Allied Stores, Federated Department Stores, May Department Stores, R. H. Macy & Co., Gimbel Brothers, Inc., City Stores Co., and Associated Dry Goods Corp.

** Lehman Bros. controls Flintkote Corp. (asphalt, etc.), Callahan Lead-Zinc, Fruehauf Trailer, and Monterey Oil Co.

Sperry Rand (it may be the leading financial force in the former). It has influence in Climax Molybdenum, leader in production of that metal.

During the past 15 years, this group has gained some new corporations as financial clients, and has lost others through mergers or changed relationships in the controlling groups. Lehman Brothers handled the financing for Burlington Mills, now the largest textile fabric manufacturer. But the president of the company, J. Spencer Love, was a Boston blueblood and preferred to deal with his "own kind." In 1944 the company wrote Lehman Brothers "expressing its dissatisfaction with being known as a Lehman company," and transferred the business to Kidder, Peabody and Co.[10]

This incident illustrates the typical situation. The Lehmans and Goldman, Sachs are not intimately connected with the controlling shareholders of large industrial corporations. They obtain investment banking business from these companies as financial intermediaries, able to obtain good terms. They are not in every sense "insiders," and can be dispensed with should the controlling group wish to establish new ties.

Even in the case of the department store corporations and certain others where the Lehmans and Goldman, Sachs are the bankers for the large stockholders as well as their corporations' financiers, their control is limited. For in all cases they are dependent on good relations with the great banks and insurance companies. The postwar acquisitions and expansions of the retail chains required hundreds of millions of insurance company and bank funds. The Morgan and Rockefeller institutions appear regularly as suppliers of funds, stock transfer agents and registrars for these companies. To a certain extent, the investment bankers here are carrying forward in new conditions the role of intermediary with the great banks, even though they themselves represent a merging of merchant and light industrial capital with financial capital.

During the 1920's the light industry and trade capitalists tried to establish their own great banking centers. Men connected with the garment industry, real estate, and similar lines organized New York banks which grew very rapidly during the "New Era." Best known of these was the Bank of United States, which reached peak assets of over $300 million. Goldman, Sachs, through an investment trust, bought 32% of the stock of the somewhat larger Manufacturers Trust. A number of smaller banks were organized by similar groups.

However, the Wall Street circles would not accept these banks as "belonging." They would not admit them to the New York Clearing House. And when the crisis hit in 1929, the comparatively weak consumers goods capitalists felt its effects most rapidly. Depositors shifted their bank accounts to the "regular" Wall Street banks. During the last three months of 1930, the deposits of Bank of United States and of Manufacturers Trust fell by one-third in less than 3 months, while those of National City, Guaranty Trust, and Chase National rose rapidly.

Finally a "run" of small depositors began on the Bank of United States. The Wall Street bankers met in conference but refused to come to its aid, and in December 1930 it closed, ruining thousands of small stockholders. These had been sold shares, and were now forced to pay an amount equal to their original investment under the double indemnity provisions then applying. Marcus and Singer, the heads of the Bank of United States, finally were sent to prison for their financial juggling, which was, of course, no different from that carried out by the "respectable" bankers downtown.

This accentuated the problems of other "uptown" banks: "The closing of the Bank of the United States was followed by considerable withdrawals of deposits from several other banks doing business with a somewhat similar type of customers in the same general localities. There were indications that these withdrawals of deposits were accentuated by the circulation of false and malicious rumors."[11]

Instead of closing down the Manufacturers Trust, the Morgans and Rockefellers took it over, buying the bulk of Goldman, Sachs' controlling block of shares for $7.4 million. "Prominent bankers" favored the move, according to the *New York Times,* "since it placed working control of the Manufacturers Trust Company in the hands of private interests long identified with leading financial interests in Wall Street." Mr. Harvey D. Gibson, who headed the buying syndicate, came from the New York Trust Co., "prominently associated with the Morgan interests."[12] And the Rockefellers' publicity man, Ivy Lee, was present at the conference where the deal was announced.[13] Gibson became chairman, and Nathan S. Jonas, the founder of Manufacturers Trust, was forced to resign.

Thereafter the smaller banks fell like ninepins, and the Manufacturers Trust, now in "conservative hands," was made the repository for their assets. Its branch network was extended, and its assets grew to a current $3 billion, as Wall Street took direct charge of financing the light industry, trade and service companies of New York City.

One bank of this group survived without obvious change in control, the Public National Bank. It was absorbed by the Bankers Trust Co. in 1955.

The reader cannot fail to note that the bankers driven out of major commercial banking positions were not only light industry and trade bankers, they were Jewish bankers. Of course, the Morgans and Rockefellers and others of the decisive oligarchy did not "crack down" on these bankers solely or even mainly because they were Jewish. They utilized the crisis to eliminate or weaken would-be rivals who were non-Jewish also—as for example the Insull group in Chicago. At the same time, the persistence with which these wealthy Jewish bankers have been kept out of control of major heavy industries and New York commercial banks suggests anti-Semitism as a definite factor. So does the contrast between the Wall Street treatment of the jailed Moses and Singer, with that of Charles Mitchell of the National City Bank, who was ruined financially and in reputation but was staked to the wherewithal to become a millionaire again by J. P. Morgan & Co. It is a well-known fact that many of the Wall Street houses have a definite and rigid policy of excluding Jews from partnerships.

In 1945 Drew Pearson revealed how the Paris branches of the Chase National Bank and J. P. Morgan & Co. had helped the Hitler occupying forces in Paris. Morgan *et Cie.* had written the Hitlerites, citing the Morgans' long record of anti-Semitism as proof of their ability to do good business with the Nazis![14]

Of course, there is nothing remarkable about anti-Semitism in Wall Street. Racism of all kinds is a virtually universal characteristic of big capitalists. And the anti-Semitism of Wall Street cannot even be compared with the intensity of its white supremacy practices, which *wholly* exclude Negroes from positions of power in finance and industry—practices, it must be noted, of which the Jewish bankers are equally guilty.

The anti-Semitism of Wall Street, unlike that of German fascism, has not aimed at genocide. It has had the limited objective of keeping the Jewish bankers "in their place" as intermediaries with the world of trade and light industry, a role from which the top oligarchy also derives substantial profits.

On the other hand, the reaction of Jewish bankers and capitalists to this anti-Semitism, as well as to their specific interests in trade and consumers goods, has had significant effects on the political life of the country.

In 1934 Lehman Brothers made another try to obtain a major commercial banking position when they bought from the Rockefeller interests 20% of the shares of the Corn Exchange Bank. However, this did not lead to Lehman control of the Corn Exchange, which later was merged into the Chemical Bank. The Lehmans control a small bank, the Trust Co. of North America, and may have a commanding position in substantial suburban banks.[15]

Goldman, Sachs organized several investment trusts in 1929, selling hundreds of millions in shares. These collapsed during the crisis. Goldman, Sachs claimed it lost $12 million. This was a trifle compared to the hundreds of millions lost by its clients, and must be balanced against the profits Goldman, Sachs derived from the promotion and management of the investment trusts.

The Lehman investment trust, Lehman Brothers, had a different outcome. It was one of the most successfully managed trusts, and occupies a leading position today. The Lehmans also control, together with Lazard Frères, another substantial investment trust, General American Investors. Combining the holdings of these trusts with those of the wealthy private clients of Goldman, Sachs and Lehman Brothers and certain allied houses, these firms have acquired a significant minority position in many leading utility and industrial corporations—notably the Electric Bond & Share group of utilities. Indeed the Lehman and Seligman interests, taken together, effectively share with the Morgans control of this utility group.

The Lehmans are interrelated with the wealthy house of Wertheim & Co., and also associated in some enterprises with Lazard Frères, controlled by the French banking house of the same name.

These four firms had a combined capital of almost $50 million at the end of 1954, a very substantial sum for investment banking operations.[16]

In the past, the principal law firm of both Goldman, Sachs and Lehman Brothers was the ubiquitous house of Sullivan & Cromwell. Lehman Brothers, however, now uses in its underwritings Simpson, Thacher, & Bartlett, the law firm of Electric Bond & Share.

OTHER LARGE NEW YORK BANKS

Four other New York banks, Manufacturers Trust, Chemical Corn Exchange, Marine Midland Corp., and Irving Trust, appear in the list of the 20 largest banks in Chapter IV. Little is known publicly about their ownership. It is possible that the owners of Chemical Corn

Exchange and Irving Trust, like Manufacturers Trust, include groupings of the leading Wall Street interests—the Morgans, Rockefellers, and National City Bank. At any rate, they function as secondary institutions, despite their size (Manufacturers Trust and Chemical Corn Exchange, with over $3 billions of assets each, are fourth and sixth largest banks in the country). They serve as depositories for many secondary enterprises and individuals, besides sharing the deposits of the large corporations. They do not have large trust accounts, nor control investment banking houses, investment trusts, or insurance companies—with the exception of the Home Insurance Co., which is controlled by Manufacturers Trust and Chemical Corn Exchange Bank. Thus they have little basis for acquiring controlling positions in large corporations.

So these banks appear as junior participants in lending syndicates organized by the top financial concerns, and as adjuncts of these major groups to handle the financial controls over secondary and local enterprises.

CHAPTER XI

DuPont, Mellon, and Beacon Hill

THESE THREE EMPIRES have headquarters outside of New York City, but are so intertwined financially with the New York centers that they are really part of the Wall Street oligarchy, as are the Philadelphia bankers.

The du Ponts of Delaware and the Mellons of Pittsburgh are clans holding enormous blocks of shares in great corporations and constituting tightly knit, firmly held centers of control. With the Rockefellers, they are the wealthiest families in America. The Boston group consists of a number of aristocratic families—Cabot, Lodge, Coolidge, Forbes, Saltonstall, Adams, etc.

The du Ponts and Mellons own basic industrial trusts which have expanded in economic importance in recent decades, with corresponding growth in their power. The Boston influence historically has been in secondary industries, international trade and investments. Its independent position has been weakened.

All three of these groups have especially intimate ties with the two dominant groups of Wall Street: the du Ponts with the Morgans; the Mellons with the Rockefellers; and the Boston aristocrats originally with the Morgans and now even more closely with the Rockefellers. These relations involve a certain degree of financial dependence on the part of the du Ponts and the Mellons, and definite subordination on the part of the Bostonians. The families of the Philadelphia Main Line, probably wealthier than the Bostonians, have less independence, and function virtually as a suburban branch of the Morgan interests.

THE DU PONTS

After Pierre Samuel du Pont de Nemours narrowly escaped the guillotine during the French Revolution, the family came to America

and established themselves as powder manufacturers under the still-extant company name, E. I. du Pont de Nemours & Co. Their first big order was to supply Napoleon in his vain attempt to crush Toussaint L'Ouverture and the people of Santo Domingo, and the next was for the first aggressive war of the United States—against the so-called "Barbary pirates."

For over a century this company flourished as the leading powder manufacturer in the United States. But the du Ponts did not become prominent in American financial affairs until after the first World War which, with its unprecedented use of ammunition, brought them fabulous profits. When hostilities ceased, they obtained control of the forfeited German chemical patents. As the United States shifted from an importer of chemicals to the world's leading producer, du Pont became dominant in the mushrooming new industry. They used their confiscated patents and applied wartime profits for the purchase of existing companies.

E. I. du Pont de Nemours & Co. became the largest chemical company in America, and since World War II the largest in the world. Moreover, it has expanded into the wide variety of fields—some totally unrelated to others—which constitute the loosely bounded chemical industries of the present period. For example, the largest of du Pont's ten operating departments is that engaged in the manufacture of synthetic textile fibers. Explosives, the original foundation of the du Pont empire, has receded in importance, being exceeded in volume by several of the other departments.

At that, this $2-billion corporation has been outstripped several times over by a later acquisition of the du Pont family. They used $49 million of their World War I profits to buy a leading position in General Motors, the most profitable corporation in the world. Under du Pont control, GM's share of the growing United States passenger car industry has increased from less than 20% to more than 50%. With the top position in Canada and Australia, and substantial output in Germany and England, GM produces more vehicles outside the United States than any other company of any nationality. In 1955 its workers turned out 5,030,994 vehicles. That exceeded the highest number ever produced in any year before 1950 by all other private companies in the world combined.

The immense pressure of GM financial resources and alliances, and the use of its buying power to force lower prices on suppliers, has annihilated or subdued almost all competitors in passenger cars and motor trucks. But since 1940 GM has become much more than an

automobile producer. It has taken over the motor bus industry (80% in 1955) and the locomotive industry (76% in 1955).[1]

It is one of the big three in airplane engines, a leader in earth-moving equipment, and the largest maker of household electric refrigerators. It is rising also in other types of household equipment. Using $800 million of government-financed facilities, GM was the largest arms contractor in World War II, and during the Korean War. In short, this most profitable single corporation is the "General Monopoly" of motorized equipment. Nor is that all. Its main financial subsidiary, General Motors Acceptance Corp. is the largest finance company in the country.

GM's size and the variety of its operations create an irresistible momentum for further growth at the expense of rivals in any chosen field.

It is worth quoting at length from a Senate Committee report:

> Railroads which were purchasers of buses and locomotives were also beneficiaries of General Motors' freight shipments. It was claimed that railroads "naturally" favored such a good freight customer in making their own purchases. The tremendous financial resources of both General Motors and GMAC, which were deposited in banks in 157 cities throughout the United States, gave it great influence. GMAC is also a good customer of banks, having borrowed up to the legal limit from almost every major bank in the country. It was claimed that directors of banks who also served on the boards of bus purchasers were inclined to favor General Motors over its competitors. Both in buses and diesel locomotives, there was evidence that reciprocity gave General Motors advantages.
>
> General Motors has undoubtedly facilitated the sale of its products through its financial affiliates, GMAC and YMAC. None of its competitors are so situated. Thus, General Motors has at its disposal the means, through its financial affiliates, of underwriting market expansion, a method not available to competitors.[2]

Here is a single corporation with 1955 sales of $12.4 billion, assets of over $6 billion ($10 billion including the finance subsidiary), 624,000 employees, profits of $2.5 billion before income taxes, and $1.2 billion after taxes.

The apologists for this monopoly claim that it serves the public by passing on to the users of its products the benefits of improved technology. Suffice it to say that between 1929 and 1956 the price of automobiles increased roughly four times, while that of all commodities generally merely doubled! Of course, the quality is improved. But one *has* to buy the 1956 car, not the 1929 car; one *has* to pay the multiplied price, and help GM realize its eight-fold increase in profits before taxes (five-fold after taxes) over the 27 year interval.

An additional du Pont acquisition was U.S. Rubber, one of the

Big Four tire companies. The three industrial giants of the du Pont empire have unusually close ties—du Pont, for example, supplies *all* of the paint for GM—and so the growth of each improves the position of the others.

These big three of the du Pont empire are linked financially by massive blocks of stock. The du Pont family, in 1939, controlled 44% of du Pont Corp. shares, and 16% of U.S. Rubber Co. shares, and there is no reason to think that this has been reduced.[3] The du Pont Corp., in turn, owned and still owns 23% of all GM stock, in addition to shares owned by family members individually or through their holding companies.

Certainly this combination is a natural target for anti-trust activities. A Senate Committee in 1949 listed 19 cases in which the du Pont Corp. had been a defendant. (There have been more since). But the anti-trust cases are mere pinpricks. The total fines levied against all of the defendants in the 19 cases were $95,500, equal to the profits made by GM in 42 minutes.[4] A later Congressional report aptly commented: "The ineffectiveness of the anti-trust laws and enforcement is evidenced by the fact that although General Motors and GMAC were found guilty of violation of the anti-trust laws in 1939, nothing was done to separate them so as to deprive General Motors of this competitive advantage."[5]

The du Ponts also have a major stake in the aircraft industry. Prior to World War II GM was a leading factor in the then small aircraft manufacture and transport business. Pursuant to New Deal legislation, it had to dispose of most of these properties. However, it retained the Allison Division, a leader in aircraft engine manufacture. And North American Aviation, one of the two airframe companies derived from the former GM holdings, is still dominated by the du Pont interests, as Bendix Aviation, another GM offshoot, may be. Thanks to the manifold multiplication of the aircraft industry's scope, the du Ponts derives much greater profits from it than during the 1930's.

Among the financial institutions, the du Ponts have control of the Wilmington Trust and the Delaware Trust, the two main banks of Delaware; of a life insurance company, Continental American; and of several family investment and holding companies, the most important being Christiana Securities Corp. They apparently retain leadership in the $2-billion auto industry bank, the National Bank of Detroit, which is still dominated by GM men. The du Ponts control an important brokerage house, Francis I. du Pont & Co., which following recent mergers has the second largest number of branches

in the United States. They also control Laird & Co., a Delaware house, and United Funds, an investment trust.

The companies of the $13-billion du Pont empire, with their assets, are listed in Appendix 11. This list excludes the substantial banking, real estate, lumber, and railroad properties of the Florida branch of the family.[6]

The assets of *industrial* companies controlled by the du Ponts are half those of the Rockefellers, and two-thirds those of the Morgans. But the du Pont companies have extremely high rates of profits, relative to assets and to capital. To an exceptional extent, the du Ponts run their companies personally, and act as their own managers. Almost every director of the du Pont Corp. is a du Pont by birth or marriage, as are many of the executives. A half dozen du Ponts grace the GM board.

Du Pont power, already vast, is growing as rapidly as that of any other plutocratic family. They are perhaps the most brazen in flaunting their power. Their aide John J. Raskob boasted: "The du Pont group controls a larger share of industry, through common stock holdings, than any other group in the United States. There is no group, including the Rockefellers, the Morgans, the Mellons or anyone else that begins to control and be responsible for as much as the du Pont Company."[7]

In 1942 Lammot du Pont told his big business associates how to deal with the government in wartime: "Deal with the government and the rest of the squawkers in the way you deal with a buyer in a seller's market! If the buyer wants to buy, he has to meet your price. . . . They want what we've got. Good. Make them pay the price for it. . . . And if they don't like the price, why don't they think it over?"[8]

During the 1930's the du Ponts were leaders in the big business war against labor. They were (and still may be) the dominant force in the National Association of Manufacturers. It was more than symbolic that the titanic struggle of the United Automobile Workers against General Motors culminating in the victorious sit-down strike of 1936-37 opened the floodgates for the organization of basic industry in America. But the du Ponts have succeeded in keeping their chemical empire non-union, as have also most other chemical companies. The methods of "paternalism" have played a part here. More important has been the du Pont policy of expansion in the low-wage, Jim-Crow South. All eight of the plants in the textile fibres department, which has the largest sales, are in southern or border states, as are four out

of six polychemicals plants. By 1950, half of the company's plant investment was in the South.

In addition to leading the fight against labor, the du Ponts during the 1930's were the major backers of the pro-fascist movements of that decade—the Liberty League, the Crusaders, etc. They were the largest financial contributors to the Republican Party in the anti-Roosevelt campaigns.

However, the main issues facing the country have changed to those involving war and peace, affecting the du Ponts in a new way.

This clan is the example par excellence of the war-made billionaire. Its entire history, through the First World War, was based on war. But as a result of its diversified expansion since that time, du Pont fortunes are no longer *specially* tied to war. Indeed, their fabulous monopoly position is primarily in consumers goods (autos) and chemical products for civilian markets (synthetic fibers). The traditional explosives of E. I. du Pont de Nemours Corp. are no longer a major item in armament procurement. Much publicity has been given to GM's wartime arms contracts. But by 1955, despite the $40 billion military budget, only 7% of GM's business was in armaments.

Of course, the du Ponts have gained many billions from recent wars. Their peacetime profits were helped by the wartime gains of the United States. The remaining military business of GM is not exactly insignificant. They control a major aircraft company, and their hidden profits from operation of atomic weapons facilities are substantial.

But on the whole, their *relative* involvement in armaments is less than that of some other groups, and some of the glitter of arms profits is lost by virtue of the corporation taxes associated with high military budgets—the du Ponts do *not* share significantly in the special tax concessions of the oil and mining interests. And their foreign investments are mainly in the more developed capitalist countries, rather than in the seething areas of former and present colonial rule.

Consequently the du Ponts have been superseded by others in leading the aggressive, militarized policies characteristic of big business today.

DU PONT-MORGAN ALLIANCE

Coming to the fore later than others, the du Ponts were unable to gain control of major Wall Street banks and insurance companies. Even their fabulous industrial profits are not enough to finance the capital investments required for GM and du Pont to grow as they have, and outside help is required.

This began in the economic crisis of 1921, when GM lost $39 million and its reserves were wiped out. The du Ponts turned to the House of Morgans for aid. The Morgans issued about $100 million in securities to stabilize GM's finances and to buy out William C. Durant, who had shared control with the du Ponts.

This alliance has lasted through the decades, with GM now the largest single area of Morgan financial activity, and with Morgan raising the funds which made possible GM's huge profits. Similarly, the House of Morgan has floated du Pont Corporation's security issues and a Morgan bank, Bankers Trust, is its main fiduciary. This bank serves the same function for U.S. Rubber, and the Morgan lawyer, the late John W. Davis, was its general counsel. Kuhn, Loeb, however, has been investment banker for U.S. Rubber.

Through this alliance, the du Ponts have established their major international cartel arrangements with the British chemical trust. More than half of the GM shares sold by the Morgans in 1921 were bought by Explosives Trade Ltd., the company of the British Nobel interests. This community of interest between the du Ponts and the Nobels spread to broader fields as the former became the dominant factor in the American chemical industry and the Nobel firm became the core of the British chemical trust, Imperial Chemical Industries. With this growth the two concerns formed a "Grand Alliance." They shared patents and processes, and agreed on a division of all world markets, covering "virtually all chemical products manufactured by both. . . . Du Pont and ICI have abandoned all pretense of business rivalry in numerous major foreign markets, including Canada,* Argentina, and Brazil. There they do business as a single, unified concern through jointly owned local companies. . . . they have succeeded in cartelizing these tributary chemical markets, thanks to their combined power and prestige."[9]

Through ICI, du Pont was also effectively connected with I. G. Farben, the great German chemical combine, and the three divided the world chemical markets. The specially intimate du Pont-ICI link was a significant item in the net of industrial and financial alliances linking the Morgans and associated American interests with British finance capital; which remain a significant factor in world inter-imperialist relationships. Alongside of this, there are a number of indications during the postwar period of an especially intensive development of connections between the Rockefeller-Standard Oil interests and West German finance capital.

*In 1954, pursuant to a U.S. anti-trust verdict, the two were forced to split their Canadian holdings.

THE MELLONS OF PITTSBURGH AND KUWAIT

Pittsburgh, the Ruhr of America, produces within its boundaries and nearby counties one-fourth of the country's steel. It also leads in production of bituminous coal, and of the commodities used in steel production—coke, refractories, and metallurgical lime. Specializing in the heaviest, most vital industrial equipment, it is first in steel mill equipment, and second in electrical equipment. The overwhelming concentration on heavy industry is illustrated by the fact that 82% of the manufacturing workers are in durable goods industries.[10]

Time writes: "In the 20th Century as in the 19th, Pittsburgh was ruled by money and steel, and by people bearing the names of Frick, Carnegie, Mellon. . . ." The magazine describes how these allies combined to rule labor, ruin farmers and small businessmen. Frick "armed his agents with coke forks, kitchen knives and flintlocks and subdued rebellious labor. The Mellons fought the battle from their bank. The Mellons were never engineers, chemists, inventors, or even builders. They were moneymen." Thomas Mellon "knew all the laws on foreclosures and he traded in other men's recklessness."[11]

The moneymen came out on top in this equation, becoming the main financial center of the heavy industries of Western Pennsylvania.*

Thereafter the Mellons ruled Western Pennsylvania with the aid of the violent and almost feudal methods of the old steelmasters. Through the 1930's the company towns of Pennsylvania were particularly notorious. The CIO and the New Deal modified this, but during the postwar decade Mellon's domain has again appeared as a stronghold of reaction, in the spirit of the time, the anti-Communist crusade.

The financial capitol of the Mellons is the Mellon National Bank & Trust. By the 1920's it dominated most of the banks of Western Pennsylvania, and after World War II directly absorbed 31 of them, thereby rising from 21st to 11th in size nationally. Through financial relationships, the Mellons control outright or direct the affairs of the leading companies in manufacture of coke ovens (Koppers), refractories (Harbison-Walker), and high-alloy steels (Crucible and Allegheny Ludlum). They share with the Hanna-Mather interests

* The Hillman family, which controls The Peoples First National Bank and Trust Co., Pittsburgh Steel, and other heavy industry enterprises, is the second-ranking Pittsburgh interest. The Hillman empire is a sort of junior edition of the Mellon's. While the two have interlocking interests, as in the Fidelity Trust, by and large the Hillmans appear to maintain an independent position.

control of the largest non-captive coal company, Pittsburgh Consolidation. The fourth largest steel manufacturer, Jones & Laughlin, is within their sphere of influence.

Probably no other group equals the Mellons in controlling the manufacture of equipment for heavy industry.

With the Hillman interests, the Mellons share the manufacture of basic steel industry equipment, the latter dominating Mesta Machine, the former at the helm of United Engineering & Foundry.

U.S. Steel, the largest steel producer in the Pittsburgh area and nationally, is still dominated by the Morgan interests. But U.S. Steel must come to Mellon companies for coke ovens, rolling mills, and refractories.

National Supply Co., one of the two leaders in oilfield equipment, is in the Mellon sphere. So are Pullman, Inc., first ranking company in railroad equipment, and Blaw-Knox, maker of equipment for steel mills, and for chemical, petroleum and other industries. The Mellons share with the Rockefellers control of Westinghouse Electric, second to G.E. in electrical equipment (see Appendix 12).

In most of these heavy industry enterprises, the Mellons have acted as bankers and acquired shares in what were originally family companies of the Pittsburgh steelmasters. This is the original source of Mellon power.

ALUMINUM

Using local industry as a base, the Mellons have struck out in other directions, without their Pittsburgh associates. The clan's present-day billions are mainly in aluminum and oil. Aluminum Co. of America (Alcoa) and Gulf Oil have been held by the Mellons with solid blocks of stock comparable to those of the du Ponts in their chemical company. Prior to World War II, Alcoa was the *only* domestic producer of primary aluminum, and its Canadian affiliate, Aluminium Ltd., was a leading worldwide producer. The demand for aircraft aluminum in World War II revolutionized its role in the economy. From an element used only slightly, and mainly in such commodities as pots and pans, aluminum became a major metal, used not only in armaments, but increasingly in automobiles, construction, electrical equipment, and many other basic industries. Between 1938 and 1955 U.S. production of aluminum multiplied 11 times.

In many areas aluminum is displacing copper, and less conspicuously, steel. American Telephone & Telegraph is substituting the light

metal on a large scale; power companies are installing long distance transmission lines of aluminum, sometimes scrapping existing copper lines.

The dominance of the Mellons in aluminum leads to the increase in their overall position, especially in relation to the Morgans, who lead in steel and copper. In 1955 the assets of U.S. Steel were still almost double those of the Mellon aluminum companies, and profits more than two and one half times as great. But the stock market operators, who deal in expected future profits more than in immediate returns, valued the shares of the Mellon aluminum companies at $3.7 billion (as of April 30, 1956), within 5% of the market valuation of U.S. Steel shares, and two and a half times the market valuation of Kennecott Copper shares.

The recent appearance of competition in U.S. aluminum is largely illusory. Following its World War II expansion to major industry status, American anti-trust traditions required the ending of the one-company status. Under pressure from the Roosevelt Administration, the Mellons had to agree to the establishment of two other producers, Kaiser and Reynolds.

However, the fixed price, with Alcoa the "price leader" is firmly held. The Mellons and Kaiser, especially, have had intensive financial relations from the start of the latter's aluminum venture. Seemingly, then, cartel-like arrangements are unusually strong in this industry. In one respect, Alcoa gained from the establishment of the new companies. These, seeking markets, have most actively engineered new uses for the metal, in which Alcoa has participated after its rivals opened the door.

World-wide, the Mellons now have a grip on this new metal that is unsurpassed in any product of comparable importance.

At the end of 1955 their companies had a combined capacity of 1,454,000 short tons of primary aluminum, including 44% of the U.S. capacity, all of the Canadian capacity and part of that in Brazil, Italy, Norway, Sweden, Japan, and India—besides fabricating plants in other countries. The Mellon companies' capacity equalled 48% of the world total, excluding socialist countries. Prior to World War II Germany led in aluminum production, but now the United States has more than ten times the capacity of West Germany. The Mellon companies alone produce more than twice as much aluminum as all other non-socialist companies of Europe and Asia combined. So rapidly has the use of the metal grown that they produce more today than the entire world did as recently as 1949.[12]

The key raw material for aluminum is not the mineral, bauxite,

which is relatively plentiful. It is electric power, consumed in enormous quantities in aluminum production. Thus England, without hydropower and short of coal, cannot become a major aluminum producer and must import most of its supplies from Mellon's Aluminium Ltd.

The Pittsburgh plutocrats have based their aluminum development on direct ownership of all electric power requirements. Thus, the Duke family of North Carolina became large Alcoa stockholders through the sale of Canadian hydropower facilities to the Mellons. Alcoa has its own power installations, either water power or steam power, near each of its aluminum smelting plants. And at its new Texas plant it owns natural gas wells to supply the fuel for the power plants, with Mellon's Lone Star Gas Co. in a position to make up any deficit.

Altogether, the Mellon aluminum companies own power capacity exceeding the national totals of such countries as Australia, Brazil, or Spain.

A 14-year anti-trust suit ended in 1951 with a court decree forcing stockholders to dispose of either their holdings in Aluminium Ltd. or Alcoa. However, it allowed ten years for this, which leaves ample opportunities for new arrangements. And 14% of the Aluminium, Ltd., shares, belonging to the Mellon, Davis,* and Duke families, were excepted. This block is sufficient to insure retention of effective control. The president of Aluminium Ltd., Nathanael V. Davis, is nephew of the Alcoa chairman, and Aluminium Ltd. sells Alcoa about one-fifth of its total ingot production each year.

But a doubt arises for the future because Mellon shares in Aluminium Ltd. are now voted by court-appointed trustees, headed by the Chemical Corn Exchange Bank of New York. Either the Mellons must come to some understanding with the bank (if they have not done so already), or face the possibility of a fight for control at some future period. In any case domination will remain within the Wall Street framework and will not go to Canada, since 75% of the stock of this Canadian company is held in the United States.

OIL

Early in the 1900's, the Mellons bought out the prospector and promoter who had developed the fabulous Spindletop oilfield of Texas. From this commodity the Mellons derive even larger profits than from aluminum, although their position does not approach that of

* Arthur V. Davis was Mellon's close aide in promoting and managing Alcoa, and his family owns about one-third as many shares as the Mellons.

the Rockefellers. The Mellon corporation, Gulf Oil, is one of the big seven of the international oil cartel. Its foreign holdings have expanded most rapidly since World War II. In 1946 Gulf produced 87 million barrels of crude oil in the United States, 35 million barrels elsewhere. In 1955 it produced 98 million barrels in the United States, 252 million barrels elsewhere.[13] Among U.S. companies, Gulf is now second only to Standard Oil (NJ) in foreign production.

In this amazing growth, the Mellons have been accidental beneficiaries in the attempts of the Iranian people to reclaim their own oil. In the share out of Middle Eastern petroleum, Gulf Oil obtained the concession in the sheikdom of Kuwait, in a 50-50 partnership with the British Anglo-Iranian Oil Company (now British Petroleum Co.). The British, politically controlling Kuwait, were able to dominate the affairs of the joint enterprise. They kept output low, depending instead on their Iranian oil. But when the Iranian oil was nationalized, Kuwait became Anglo-Iranian's main source. Production multiplied, and by 1953 rose to first place in the Middle East.

It has continued to increase, and, in addition, Gulf Oil obtained 7% of Iranian output in the resharing of that country's oil after the downfall of Mossadegh (see Chapters XV and XVII).

With the added profits and supplies of crude oil from Kuwait, Gulf in 1956 inaugurated a major domestic expansion. By March 1956, it was importing into the United States almost as much as Standard of New Jersey, and buying up East Coast service stations to provide outlets.

Crude oil being the main thing, local companies with dwindling reserves fell into the hands of Gulf. Most important was Union Oil of California. In exchange for Kuwait crude and $120 million of Mellon cash, this largest of the California independents turned over the equivalent of a 22.4% interest. According to *Business Week*, "Wall Streeters are putting it down as a 'slow merger'."[14]

Other profits were used to purchase the $150-million Warren Petroleum Co., an Oklahoma natural gas producer. Control of extensive Canadian reserves was parlayed into 60% ownership of British American Oil Co., a Canadian combine with 7,000 retail outlets.

Gulf has also expanded in petrochemicals. Its joint company, Goodrich-Gulf, now owns more synthetic rubber capacity than any other concern in the world.

It is difficult to overestimate the importance of Kuwait in the postwar growth of Mellon power and wealth. Smaller in area than Massachusetts, and with fewer people than Fort Wayne, Ind., this principality has more known oil underground than the entire United States of America. From its share in Kuwait's wealth Gulf Oil derived a profit of over $160 million in 1955,[15] which amounted to about 40% of its profits from all sources.* This profit from Kuwait rises rapidly year after year.

While Gulf Oil's stake in the Middle East is less than that of the Standard Oil companies, taken together, its *relative* dependence on the Middle East for rapid profit growth is greater.

American foreign policy is deeply involved in the struggle between the major international oil companies and the peoples of the Middle East. There can be little doubt as to the foreign policy favored by the Mellons—retention of private foreign ownership of that oil at all costs.

The community of interests with the Rockefellers in this respect is obvious, and there has been a corresponding cementing of economic ties.

MELLON ALLIANCES

Relations between the Rockefellers and Mellons are characterized by a growing and unusually close alliance, even closer than that of the Morgans and du Ponts. Through this alignment the Mellons obtain protection from any squeeze by Standard Oil against their world-wide oil operations, and gain the immense backing of the Rockefeller-controlled financial institutions. The Rockefellers, in turn, obtain a guarantee against Mellon attacks on their oil positions, general cooperation in economic and political affairs, and a favored position in access to the basic metal industries in which the Mellons hold such a strong position, but in which the Rockefellers are comparatively weak.

This is a pronounced shift from the situation existing before World War II. At that time the Morgan banks supplied the main financial backing for the heavy industry companies in the Mellon sphere of influence. Richard Beatty Mellon, president of the Mellon National Bank in 1933, sat on the Board of Morgan's Guaranty Trust, while Morgan men were numerous on the Board of Pullman.

Bond and stock issues of the Mellon companies were handled by their own Mellon Securities Corp., an affiliate of the Mellon National Bank. But the Morgans with their great reserves were the ultimate bankers.

* As calculated in oil industry circles, not in the published reports, where total profits are set lower for tax purposes.

The Mellon interests have not abandoned all ties with the Morgans. Morgan banks continue to perform fiduciary services for a number of Mellon industrial firms. The Pennsylvanians retain strong secondary positions in such Morgan companies as Niagara Mohawk Power and American Brake Shoe. And Morgan influence is significant in Goodrich, with which the Mellons jointly hold synthetic rubber factories. But the closest ties—as in Pullman, Inc., and in the Guaranty Trust directorate—have been broken. And in their postwar expansion, the Mellons have worked with the Rockefellers.

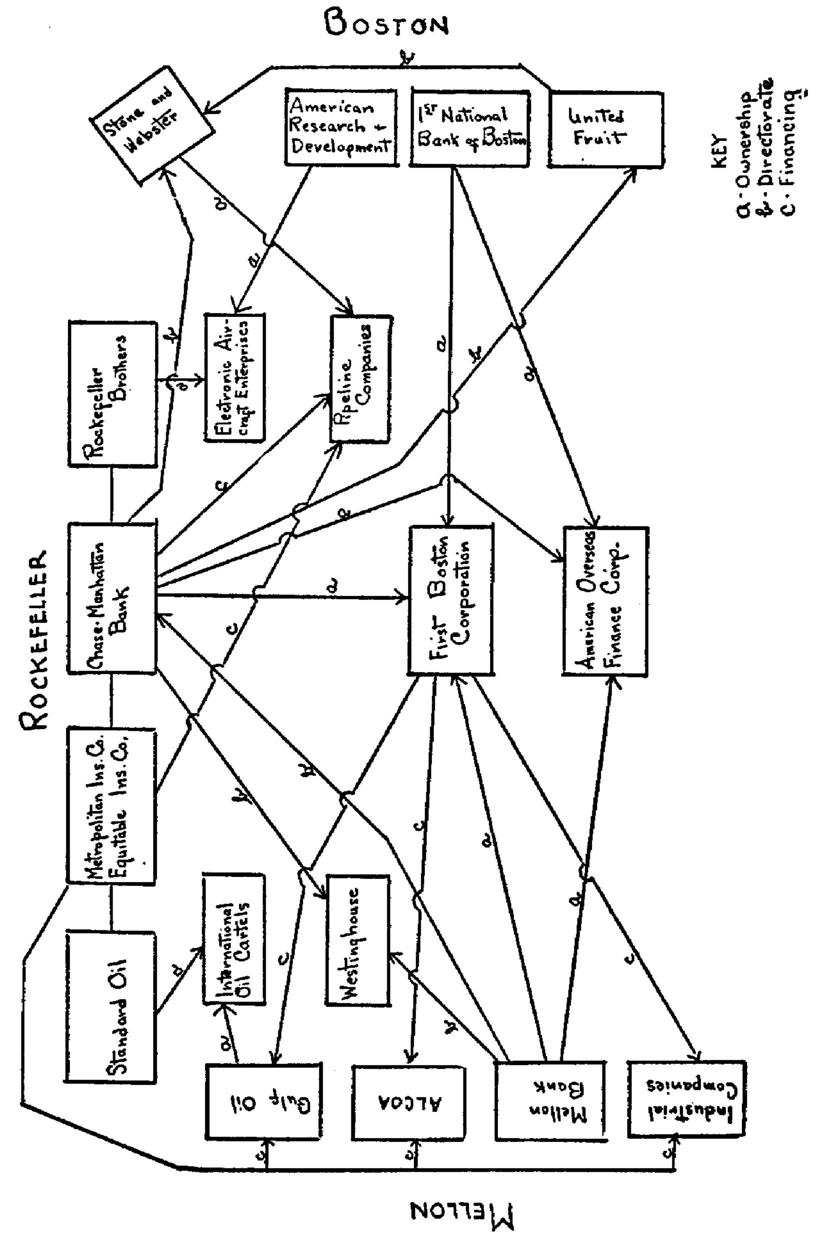
This shift was made possible by the increase in Rockefeller financial power to approximate parity with that of the Morgans. The logic of it became apparent, as already noted, when the center of gravity of Mellon super-profits shifted to foreign oil.

Even before World War II there were important connections between the two groups. They worked together in the international oil cartel. They were the leading forces in Westinghouse Electric. Standard Oil families were joined with the Mellons' Koppers Co. in railroad and utility enterprises.

A major feature of the new postwar alliance was the 1946 merging of Mellon Securities into the First Boston Corp., investment banking vehicle of the Rockefeller and Boston interests. Subsequently, almost all the investment banking business of the main Mellon companies has been carried out by First Boston. And the Rockefeller insurance companies have poured hundreds of millions into Mellon enterprises. For example, the Equitable Life Assurance Society financed the $50-million group of office buildings with which the Mellons have refurbished Pittsburgh's "Golden Triangle." Aside from this, at the end of 1953, Metropolitan and Equitable had outstanding $488 million in major loans to Mellon companies (as against $66 million by Prudential and New York Life, the Morgan companies).[16] J. Frank Drake, retired chairman of Mellon's Gulf Oil, links the boards of the Chase Manhattan Bank and the Mellon National Bank & Trust Co. The latter is a participant in the Chase-headed American Overseas Finance Corp.

Parallel with the First Boston deal, certain insurance interests of the Mellon-Boston-Rockefeller complex were brought together. This and the other interrelations of these groups are shown in Chart V.*

* While the most vital holdings were brought together, there was a regrouping of lesser industrial properties. The main Koppers railroad and utility properties have been ceded to Standard Oil men, while the Rockefeller coal properties have been merged into the Cleveland-Mellon controlled Pittsburgh Consolidation Coal Co.



The Mellons are junior partners of the Rockefellers in this alliance, but they have not merged into the stronger circle. Whether the two will come still closer together, forming a single super-empire, or whether conflicts of interest will arise and break up the alliance, remains for the future to tell.

THE BOSTON FINANCIERS

> *"And this is good old Boston*
> *The home of the bean and the cod*
> *Where the Lowells talk only to Cabots*
> *And the Cabots talk only to God."*
>
> —John Collins Bossidy, 1910.

The Proper Bostonians are the oldest group of traditional aristocrats in the United States. A few families, descendants of early arrivals, intermarried through many generations. Theirs was a leading position in commerce and government in the early history of the country.

The Boston patricians were "pioneers" in overseas expansion from the colonial days when the merchants handled the African slave trade and dealt in West Indian produce. They led in the formulation of the aggressive philosophy which justified the Spanish American War, the conquest of the Philippines, and the "Big Stick" policy towards Latin America. The First National Bank of Boston established branches in South America and Cuba, and the Bostonians acquired control of the economies and governments of Central America through their trading company, now known as United Fruit.

At the same time, the First National Bank of Boston, together with secondary institutions, became the financial center for the industry of Massachusetts and northern New England.

However, the Boston capitalists lacked control of the basic industrial resources necessary to achieve a major position. There are neither basic steel mills nor oil wells in New England. And the Bostonians were unable to obtain control of these elsewhere. The principal industries of New England became less important as the predominance of heavy industry increased. The movement of textile and other light industries to the South often involved corporate reorganizations. Back Bay bankers remain in control essentially of the rump of the textile industry, the high quality mills remaining in New England. The companies making machinery for light industry have also stagnated.

The United Shoe Machinery Co., a Boston concern, which dominates the manufacture of the shoe machinery in the United States and many other countries as well, ranked tenth in profits among U.S. industrial corporations in 1907.[17] In 1954 it ranked 178th.[18]

American Woolen, the famous Boston-controlled woolen goods leader, has passed out of existence (see Chapter VI).

United Fruit has fared better. But oil and metals, not bananas and sugar, are the key commodities of the present period in international investments. United Fruit cannot compare with the giants of international oil, and is smaller than the U.S. copper companies operating in Chile and other foreign countries.

Today not a single one of the 100 largest non-financial corporations is controlled by the Boston financiers. Of the 500 largest manufacturing corporations in 1954, only four were Boston-controlled.*

The really large-scale manufacturing enterprises in New England are controlled by Wall Street interests. Examples are the plants of General Electric and the Bethlehem Steel shipyard. Ownership control of the largest utility, New England Electric System, is essentially divided between Morgan and Rockefeller associates, although local bankers control Boston Edison.

Meanwhile, the decline of industry in New England played havoc with the lives of the people. The workers had to endure long spells of chronic unemployment, even in recent boom periods. Wages fell considerably below the levels of the main industrial centers.

As shops ran away, Boston aristocrats turned their eyes more and more to foreign sources of profits. All of the production of United Fruit, the largest Boston-controlled industrial corporation, is in Latin America. More than half of the employees of United Shoe Machinery and of Gillette, as of 1952, were in foreign countries.

Since World War II, the Massachusetts magnates have attempted to recoup their domestic position with the development of munitions enterprises, principally in the field of electronics and optics which do not use massive quantities of basic industrial materials. Their participation in this new field today at least compares in importance with their remaining textile holdings.

The failure of Boston bankers to control basic industry led to their rapid fall in comparative financial power, forcing an increasing subordination to the dominant New York centers. Initially they controlled the American Telephone and Telegraph Co. But they lost

* The four companies: Raytheon Manufacturing, television tubes and military products; Gillette Co., razor blades and toiletries; Pepperell Manufacturing, textiles; and the United Shoe Machinery. The first two also have significant ties with the Morgan interests. Only one, Gillette, had net profit after tax of more than $10 million in 1954 (it had $26 million). United Fruit, not a manufacturing corporation, is larger than any of these four.

control to the Morgans early in the present century, when the company became larger than could be handled with the Boston financial resources.

This presaged the general pattern of development. The Bostonians have grown wealthier, but their control area has diminished. They now own financial institutions with combined assets of $10 billion,* and several billion more in personal trusts. But these billions are invested largely in corporations led by others, mainly the Morgans and the Rockefellers.

BOSTON ALLIANCES

The Back Bay bluebloods continue to have a secondary role in General Electric, the Morgan electrical equipment trust. Paul C. Cabot of the State Street Investment Corp. is a director of J. P. Morgan & Co., and his investment trust has sizeable holdings in Morgan utilities and other enterprises. The president of Raytheon Manufacturing, largest military-electronics firm of the Bostonians, is Charles Francis Adams, brother-in-law of Henry S. Morgan of Morgan, Stanley & Co. Another director of Raytheon is Carl J. Gilbert, the Morgan-connected Gillette Corp. president.

Anna Rochester wrote: "The position of the First National Bank of Boston resembles that of a trusted and powerful provincial council operating within the great Morgan empire."[19] This presented the essential relationship, and was more accurate than the *Structure of the American Economy's* classification of the Boston center as a major independent group.**

However, since then the Boston connections with the Rockefeller interests have become more decisive. A major step was taken in 1934 when the investment banking affiliates of the Chase National Bank and of the First National Bank of Boston were merged in the First Boston Corp. Former officials of both have been active in First Boston, but the majority of the leading positions have gone to the Chase National Bank men. Furthermore, the Rockefellers provide the larger share of the business of First Boston, and therefore have the main say in its affairs. This merger created conditions for the linking of the large Boston fortunes and those of the Standard Oil families in a variety of industrial enterprises, and for close working relations between

* First National Bank of Boston, National Shawmut Bank, Second Bank-State Street Trust, John Hancock Mutual Life Insurance Co., Massachusetts Investors Trust, and others.

** This study strained a point to include the Boston group, assigning to it non-financial assets of less than a billion dollars.

the Latin American branches of the two banks. The First National Bank of Boston, like the Mellon's bank, joined Chase National in 1955 in the American Overseas Finance Corp. The American Research and Development Corp., a Boston company which finances promising corporations in atomics, aviation, electronics and allied fields, is often associated with the Rockefeller brothers and J. H. Whitney & Co.

Emphasizing the growing industrial connection was the election of John J. McCloy, Chase Manhattan Bank chairman, to the board of United Fruit in 1955.

As with the Mellons, the closer alliance of the Boston interests with the Rockefellers follows not only from the rise in the general financial position of the oil families, but also from their emergence as the leading force in U.S. foreign investments. Themselves dependent largely on "colonial" profiteering, the Boston group tends increasingly to line up with the leader in foreign finance.

While similar to the Mellon-Rockefeller relationship, there is less of equality, and more of subordination, in the position of the Bostonians both in their alliance with the Rockefellers and in the now secondary, but still significant tie to the Morgans.

STONE & WEBSTER

During the 1920's Stone & Webster, an old Boston engineering and investment firm, became the base of a substantial public utility holding company system, Engineers Public Service, and served as the public utility center for the Boston financiers.

However, during the past two decades Stone & Webster moved its operating center to New York, and switched its main financial allegiance from the First National Bank of Boston to the Chase Manhattan Bank. This shift, which further weakened the Boston group to the benefit of the Rockefeller interests, has proved extremely profitable to Stone & Webster and its new associates.

Stone & Webster, Inc., is a holding company, with engineering and service company subsidiaries for public utility business. These receive fees from the power companies formerly in the Engineers Public Service system, mainly in the South, from additional power companies where the Rockefeller interests had investments in the 1930's, and from the new natural gas pipelines.

Another subsidiary, Stone & Webster Securities, Inc., has become the keystone of a major investment banking group. The closely linked firms are White, Weld & Co., Kidder, Peabody & Co., and Paine, Webber, Jackson & Curtis.

During the period 1950-55 these four firms headed syndicates accounting for 9.5% of all corporate securities issued. This is approximately equal to the share of the two houses connected with the First National City Bank, and is a much larger share than these four companies enjoyed prior to World War II.

The gain results from the position of Stone & Webster and White, Weld as investment bankers and leading stockholders in the new "Cinderella Industry," the piping of natural gas.

Before World War II manufactured gas was the main fuel for home cooking. Use of natural gas was limited to areas comparatively close to the producing wells. Enormous quantities of gas, produced as a by-product of petroleum, went to waste. The Morgan-United Corp. interests, which owned large coal deposits for manufacturing gas, kept out the rival fuel through their ownership of the only existing system of pipelines that could approach the eastern seaboard.

However, during World War II the pipelines known as Big Inch and Little Big Inch were built by the government to carry petroleum to the East. After the war they were sold to a group of Texas contractors and large contributors to the Democratic Party, the Brown Brothers of Houston. The Browns, through a new company, Texas Eastern Transmission Corp., converted the pipelines to carry natural gas, and with this supply broke the tacit boycott along the eastern seaboard. The Stone & Webster-White, Weld group bought and organized other companies. With their better access to financing and connections with utility and oil and gas companies, they soon outstripped the Texas-controlled company.

Natural gas became the main household cooking fuel. It accounted for 9% of the total energy supply of the country in 1930, and 23% in 1953. By 1954 over 95% of all gas sold was natural gas.[20]

All this was of no benefit to the consumers of gas. In 1954 Tennessee Natural Gas Co. paid an average of 9.5 cents per 1,000 cubic feet of gas, which it sold to Consolidated Edison for 32 cents per 1,000 cubic feet. Consolidated Edison in turn charged domestic users about three times that amount. In all, household users pay about ten times the well-head cost of the gas. They pay as much as they formerly did for manufactured gas and the new product is inferior. Since the operating expenses of the pipelines are minimal, the profits are enormous. Here is how *Fortune* describes the profits of control in this new business: "And for a really handsome killing the idea is to get in on the promoter's share of stock in new gas pipelines—the most famous example being the deal in 1947 that translated a $150,000 cash investment by the promoters of Texas Eastern Transmission Corp. into a paper value of $9,975,000 and the equivalent of a 22.8% interest in a $216 million enterprise."[21]

And that is the least of it. In a period of a little more than three years Texas Eastern paid out $37,870,000 for contract work and services to Brown & Root, Inc., the engineering firm of the promoters in question.[22]

Besides the profits to directly controlling groups, large yields flow to the great Wall Street banks and insurance companies who supply the bulk of the capital through bonds and preferred stocks. In the case of Tennessee Gas Transmission Co., the largest, 67.6% of the capital consisted of bonds, and 12.8% of preferred stocks at the end of 1954. Only 19.6% of the capital consisted of the controlling common stock.

The interest rate on the bonds and the dividend rate on the preferred stocks average about three-fourths of one percent higher than on corresponding issues of electric power and gas companies. Since already several billions of these bonds and preferred stocks are outstanding, this means a marked rise in the income flowing into the insurance companies and banks.

The Stone & Webster-White, Weld group controls the first, second, and fourth largest natural gas pipeline companies (Tennessee Gas Transmission Co., El Paso Natural Gas Co., and Transcontinental Gas Pipe Line Co.), with combined 1954 assets of $1.6 billion. Over 17 million people in New York, Philadelphia, and New Jersey now get gas from the Stone & Webster companies, as well as millions more in the central part of the country and on the Pacific Coast.

The Stone & Webster-White, Weld group obtain profits through their holdings of promoters stock, through underwriting fees on the many security issues, and through a variety of financial, service, and engineering fees. On holdings of 722,000 Tennessee Gas shares at the end of 1954, representing a maximum investment of $3.6 million* (and perhaps only a fraction of that) Stone & Webster and White, Weld had received $5.4 million in dividends, many millions in financing, engineering, and service charges, and a paper profit of $20.8 million in the appreciation of the value of their shares.[23]

The pipeline companies borrow heavily from both the Morgan and the Rockefeller insurance companies. But almost all of the bank loans of the Stone & Webster-White, Weld companies, and most of their bond trusteeships and stock transfer agencies, are placed with the

* The Stone & Webster-White, Weld group bought the company from Chicago interests in 1945 for $10.5 million, and shortly thereafter sold part of their holdings to the "general public" for $6.9 million.

Chase Manhattan Bank, which also supplies the main credits for the Stone & Webster electric power companies. The Rockefeller interests are represented on the board of Stone & Webster Inc. by Ralph T. Reed, of the Rockefeller-controlled American Express Co., by Henry U. Harris, partner in Harris, Upham & Co., a brokerage firm close to the Chase Manhattan Bank, and by Edward L. Love, a former high official of the Rockefeller bank and chairman of one of the Rockefeller family corporations.

In 1955 other Rockefeller allies, the Mellons, assisted in putting the Stone & Webster interests in a key position in the proposed $350-million Trans-Canada pipeline.

The Murchisons of Texas, owners of oil and gas properties in Canada, were the original promoters. Lacking adequate financial resources, they appealed to the Canadian Government for aid. Canada agreed, but insisted on majority control of the pipeline's common stock in return. The Murchisons accepted these terms, but not so Gulf Oil, which owns the bulk of the natural gas reserves in the Province of Alberta, where the pipeline is to originate. "Gulf wouldn't have anything to do with selling gas to a government-owned pipe line," said a spokesman of this Mellon-controlled giant.[24]

To resolve the situation the Murchisons turned over effective control to a syndicate headed by Stone & Webster's Tennessee Gas Transmission Co., Mellon's Gulf Oil, and an affiliate of Morgan's Continental Oil. This ensured virtually 100% U.S. control and extraction of profits from the "Canadian" enterprise.

Certainly, the new combination was in a position to finance the entire pipeline through Wall Street institutions. But it demanded even more Canadian Government financing than the previous syndicate, and without granting any stock interest. Overriding intense public and parliamentary opposition, the Liberal Party Administration of Canada capitulated. Evidently the Rockefeller-Mackenzie King association (see Chapter IX) has become institutionalized!

Paine, Webber, Jackson & Curtis, the remaining house of the Stone & Webster group, are the masters of the "independent" telephone systems of the country, mainly combined in the $700 million General Telephone Co. Kidder, Peabody, owned mainly by the Webster family, handles various of the Stone & Webster utility and industrial venture.

The utility properties of this group, embracing gas pipelines, telephone companies, and power companies, have total assets of about $4 billion. The whole might be considered as a financial protectorate of the Rockefeller empire.

PHILADELPHIA

Philadelphia is one of the most active financial centers in the country. Its large banks hold over five billions in trust for the Main Line families, its insurance companies and investment trusts are additional repositories of company shares and loans. The three leading banks of the city (First Pennsylvania Banking & Trust Co., Philadelphia National Bank, and Girard Trust-Corn Exchange Bank) are intertwined through mutual connections with the other financial institutions, certain industrial companies, and the great Pennsylvania Railroad.

However, Philadelphia is not an independent center of financial power. To an unusual extent, its institutions are auxiliaries of a single Wall Street group, the Morgans.

Drexel & Co., the only important investment banking house in Philadelphia, is a direct offshoot of the House of Morgan, and consists essentially of former partners of J. P. Morgan & Co.

A Philadelphia historian writes of the early 1900's: "Investment banking came to be highly regarded as a source of profit, and the influence of J. P. Morgan & Company found ready access to the boards of Philadelphia's principal banks through Morgan's three Philadelphia partners. . . . A newspaper of the day asserted that (the banks) were 'prominently aligned under the Morgan influence.'"[25]

After 1933 most of the obvious interlocking directorates between the House of Morgan and the Philadelphia banks were eliminated to satisfy the terms of New Deal banking legislation. But personal ties of equivalent significance remain, and these indicate that there has been no real change in the higher authority over the Philadelphia banks.

At least five directors of the Philadelphia National Bank are close Morgan associates, including Charles Steele Cheston, a director of J. P. Morgan & Co. The Chairman of the First Pennsylvania Bank & Trust Co., William L. Day, spent his whole career with Morgan Stanley & Co. and allied institutions before moving into the bank. Six Girard Trust-Corn Exchange Bank directors have Morgan backgrounds, including the chairman and president, although they have not moved as high in the Morgan circles as have the Philadelphia National Bank directors.

The board of the Pennsylvania Railroad is densely interlocked with the Philadelphia banks, which may be regarded as a vital link between the Morgan banking interests and the giant railroad system.

CHAPTER XII

The Midwestern Groups

WEST OF PITTSBURGH two great centers of industry and commerce developed during the 19th century—Cleveland and Chicago. Together with them arose important banks and financial cliques, which spread their influence over the surrounding areas. In the 20th century these were consolidated into interlocking empires, with a certain degree of independence of the main Wall Street centers.

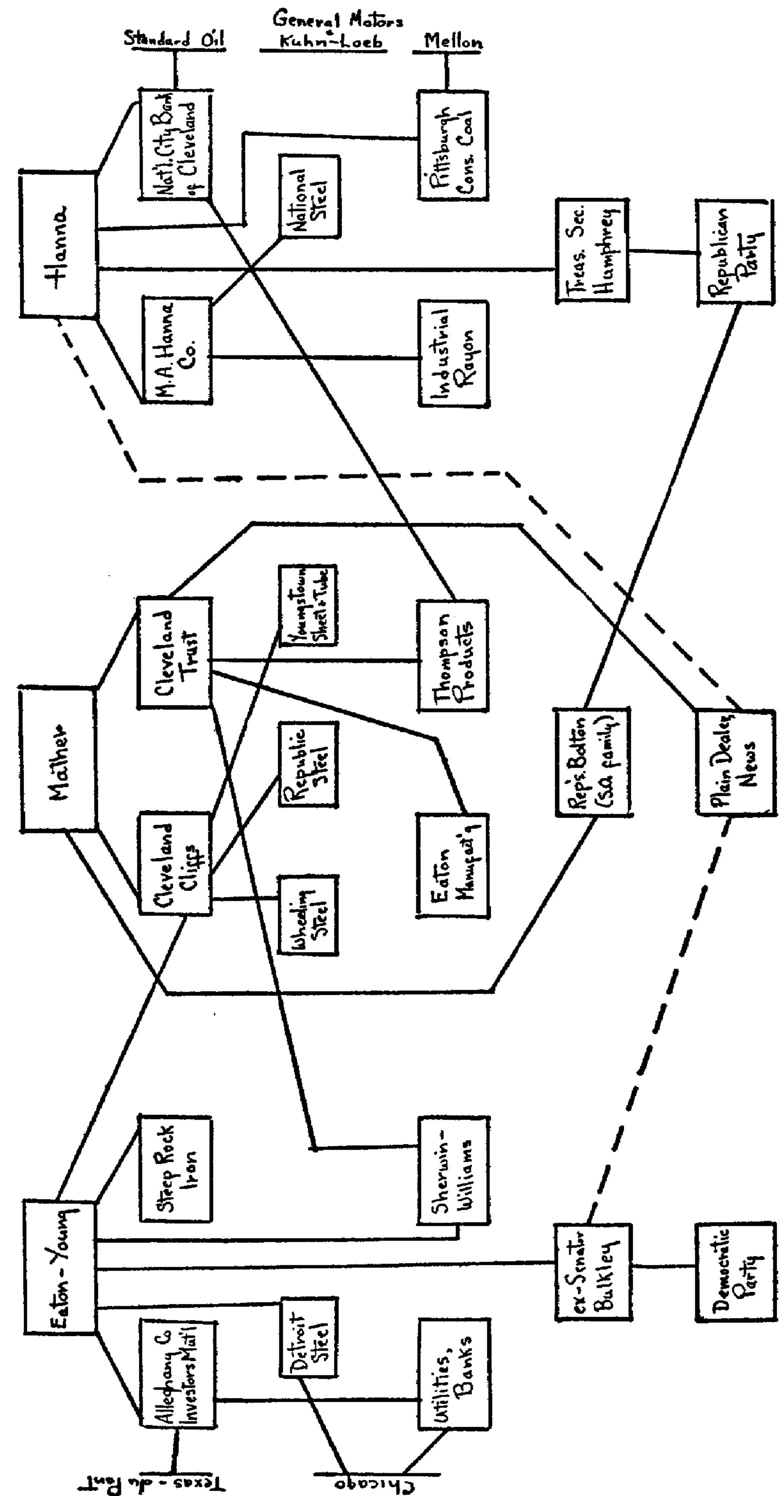
Later, when Detroit rose to industrial prominence with the auto industry, the main centers of finance in the East had already crystallized. Financial control of the automobile industry, from the start, was with Wall Street.

While achieving a degree of independence, the Cleveland and Chicago interests were unable to build up sufficient financial resources to remain wholly outside of New York influence. For the billions in capital needed to remain on the top industrially, they required investments by the wealthy families, banks and insurance companies of the East to supplement their own. Inevitably, control of important enterprises shifted eastward also. But in other cases it was possible to keep Wall Street financial interests in a minority position.

As a result, the relationships between the midwestern groups and the eastern groups has been a compound of alliances and rivalries, mergers and battles for corporate control.

Largely because of their geographical location, the main influence of the midwestern groups has been within the domestic economy. Since they have no overseas bank branches, their important export and foreign investment positions have been especially dependent on Wall Street's international banking network and governmental connections.

Economic rivalry, and differences in the conditions and types of expansion, have been reflected in significant political rivalries and policy differences, especially between Chicago and New York financiers.



HANNA, MATHER, EATON, AND YOUNG

The $14-billion empire of the Cleveland group was founded on the iron of the North Country and on the Great Lakes waterways. Cheap iron was the lever for winning control of small foundries and mills and uniting them into modern corporations. Metal profits poured into allied banks. From these positions, the network spread first to encompass the varied machinery and metal fabricating companies which developed in Ohio, and later to include more widespread and varied enterprises.

Today the Clevelanders control four of the ten largest steel companies in the country, the largest merchant pig iron company, great coal and ore deposits, the largest tire manufacturer, some of the most famous names in machine tools and metal fabrications, important paint, automobile parts, machinery and miscellaneous heavy industry companies, and a major rayon producer. A railroad network stretching from coast to coast has been acquired during the past two decades, with the most important and final links won in the mid-1950's.

The overall power of the Cleveland group is signified by its ownership or control of one of the 20 largest banks, one of the two largest investment trusts, seven of the 100 largest non-financial corporations, and some 40 other companies of significant size (see Appendix 13).

Chart VI illustrates its peculiar structure, consisting essentially of three grouplets with manifold interlocking ties. Two of these derive from well back in the 19th century. Samuel Mather led one; the noted president-maker, Marcus Hanna, led the other. Neither is dominated by a single family like the Rockefellers or du Ponts, but both include the merged interests of a number of families. Hannas and Mathers, however, are still active in their affairs. The Mather grouplet owns the Cleveland Trust Co., largest bank in the city, and dominates Cleveland Cliffs Iron, most powerful of the ore and lake shipping combines. Through these, it leads the affairs of Republic Steel, Youngstown Sheet & Tube, and Wheeling Steel. The Hanna grouplet owns the National City Bank of Cleveland, the M. A. Hanna Co. in iron, and National Steel.

The investments of both are merged in varying proportions in most of the other Cleveland-controlled industrial corporations.

Canadian-born Cyrus Eaton and Texas-born Robert R. Young are the founders of the Eaton-Young grouplet, still in its first generation. While comparative newcomers, their fortunes have grown in large part along the traditional Cleveland route of iron ore and steel. Their main financial institutions are the Alleghany Corp., Investors Diversified Services, and the Central National Bank of Cleveland. Steep Rock Iron is their direct iron property, but they also have a large interest in Cleveland Cliffs. They control Detroit Steel, and through Cleveland Cliffs, have a position in the Mather steel companies. They have lesser investments in other Cleveland manufacturing companies, specializing rather in railroads and public utilities.

The lower part of Chart VI shows some of the connections with politics; the Hannas and Mathers mainly with the Republican Party; Eaton and Young mainly with the Democrats. Boxes to the side show the directions of alliances—the two older groups mainly with the du Pont, Rockefeller, and Mellon interests; Eaton and Young mainly with Chicago and Texas.

The divergence of interests among these grouplets has caused frictions and open conflict from time to time, especially involving Eaton. However, the merging of interests among all three is sufficiently intensive to justify regarding the differences as secondary, and to consider the entire combination as a single major group.

This Cleveland center has grown more rapidly than most others in recent decades (see Chapter VIII). An underlying cause has been the circumstances enabling the group's steel companies to increase their share of the markets. Between 1929 and 1954 U. S. Steel's capacity increased 37%, while that of the four main Cleveland-owned companies rose 85%.* Other companies also gained at the expense of U. S. Steel, but it meant most to the Clevelanders because their decisive industrial concentration is in steel. Part of the gain resulted from the "weak management" of U. S. Steel, which up until the late 1940's rested on its dominant position while others expanded around it. This has been changed, and the period of easy gains at the expense of U. S. Steel has come to an end. Other factors were the advantages in location and "product mix" of the Cleveland companies. U. S. Steel's facilities were until comparatively recently adapted mainly to the manufacture of products which predominated when it was founded, especially rails and other shapes used by that industry and its suppliers.

The Cleveland companies, because of the geographical location of their plants and the period of their most rapid development, specialized in the sheet and strip steel used by the automotive and appliance industries, and in pipes for oil field development. Thus, U. S. Steel had its main concentration in declining or stagnant markets; the

* U.S. Steel from 28.2 to 38.7 million net tons, the four Cleveland companies from 12.9 to 23.9 million net tons, according to *Iron Age*.

Cleveland companies in the rising markets. Automobiles alone now account for over one-fifth of all steel produced.

In 1955 Republic and National, the two largest Cleveland steel companies, supplied 33.4% of General Motors' Steel, as compared with 26.4% supplied by U. S. Steel,[1] despite the interlocking directorates and financial associations between General Motors and U. S. Steel. This implies no discrimination against U. S. Steel. Its share in GM business is large, considering the types of steel it specializes in. But it does create the material basis for closer financial relations between the Cleveland group and the General Motors-du Pont interests.

DEPENDENCIES AND ALLIANCES

Despite its great industrial expansion, the Cleveland group has remained comparatively weak financially. Lacking control of major investment banking houses or insurance companies, the Cleveland tycoons depend on New York (mainly), and Chicago for their major new capital needs. Kuhn, Loeb & Co. is the investment banker for the Cleveland steel companies, Halsey, Stuart & Co. for Eaton's enterprises. At the end of 1955 eight large industrial corporations with important Cleveland connections were in debt to the big four New York area insurance companies by almost half a billion dollars.[2]

The leading position of the Cleveland companies as a supplier of General Motors is a two-way proposition. It strengthens the Clevelanders and at the same time creates a dependence on GM, which is the stronger party. When National Steel sells about one-fourth of all its finished steel products to one company, as it did in 1955, this dependence becomes marked, and intimate relations tend to develop.

For example, in 1950, GM loaned $40 million to Republic Steel to help it increase its capacity for supplying the auto manufacturer. (It also made loans to other steel companies, but the Republic loan was the largest).[3]

The relationship is tightened by the position of GM as one of the largest employers in the city of Cleveland, and as a purchaser of machinery and auto parts from local firms. Officials of GM Cleveland plants are on the boards of directors of several important Cleveland-group corporations.*

* For example, George W. Codrington, general manager of the GM Diesel Engine Division, located in Cleveland, is on the boards of Addressograph-Multigraph Corp. and National Acme Co. Harold R. Boyer, of the GM Cadillac Cleveland Tank Plant, is a director of the Parker Appliance Co.

Relations with GM naturally lead to ties with the du Ponts, its dominant owners. Robert Young worked for various du Pont interests for 15 years before becoming an "independent" financier and affiliating with the Cleveland group. His Investors Mutual holds its stock in trust with the Equitable Security Trust Co. of Wilmington, one of the du Pont-dominated institutions. Edmond E. Lincoln, until his retirement in 1953 the economist of the du Pont Corp., is a director of Investors Diversified Services (parent of Investors Mutual) and also of Cleveland Cliffs, the key iron ore and holding company of the Mather and Eaton interests.

John D. Rockefeller started his oil business in Cleveland, and established lasting economic and political ties there. A substantial part of the $4-million fortune of Amasa Stone, father-in-law of Samuel Mather, derived from his railroad rebates to Rockefeller as head of the Lake Shore Railroad, and his subsequent participation in the Standard Oil Trust. In 1890 Marc Hanna, then the rising political boss of the Republican Party, interceded with the Ohio attorney-general to try to stop an anti-trust suit against Standard Oil, while H. B. Payne, father of a Standard Oil partner, was put into the U.S. Senate as a Democrat in 1884.

Descendants of Payne married into the Bolton family of Cleveland. Aided by the Standard Oil money, the Boltons became prominent in the Mathers' Cleveland Trust and Cleveland Cliffs Iron, and also in Republican politics. There were two of them in Congress in 1956. Standard Oil operates in Ohio through two companies, Standard Oil Co. (Ohio) and Ohio Oil Co. Both of these are represented on the board of Hanna's National City Bank of Cleveland, and their law firm* has directorates on important Cleveland industrial companies.

The Hanna-Mather interests also have close ties with the Mellons in industrial enterprises, notably steel and coal companies.

Eaton and Young, as already noted, have their main alliances outside the Wall Street groups. Their rise in power over the past quarter century has been accompanied by a series of battles, especially with the Morgans, but also with the Mellons, and at times with some of the Mathers.

Thus two trends appear among the lords of Shaker Heights, one towards collaboration and merging with Wall Street interests, the other towards opposition to the eastern groups and collaboration with other midwestern interests.

* McAfee, Grossman, Taplin, Hanning, Newcomer & Hazlett.

EATON-YOUNG'S CAMPAIGN AGAINST WALL STREET

The people of Cleveland have a pronounced progressive and anti-monopoly tradition. The town was an important center of the abolitionist movement and the Underground Railroad, and its newspaper, the Cleveland *Plain Dealer* was a champion of democracy and anti-monopoly sentiment before its takeover by the iron and real estate magnates late in the 19th century. The high point of that movement was the 1901-09 mayoralty of Tom Johnson, crusading trust-buster who municipalized Hanna's traction system. The vitality of the democratic tradition was demonstrated in 1956 when a Cleveland jury was the first to acquit Smith Act defendants.

Eaton and Young have capitalized on the anti-trust sentiment to win support for their own empire building. Cyrus Eaton got his start as a utility scout for the Rockefeller interests, and with their aid started to build his own empire. By the 1920's he put together a holding company, United Light & Power, working in close conjunction with the Insull network. Both collapsed during the 1930's, with the Mellons and utilities financier Harrison Williams picking up the pieces of Eaton's company.

Before this denouément, Eaton, then in control of Republic Steel, endeavored twice to effect a grand merger of all the Cleveland steel companies. The attempts failed in the face of adverse economic conditions and divisions among the Cleveland capitalists.

Most members of the Mather family were more favorable to a proposed merger of Youngstown Sheet & Tube with Bethlehem Steel, oriented to the Guaranty Trust and the Naitonal City Bank of New York. Eaton launched a battle against this merger, under the slogan "Ohio for Ohians." Cleveland society (including the Mather family) was split down the middle in the struggle, with the press supporting Eaton. He lost the stockholders' vote, but finally prevented the merger through a series of court battles.[4] The merger proposal was revived again in 1955, but has been at least delayed by the opposition of Attorney General Brownell, for reasons which remain obscure.

Meanwhile Robert R. Young, often working with Eaton, started to build his railroad empire in a series of battles with the Morgans. The first was over the Alleghany Corp., railroad and real estate holding company for the Morgan-sponsored Van Swearingen brothers. After several years of battles in the courts and before government agencies, Young won out in 1940, thereby gaining control of the Chesapeake &

Ohio, and the Nickel Plate railroads. Undoubtedly, the unpopularity of the Morgans during the New Deal period was of value to Young in this fight. By 1956, after an even longer battle he emerged in control of the Missouri Pacific, which had been in receivership. The contest for the New York Central began in 1951 and come to a climax in the 1954 proxy fight won by Young.

Despite his battles with Wall Street, Young maintains all sorts of financial relations with the Wall Street banks. At the end of 1954, his control blocks of shares in New York Central were held in trust by the Manufacturers Trust Co. and the Chase National Bank, among others. He retains J. P. Morgan & Co. as transfer agent for the stock of his key holding company, the Alleghany Corp. This does *not* mean that the fight between Young and the Morgans was staged. It was genuine enough. But battles among groups of big finance are for limited objectives, not usually for the economic annihilation of the rival. And these battles on particular fronts do not prevent simultaneous alliances on others.

Indeed, Young himself has attempted to become a major factor in the Wall Street financial world—thereby following in the footsteps of the Californian Giannini (Chapter XIII). Through the Alleghany Corp. and Investors Diversified Services, Young and his associates purchased a large block of shares in the Marine Midland Corp., an important Wall Street banking chain. But, the controlling interests rebuffed his bid for a position of major influence, and part of the shares were sold.* Young had to be satisfied with gaining control of a small New York bank, the Colonial Trust Co.

A particular objective of this move was to gain access to foreign investment opportunities: "Colonial has put heavy accent for a bank of its size on its foreign department. Some 300 foreign banks have deposits with Colonial. . . . The deal means that CI [a Young holding company, Chesapeake Industries], will now look overseas for most of its expansion."[5]

Cyrus Eaton, also, has not really changed his ways since the 1920's when he built up holding company empires and promoted steel mergers in the typical Wall Street fashion.

For example, in 1943, Eaton dealt himself and his associates the shares of a Canadian company, Steep Rock Iron Mines, Ltd., for a penny a share, or a total cost of $14,375. At the time the shares on the Toronto Stock Exchange were valued at $2,400,625, according to

* However, the Marine Midland Corp. does have significant relations with the Cleveland group, including a number of directorates and fiduciary appointments.

U.S. tax officials. Among the recipients of the penny-a-share stock were George E. Allen, an influential Washington figure who became a director of the Reconstruction Finance Corp. in 1946, and Dr. Charles A. Eaton, late uncle of Eaton who had been Rockefeller's Baptist minister in Cleveland and then became a Republican Congressman from New Jersey. The success of the Steep Rock Iron Mines was made possible by a $5-million R.F.C. loan, and by $30 million of rail and power facilities made available by the Canadian government. In 1955 alone, the company's net profits were $9.2 million.[6] Eaton saw "absolutely no impropriety" in the gift to Allen, admittedly made because he was "a very prominent citizen."[7]

The "anti-Wall Street" line of the Eaton-Young forces, and other Eaton peculiarities (such as his 1946 campaign contributions to CIO-PAC—later he contributed to the Republicans), have resulted in considerable friction between the Eaton-Young interests and the more conservative, longer-established Hanna-Mather interests of Cleveland. Eaton's 1943 machinations in Canadian iron were brought to light in a U.S. tax case prosecuted by the Internal Revenue Service under the jurisdiction of Treasury Secretary George M. Humphrey, then the leading figure of the Hanna combine. But the close intertwining of Eaton-Young and Hanna-Mather holdings continues.

With the gradual exhaustion of cheap iron reserves in the United States, the Cleveland group has sought and found an excellent basis for future expansion. The Hanna-Mather interests and Eaton have gained control of the lion's share of the rich iron reserves being opened up in Northern Canada. Connected therewith is the construction now underway of the St. Lawrence Seaway, for cheap transportation of this ore. It will also permit direct ocean voyages between Cleveland, Detroit, Chicago and overseas ports. This will enhance the opportunities of the Clevelanders in overseas trade and investments, where they have been weaker than the other major groups of finance capital.

Promoted during the 1930's by President F. D. Roosevelt, the St. Lawrence Seaway was delayed for two decades by New York interests, principally the Morgans. However, in the 1950's the Canadian government announced that it would proceed with the Seaway construction without the United States, if necessary. U.S. participation was ensured when Humphrey entered the cabinet in 1953. While generally trying to reduce government expenditures, he used his full influence to swing the scales in favor of the additional spending needed for this project of interest to himself. An officially sponsored account

of the Eisenhower Administration cabinet meetings reports that: "As the former chairman of the board of the M. A. Hanna Co. of Cleveland, Humphrey explained that he was predisposed toward it because the steel industry favored the seaway for the access it would provide to Canadian ore." The President was not yet convinced, so Humphrey waved the flag at a later meeting:

> Humphrey maintained that access to Labrador ore deposits made the inland waterway necessary to national security. He emphasized that the Mesabi Range in Minnesota no longer offered hope of rapidly expanding yields, whereas the Labrador deposits had the potential for the kind of expansion once possible in the Mesabi.

U.S. Steel dominates the Mesabi, the Hanna-Mather interests in Labrador. The issue was settled soon after by the National Security Council, with Humphrey present.[8]

Doubtless the Seaway is valuable to both Canada and the United States. The point is that its construction was decided upon less for that reason than on the traditional principle of American politics, the "pork-barrel," and by the changed balance of forces between different groups of finance capital, in this case the Cleveland and Morgan interests.

CHICAGO GROUP

With the rapid development of industry and trade after the Civil War, Chicago became the main link between midwestern agriculture and the institutions of modern capitalism. The grain was traded on the Chicago exchange, meat packed in its stockyards, the carrying railroads passed through its terminals. Its bankers financed the farmers' mortgages, its manufacturers sold them farm equipment, and its mail order houses sold them household goods. Great steel plants arose to supply rails for the freight lines, tin plate for the canning of meat, barbed wire for the farmers' fences. Numerous machinery factories were established to tool the varied industry.

Thus Chicago became the first major center of capitalist power outside the East. In 1892 the New York *Tribune* listed 281 Chicago millionaires, a larger number than for any other city except New York (which had 1,103 plus several hundred in its suburbs).[9]

But in the industrial combinations which the Morgans organized around the turn of the century, Chicago was not overlooked. Its basic steel industry passed into the hands of U.S. Steel. The main railroads passing through Chicago, not already in Wall Street hands, were

taken over. New York capital penetrated, though less decisively, into the farm equipment and mail order fields.

The only important local study of finance capital to appear in the postwar period, *Who Owns Chicago,* observed:

> . . . very important sections of Chicago industry are not represented on the Chicago banks but are financially controlled from elsewhere in the country. For example, virtually the entire railroad and railroad equipment industry—a major industry in Chicago—is controlled by the great New York banking and investment houses. Again, almost the entire Chicago steel and iron industry—the area's largest single employer—remains out of the sphere of influence of Chicago finance-capital, with New York (Morgan) and Cleveland (the Hanna-Mather interests) dominating the scene.[10]

This statement somewhat exaggerates the fact. But it is true that Wall Street penetration has limited the development of the Chicago financiers, both in the range of industry under their control and the degree of independence of their operations. Yet the Illinois bankers have increased their wealth and influence. The important industries of the area not taken over by Wall Street were interlocked with the great Chicago banks, in the customary pattern of finance capital. They built their own "spider web" of assorted financial institutions with which to exercise control and extend it.

Outside of the Morgan and Rockefeller groups, the Chicago empire remains the largest and most independent. It is a major rival not only in the world of corporate affairs, but also in politics. During the past two decades the Chicago bankers have offered the only consistent big business opposition to certain major Wall Street policies, and have been the only serious contestants for decisive national power. This opposition is most reactionary in character, and quite influential.

The empire of the Armours, Fields, McCormicks, et al, has not grown so rapidly as some of the others during recent decades (see Chapter VII). This results from the comparative weakness of the Chicago group in control of basic industry, increasingly decisive with the militarization of the economy. It is compounded by the rapid relative decline of agriculture.

Indeed, if these factors were the only ones, the Chicago group would have suffered a marked diminuation, and like the Boston financiers become more and more an appendage of Wall Street. However, the Chicagoans have been very tightly knit within their own sphere of control. Rather than merging with Wall Street, they have attempted to bolster their power in opposition to Wall Street by adapting to new conditions. Insull and Byllesby formed the third largest public utility

empire in the country during the 1920's. This suffered an inglorious collapse during the crisis of the 1930's, but the Chicago banks emerged in control of important segments of it. International Harvester expanded into other machinery fields, so that by 1955, two-thirds of its sales were in products other than farm equipment. Sears, Roebuck was transformed from a rural mail order house into the largest chain of urban non-food stores in the country.

The one basic steel company controlled by Chicagoans, Inland Steel, has enjoyed an exceptionally rapid growth. Oil investments have increased notably. Windy City financiers have a large interest in the Texas Co., along with the Hanover Bank of New York and certain secondary groups. They have participated thereby in the postwar spurt in the foreign profits of the Texas Co., which is one of the majors of the international oil cartel. They also run the sizeable Pure Oil Co., and other smaller oil and uranium investments.

Chicago bankers, like the Eaton-Young interests of Cleveland, have fought to preserve their positions with the use of anti-Wall Street demagogy, but with a more sinister Hitlerian tinge. The press of Chicago is directly owned by the wealthiest families. The most important paper, the Chicago *Tribune,* exerts a wide influence over a five-state area. It is owned by the McCormick family of International Harvester. Since the 1870's the McCormicks have used it to spread the propaganda line known as "Midwest isolationism." This includes hatred for other peoples, anti-labor tirades, and support for extreme reactionaries like McCarthy. But it also includes attacks on Wall Street, and exposures of the political and economic machinations of the main Wall Street groups.

The Chicago bigwigs followed a dual policy towards the New Deal. They were second to none in their violent attempts to suppress the rising labor movement—witness the Memorial Day massacre of Chicago Steel workers in 1937. Their racist propaganda and organizations bore fruit in the persistent violence against the Negro residents of Chicago who were seeking decent homes. But these same circles were active in support of New Deal financial legislation. Halsey, Stuart & Co., the leading investment banking house, together with Eaton of Cleveland, was influential in bringing about the regulations requiring competitive bidding for public utility bond issues—and profited greatly therefrom.

In the anti-Wall Street atmosphere, Chicago interests regained undisputed control of companies in which New York banks had penetrated in the time of financial stress. These included packing

companies, certain utility companies, and the Continental Illinois National Bank & Trust Co., one of the two giant Chicago banks.

Halsey, Stuart & Co. has regained its position as one of the leaders in investment banking, although restricted mostly to competitive bidding issues. Moreover its syndicates are narrow, including mainly secondary houses in smaller centers and unimportant New York houses. The profit margins are small, and Halsey, Stuart's control of the business uncertain.

In 1950 Halsey, Stuart and the First National Bank of Chicago outbid New York syndicates for a $100-million World Bank bond issue. But against the opposition of the New Yorkers, they couldn't sell it and had to dissolve the syndicate with 35% of the bonds unsold. Thereafter the World Bank turned over its bonds, without competitive bidding, to Morgan Stanley & Co. and the First Boston Corp.

Once more in 1953, the *New York Times* reported: "Morgan Stanley & Co. and Halsey, Stuart & Co. are engaged again in a fierce competitive struggle."[11] Morgan had arranged a $25-million bond issue for one of its utilities, Consumers Power Co., under "special" circumstances whereby it claimed competitive bidding was unnecessary. Halsey, Stuart opposed and lost, the Michigan State Power Commission deciding for the Morgan interests.

The opposition to Wall Street, of course, is limited to gaining ground at New York's expense. Moreover, as in Cleveland, there is among the Chicago bankers an opposite tendency towards collaboration and merging with Wall Street interests. But it is much weaker than in the case of Cleveland. The number and significance of interlocks between Chicago companies and such groups as the Morgans and Rockefellers, not to speak of the Mellons and du Ponts, is less than in the case of the Cleveland group.

Chicago is the only city outside New York designated as a Central Reserve city of the Federal Reserve System. With deposits one-fourth of New York's the Chicago commercial banks are a regional center for the financial life of Illinois, Iowa, Indiana, and parts of Wisconsin and Michigan. The First National and the Continental Illinois are the seventh and ninth largest banks in the country. Together with other Chicago banks, they hold in trust estates of the McCormick, Field, Armour, Norris, Wrigley, and other multi-millionaire families. Their almost $10 billion of personal trust assets, while only one-fifth those of the New York banks, are double those held in any other city. Other significant investment banking houses, besides Halsey, Stuart & Co., operate from Chicago.

The main industrial and financial concerns of Chicago are so interlocked as to represent a single largely unified empire, although of course, there are rivalries and shifts in power position within that domain.

Among the metal, farm equipment, lumber, machinery, printing, railroad, oil, and utility companies of the Chicago group are nine of the 100 largest non-financial corporations. (See Appendix 14 for details).

Recently defeated by Wall Street in their bid for political leadership under the late Sen. Taft, the Chicago group is isolated, to an unusual extent, from the center of power in Washington. This, combined with the history of economic rivalry, sets the stage for severe future conflicts.

Large banks and insurance companies exist in St. Louis, Minneapolis, Cincinnati, and Des Moines. However, these banks are closely connected mainly with industrial concerns of only local importance. They orient either to Chicago or to various Wall Street centers, and do not play a significant independent role. Similarly, the important industries of many midwestern cities are parts of national corporations controlled by a major financial center, and having only relations of convenience with the local banks.

CHAPTER XIII

Bankers and Bombers in California

THE FAR WEST has been the growth region of the United States during the 20th century. Rich natural resources and favorable climate have encouraged a rapid inflow of new residents along with economic expansion. The population of the three Pacific Coast states rose from 3.2% of the national total in 1900 to 10.4% in 1954, while California—now with 13 million people—jumped from 21st to second in population rank.[1]

But until World War II economic development was mainly of a character which caused observers to regard the region as a sort of colony of the East. Agriculture, mining, lumber and oil were the heart of its economy, and except for farmland, most of these resources were owned by Easterners. The second World War and its aftermath wrought a marked change in California, the key state of the area.

The needs of prolonged and all-out war forced the development of substantial basic industry in California. Once begun, it was carried further after World War II by the increasing emphasis on military aircraft, missiles and atomic weapons, and by growth of industries stimulated by wartime opportunities.

Yet the growth of industry was incomplete and unbalanced. In 1952, total manufacturing in the Pacific Coast states remained less proportionately than their share in population. They accounted for 13% of food manufacturing and 41% of lumber products, but only 5% of primary metals and machinery.[2]

The military emphasis is shown by the location on the West Coast of only 3% of national motor vehicle production, but 56% of aircraft production;[3] of only 2% of steel capacity,[4] but 37% of aluminum capacity.[5] Concentration on newer industries can be a progressive factor in a peaceful world atmosphere, but they arose and are still primarily stimulated by military demands.

Western industry is mainly owned and controlled from the East. This is almost wholly true of the mining and metallurgical industries of the Rocky Mountain states. In California there has been an important growth of locally-owned industry. But Wall Street interests still predominate, especially in the large-scale enterprises requiring huge aggregates of capital and favored relations with the suppliers of basic industrial machinery. The General Electric Co. and the National City Bank played a major role in centering in Wall Street the control over the important West Coast utilities. The great Southern Pacific system, originally built under California millionaires' control, has for many decades been majority-owned in the East, as have the other leading railroads, and, of course, the telephone system.

Approximately two-thirds of the oil production, somewhat more than half of the lumber and paper production, two-thirds of the aluminum production, and 56% of the aircraft production on the Pacific Coast are controlled by Wall Street capital (or, in the case of lumber, Chicago capital). However, through the remarkable growth of the Kaiser enterprises, locally owned companies now account for 57% of the expanded West Coast steel capacity.

For a long period the Hollywood motion picture industry was perhaps the most useful medium for the widespread dissemination of the precepts of the wealthy. Their cultural importance dimmed by the advent of television, motion pictures remain a source of lush royalties from foreign countries. However, both the influence and the royalties accrue to Eastern owners.

The main areas in which local capital predominates are in the manufacture of food and farm machinery, in construction and truck transportation.

Typical symptoms of outside control are to be found in the gutting of natural resources in lumber, oil and minerals, higher prices for many commodities, and the special exploitation of minorities, although local capitalists are just as responsible as the outsiders, especially for the latter feature. However, the population of the Far West has largely overcome the tendency towards colonial status. Anti-monopoly struggles have been very persistent, and public power has made substantial advances. The labor movement has a tradition of radicalism and militancy, resulting in wage scales equal to, and in some industries higher than, anywhere else in the country.

Outside ownership and inadequate industry have hampered the development of foreign trade. Despite obvious natural advantages, Pacific Coast customs districts accounted for only about 8% of total foreign trade in 1952, a smaller proportion than during the 1920's.

At the same time, California capitalists have carved out their own small colonial niche, dominating the trade and agriculture of Hawaii.

Because California's main growth came in the present century—the age of concentrated control—monopoly has gone even further than in other parts of the country.

This is particularly apparent in farming. California agriculture is big business, corporate business, to an extent not approached in any other state. The average value of product per farm is three times the national average. The use of hired labor, and large investments in equipment, waterworks, electricity, etc., go far beyond other sections of the country.

Most of the workers on these "factories in the field" are Mexicans, either nationals who come over the border for the season or permanently-resident Mexican-Americans. The low wages, abominable conditions, and mistreatment of these workers, especially the immigrants, are notorious.

Concentration in banking has increased faster on the West Coast than in any other region. A single institution, the Bank of America, has sprouted to the point where it makes more than half of all bank loans in California through its 574 branches. The holding company Transamerica Corp., under common ownership with the Bank of America, has similarly mushroomed not only in California, but in the neighboring states of Arizona, New Mexico, Oregon, Washington, Idaho, Nevada, and Utah. Thus a single center holds sway over banking in the million-square mile empire of the Far West, a region containing one-fifth of the country's bank deposits.

However, California has developed more slowly as an independent center of *finance capital.* Being divorced from basic industry until recently, the wealthy Californians have not amassed fortunes on the scale of the Wall Street colossi. The huge California commercial banks do not have a comparable network of trust departments, investment banking houses, insurance companies, and investment trusts.

The new capital forming in California, therefore, flows mainly into the construction industry, light industry and service trades, where numerous small investments rather than great blocks of capital are needed. The large utilities and basic industrial corporations operating on the West Coast must turn to New York for the bulk of their new financing, without which they cannot expand and survive.

A single Wall Street firm, Blyth & Co., connected with the First National City Bank, dominates investment banking on the West Coast. In 1954 this house managed or co-managed the underwriting of $302

million in the securities of Pacific States companies, as compared with $153 million by all Far Western investment banking houses combined, and the latter were limited mainly to securities of lesser companies.[6]

True, Blyth & Co. is partly a California company. Its president in 1955, Charles R. Blyth, began his investment banking career in San Francisco and resides there today. But a larger part of the firm's capital, and a larger number of its partners, are in New York than in San Francisco. Its syndicates center in Wall Street.

Private placement of West Coast corporate bonds is almost wholly with the giant Wall Street insurance companies.

Because locally-owned corporations must turn to the East for major financing, the very process of expansion dilutes the control position of the Californians. During World War II this was temporarily overcome with the aid of government financing and government-built plants made available to some locally-owned enterprises. But in the rapid postwar expansion growing indebtedness again weakened the owners' grip. A number of lesser companies passed into Eastern control during 1955-56, and some of the major enterprises were in danger of a similar fate. Partly countering this trend, the stronger California companies extend their holdings in other parts of the country.

This ebb and flow of power is characteristic of the shifts which take place, together with the growing overall concentration of industry, throughout the country. Here it emphasizes the uncertain future of West Coast monopolists, so far unable to consolidate their holdings. During the depression of the 1930's, two leading California banks, Bank of America and American Trust, temporarily passed into Wall Street control. California financiers have more resources with which to meet another crisis, but are more deeply indebted to Eastern interests.

Despite this financial insecurity, the underlying trend is influenced mainly by the establishment of basic industry and the general broadening and growth of economic activity. This trend, already partly realized, is towards the emergence of a really major center of finance capital in California.

This is taking place not in one, but in three centers of power. One of these consists of the old San Francisco banks and their associated enterprises. Another consists of the Los Angeles bankers, oil men, ranchers, and aircraft magnates. The third—newest and largest—consists of the financial and industrial enterprises of the 20th century "upstarts," Giannini and Kaiser.

The first two are roughly comparable to the secondary Wall Street centers of finance capital, although they play a role in the political life of the country far out of proportion to their economic scope. It is the third, the Bank of America group, which already ranks high economically and is expanding most rapidly both in the Far West and internationally.

Of course these groupings interlock at various points. But in the main their interests are distinct. The other states of the Far West contain no significant financial centers. With few exceptions, their principal enterprises are controlled by Wall Street, midwestern, or California capital.

THE OLD SAN FRANCISCO GROUP

Gold is the Cornerstone is an appropriate title of a recent book about California economy. The gold rush of 1849 and succeeding years provided the basis for the original accumulations of capital on which the San Francisco fortunes were built. Not that these fortunes were garnered by the fabled gold miners—the forty-niners. Far from it! The wealth was concentrated in the hands of the merchants and bankers who drained off the bulk of the gold. The Big Four (Huntington, Stanford, Hopkins, and Crocker) were Sacramento gold-rush merchants. Joining forces, they multiplied their capital through the building of the Central Pacific Railroad by using tens of thousands of Chinese laborers. By 1890 their combined fortunes exceeded $100-million,[7] and provided much of the capital for the acquisition of banks, real estate, and industry.

Merging with the gold fortunes were those of the California landed estates. Under Spanish, and then Mexican, rule, California was dominated by a few hundred large landowners, controlling estates running into hundreds of thousands of acres. After the conquest of California, wealthy Yankees seized all of the Mexican-owned estates. These new owners built California agriculture on the backs of terribly oppressed immigrant laborers, first Chinese, then Japanese, then Indians and Filipinos, and finally—as at present—native and immigrant Mexicans. Part of the wealth derived from the land moved into industry, another part was devoted to the extraction of oil and lumber from the great estates.

Subsequently, the main spur to rapid growth of the San Francisco fortunes became the U.S. conquest of Hawaii and the economic control of these fruitful islands by the San Francisco banks and wealthy

families. Hawaiian sugar and pineapples have been grown, packed, and shipped by hundreds of thousands of Japanese, Filipino and other Far Eastern laborers imported into Hawaii for the purpose. The five firms controlling the Hawaiian plantations, the shipping firms controlling transport, the San Francisco sugar refiners, and the pineapple canners are united in a series of interlocking corporations.

The current profits of the old San Francisco families are closely related to the basic origins of their fortunes. Of slightly over $2 billion in assets in medium and large industrial firms controlled by this group, over $600 million are in food and allied companies, both Hawaiian and mainland. Another $500 million are in lumber and paper corporations, extending beyond the confines of California redwood to the entire Pacific Northwest and into Canada. Another $500 million is in machinery, largely for agriculture. The remainder is scattered among various industries and trade. The old San Francisco families have not had much success in using their fortunes to gain control in the rising newer industries, such as oil and aircraft.*

Descendants of gold and railroad magnates, landowners, and the conquerors of Hawaii have merged their interests through exchange of shareholdings and directorships. The group is financially centered in four San Francisco banks with total assets of over $4 billion, as shown in Table 21.

TABLE 21. OLD SAN FRANCISCO BANKS

Bank	*Assets, Dec. 31, 1955 (millions)*
American Trust	$1,542
Crocker-Anglo National	1,497*
Wells Fargo	596
Bank of California, San Francisco	526

* "Pro-forma" figure, combining the assets of the Crocker First National and Anglo-California National banks, merged in February 1956.

The American Trust has especially close ties with the landed proprietors of California and Hawaii, and with the reactionary publishing families of the Hearsts and the Knowlands—the father of the "Senator from Formosa" is a director. The Crocker family, descendants of gold and railroad magnates, have the largest single influence in the recently merged Crocker-Anglo National Bank.

* The largest industrial corporations of the group (1955 assets in millions) are Crown Zellerbach ($418), Caterpillar Tractor ($335), Food Machinery & Chemical ($235), and California Packing ($195).

The old San Francisco banks have intimate relations with various Wall Street interests: the American Trust has three interlocking directorates with Morgan banks and insurance companies (one of them indirect); the Crocker-Anglo National Bank has three directors in common with Rockefeller oil and insurance companies; Wells Fargo Bank has family ties and joint investments with Lehman Brothers.

In a sense, the Bay Area financiers may be regarded as the West Coast trustees of Wall Street. For a half century Easterners have owned the Southern Pacific and what is now the Pacific Gas & Electric Co. The California share in the stock of these utilities is now quite small. But to operate in Calfornia, and obtain the most in dividends and interest, the Wall Street owners find it expedient to leave much of the operating control and part of the profits therefrom to the Westerners. Both of these companies have all-California executive committees.

Major orders for equipment and long-term financing of these utilities are handled by the Eastern firms associated with the majority stockholders. But the Western directors are able to channel secondary equipment and material orders to their local firms, and to obtain sizeable bank deposits and loan business for their banks.

These short-term borrowings are "small potatoes" compared with the hundreds of millions of long-term bonds held by the great Eastern insurance companies, but they constitute a sufficient inducement to the California interests to "play ball" with the utilities in matters such as rate regulation and state taxation, which have a major effect on profits.

Unlike certain of the midwest groups, then, the old San Francisco banks have profited mainly in harmony with Eastern interests, not as rivals.

This was true politically also. The victory of trade union organization in California was decided by organizing campaigns and strikes in and around San Francisco, headed by the longshoremen. The La Follette Civil Liberties Committee exposed the leading anti-labor role of the Industrial Association of San Francisco. Eastern-owned Pacific Gas & Electric and Standard Oil of California headed the list of contributors for its strikebreaking activities. They were matched in total by the smaller contributions of the old San Francisco banks and their main industrial corporations.[8] The counsel for this San Francisco industrial association was Herman Phleger, attorney for Knowland's American Trust and now counsel to John Foster Dulles in the State Department. There was similar collaboration by Eastern and local interests in backing the vigilante Associated Farmers of California, through which attempts to organize farm laborers were crushed.

THE LOS ANGELES GROUP

The Los Angeles financiers started later than those of San Francisco, and never attained the scope or degree of independence of the northerners. The main sources of Los Angeles wealth historically were oil and climate.

Rich oil finds, early in the century and during the 1920's, were a source of added profits to Standard Oil, Shell, and other Eastern-controlled corporations. The financially weak southern California capitalists remained in a minority position, and one of the largest companies they started, Richfield Oil, ultimately went into receivership and was taken over by a consortium of Eastern companies (Sinclair and Cities Service).

Nevertheless, the minority position of the Los Angeles group was a substantial one, the source of tens of millions in profits and a basis for expansion in other directions.

Los Angeles climate lured two million people to Southern California during the 1920's. Many had modest funds, others worked in the growing construction, commercial, and service activities of the Los Angeles area, including the motion picture capital of Hollywood.

The Los Angeles capitalists and bankers grew richer through real estate developments, trading establishments, and the small-account banking activity corresponding to a consumer goods and services economy.

It was in Los Angeles, center of the aircraft industry, that the World War II boom was most pronounced. Two of the four airplane companies in southern California (they were all small and struggling before the war) were controlled by Los Angeles capitalists and bankers —Douglas Aircraft through sale by General Motors in the early 1930's, and Lockheed as an original speculation.

Alongside of the main industries, aircraft and oil, there have grown up limited secondary industries: electronics and machinery for the aircraft and missile industries; some oilfield equipment and supplies; and a substantial garment industry.*

The two important Los Angeles-owned banks—Security First

* The largest industrial corporations of the group (1955 assets in millions) are Union Oil of California ($546), Lockheed Aircraft ($299), Douglas Aircraft ($285), and Superior Oil ($170).

National and California Bank, Los Angeles—are typically interlocked with the locally-owned industrial and trading corporations. However, these banks have not kept pace with the rapid growth of the area since the 1920's.

One reason has been the successful invasion of southern California by the Giannini interests. During the 1920's the Security-First National Bank was a serious rival of the Bank of America. But the latter has established scores of branches in its rival's area, and today probably does as much business in southern California as the Security-First National. Transamerica banking affiliates have also established southern branches, and Transamerica has the largest single interest in the Citizens National, the third largest Los Angeles bank.

The result is that the Los Angeles banks have not gained in deposits nearly so rapidly as the San Francisco banks. Moreover, with their inadequate industrial connections, the Los Angeles institutions do not have sufficient outlet for their deposits in loans. In mid-1955, the Security First National had only 27% of its deposits on loan, as compared with 51% for the Bank of America and for the American Trust of San Francisco.

Financially weaker, the Los Angeles capitalists are less closely integrated than those of San Francisco. A number of enterprises are run by "lone wolf" operators, such as Sam Mosher (oil, shipping, airfreight), and Norton Simon (canning, railroads). Their relations are more with Wall Street houses than with the main core of Los Angeles financiers.

Another result is the tendency of industrial firms, especially the larger ones, to fall under the sway of the Eastern interests upon whom they become dependent financially. Union Oil of California is the outstanding example (see Chapter XI).

Like Chicago, Los Angeles and its environs are blanketed by a newspaper of utterly benighted reaction—*The Times*. The paper's owners, the Otis and now the Chandler families, have dominated southern California politics for many decades. The Chandlers have become very wealthy and are interlocked with the important banks and industrial concerns of the Los Angeles area.

The Chandlers, the free-wheeling oil millionaires, the arms-hungry aircraft makers, and the ranchers and growers enriched by the labor of Mexican "wetbacks," set the tone of Los Angeles Republican politics, and determine the character of men put forward for high places.

With their first great national political victory, the election of Nixon as Vice President, the Los Angeles grouplet has achieved a position far beyond its economic weight, but having sinister significance for the future of the country.

BANK OF AMERICA

Some fifty years ago Amadeo P. Giannini, son of an Italian immigrant, founded in San Francisco the Bank of Italy, now known as the Bank of America. Started as a sort of adjunct of the old San Francisco banks to handle the business of the Italian immigrants, it has long since dwarfed these banks and become the largest in the country, with 600 domestic branches and resources of $10 billion.

Truly a remarkable performance! In the period of monopoly capitalism, a new company, without the backing of great fortunes, rises to the peak in its field. In the epoch of finance capital, a "peoples bank," unaffiliated to giant industrial corporations, becomes the financial leader of a great area.

It would be too simple to regard this merely as an exception to the general laws of present day American capitalism. Giannini took advantage of certain of these laws before others did. Having reached great size, his bank is becoming more and more like the Wall Street centers by linking up with industrial monopolies and expanding in foreign countries. In the process it is collaborating increasingly with these Wall Street centers.

Since World War II, in fact, it has emerged as the first really major financial and industrial empire centered in the Far West, controlling corporate assets of $14.4 billion (see Appendix 15).

The industrial assets controlled are still small in comparison with those of the major Eastern groups, and even smaller than those controlled by the older San Francisco financiers. But the figures do not tell the whole story. Through the Kaiser companies, Bank of America is closely connected with the new center of basic industry on the West Coast, creating, with its immense lending resources, a potential for penetration in many secondary industries. Moreover, the bank is the leading financial center of many important enterprises for which no statistics are reported, such as construction companies, big business farm cooperatives which control entire crops, and the Los Angeles garment industry.

For all its size, the Bank of America does not have a foreseeable perspective of challenging for supremacy the Rockefellers and Morgans, nor is the time in sight when the wealth of its owners will match that of the Mellons or the du Ponts.

Actually, the Bank of America's title of largest in the country is somewhat misleading. It is half a savings and mortgage bank and half a commercial bank (and partly an installment financing company). In New York the savings banks are separate institutions, but controlled by the great commercial banks. Bank of America's demand deposits and business and financial loans, representing commercial business, are less than those of the Chase Manhattan or First National City Banks.

The personal trust assets under its administration, $884 million at the end of 1955, were something like one-tenth of those controlled by any of several New York banks. The insurance companies in its sphere of influence have scarcely a half billion dollars in assets, in contrast to the tens of billions of insurance company assets accessible to the leading Wall Street banks. And Bank of America controls no investment banking apparatus.

This caution is added to place the position of the Bank of America in perspective and to prevent exaggeration of its importance. Yet its position is definite, and growing. For the first time, the West Coast has a genuine financial giant, able to deal with Wall Street banks as an associate rather than as a provincial agency, and posing a potential challenge to continued Wall Street domination over the key sections of the West Coast economy.

THE "PEOPLE'S BANK"

The Bank of America flourished by selling services to those ignored or despised by the older banks—to the immigrants and minority groups; to the medium-sized farmers and small merchants; to many salaried employees and wage-earners. From these services it reaped large profits, larger than those realized by banks dealing only with corporations and the affluent. It charged up to 13% for consumer installment loans. It charged small merchants double the "prime rate" for credits. It foreclosed on at least one-third of the farm mortgages it held during the 1930's, and later sold the properties at a profit.

Certainly, the Bank of America makes profits out of the "small people" it claims to serve. But under capitalism people are willing to pay such a tribute for financial services which may help them keep their heads above water for the moment—even though the price paid may leave them still less secure, still more vulnerable to economic vicissitudes, in the future.

Superficially the formation of the great trusts at the turn of the century, with their extreme centralization of wealth, narrowed the

basis of financial activity to those connected with the leading combines. And Wall Street circles, most notably the House of Morgan, acted on this assumption and dealt only with "selected" and "wholesale" customers. The collection of the savings of the "small people" and the handling of their credit needs, were left to affiliated insurance companies and correspondent secondary banks.

Such a policy underestimated the possibilities of centralizing the funds of the small depositors, or the added financial strength gained through combining these funds directly with the deposits of large corporations. Now such Wall Street giants as National City, Chase, and Bankers Trust have added branch banking and "retail" business to their wholesale banking base.

But Giannini truly pioneered in tapping the retail banking market. He developed the new methods with a vigor and thoroughness that was unmatched. Starting with the Italian immigrants Giannini ultimately set up special departments for *each* of the many national minorities in California, to collect information on their financial affairs and solicit their business. Giannini went unusually far in luring the funds of the very smallest depositors into his vaults, featuring courteous service to petty savers and checking facilities for small depositors. He was the first to apply the American technique of advertising to gain banking business.

In its business services the Bank of America specialized in the financing of "new" and comparatively scattered industries such as grape growing, wine making, and trucking. The older banks were skeptical of these smaller enterprises that were not yet "established." Giannini provided financing and spurred the cartelization of these industries, while consolidating his bank's relations with them.

In 1926 the Bank of America and other creditors: "tied the (raisin) growers into the California Vineyard Association. . . . Its proposal for 'orderly marketing' contemplated leaving as much as half the harvest on the vines."[9]

Such organized production restrictions have since become part of the government-sponsored national pattern of agriculture. In California they are more thoroughly enforced than anywhere else. Aided by the immigrant origin of many of the new fruit, vegetable and cotton farmers of the San Joaquin Valley, the Bank of America became the leader in financing California agriculture. At one time loans to farmers, packers, and canners accounted for half its business. This proportion has declined markedly, but agricultural finance provided a major basis for the growth of the Giannini empire.

For all its pretense as a "peoples bank," the Bank of America was

surpassed by none as an instrument of monopoly in its own specialty of banking. Most of its growth was accomplished not through building new branches but by the capture of existing weaker banks, large and small. In some cases the pressure of Giannini competition, combined with high-priced offers, induced owners to sell out. In other cases banks in difficulty were taken over as bargains.

Nor was Giannini laggard in the modern methods of state capitalism. Banking operates under a complex network of State and Federal regulations, which amount to "ground rules" governing the struggle for supremacy. Banking commissioners or the Federal Reserve Board must authorize mergers and new branches. Any banker seeking to expand without appropriate contacts in these agencies would find all avenues blocked by more influential rivals.

In 1919, when Giannini was engaged in a battle of this type, he enlisted the support of all the California Senators and Representatives, and hired the cream of Wall Street legaldom for the ensuing Supreme Court case.

For many years William G. McAdoo, Wilson's son-in-law and Democratic presidential contender, was Giannini's special counsel. Carter Glass of Virginia, leader of the conservative Democrats, was a consistent advocate of legislation in Giannini's interest, as were other Eastern legislators whom Giannini contacted.

In 1926 all of the resources of the Bank of America were openly thrown into the campaign for the governorship of California, the stake being the banking superintendency. The Giannini man won, and the new bank superintendent within a week approved 136 new branches for Giannini. Through this political coup Giannini's bank jumped virtually overnight to the position of third largest in the country.

The payoffs to officials were sometimes quite open. In the critical period 1933-34, when the accounts of the Bank of America were in a "delicate" position, the national bank examiner who held its fate in his hands was S. Clark Beise. Today Beise is president of the Bank. Its chairman, Jesse W. Tapp, formerly held a key post in Washington dealing with surplus commodities, in which the Bank of America has an important stake.

Like Rockefeller before him, Giannini absorbed into his system many defeated rivals whose banks he had captured, thereby broadening his connections and establishing a wider "community of interest."

The Bank of America is the most profitable large bank. Because of its near monopoly position, and its concentration on small loans, it realizes an abnormally high percentage of interest. With 30% more deposits than the Chase-Manhattan Bank, it realized 56% more profits.

In Eastern centers, the direct profits of the large commercial banks are a fraction of the profits of any one of several giant industrial companies within the same complex of interests. But the Bank of America, with $66 million operating profits after taxes in 1955 made much more than any other single corporation controlled on the West Coast.

No single bank has such a monopoly position in a major area. Bank of America's share of outstanding bank loans in California rose from 36.2% in 1938 to 55.8% in 1950. A University of California economist, David A. Alhadeff, examined these trends and showed how the medium-sized and small California companies, with no access to Wall Street financing, are falling increasingly under the sway of the Bank of America.[10]

TRANSAMERICA CORPORATION

Like most monopolists, Giannini reached out for wider areas to conquer. His avowed aim was "branch banking, nationwide and worldwide."[11]

During the 1920's, through a holding company, he acquired large blocks of shares in banks in 23 cities throughout the country, including several New York banks. The Wall Street bankers had no intention of letting this outsider take over in their domain. There ensued an involved struggle in 1929-32, at first covert, then in the open, between the Morgans and Giannini, with the stakes much larger than Giannini's New York banks. During its course Giannini set up Transamerica as a super-holding company for all his enterprises. To add to its strength, he brought in certain Wall Street men, but these lined up with the Morgans in the battle against Giannini, succeeded in splitting off some of his personal lieutenants, and forced his resignation. The Wall Street group sold Giannini's Eastern bank properties to allied institutions—the New York banks were sold to the National City Bank.

They then sought to consolidate their control of the entire Giannini empire. But Giannini conducted a proxy fight to regain control of Transamerica, and succeeded with the liberal use of anti-Wall Street slogans among the California stockholders. National corporations allied with Wall Street shifted their California deposits out of the Bank of America, threatening Giannini with disaster in the crisis conditions then prevailing. But the Bank of America weathered that storm.

Thus the battle ended in a draw. Unlike other situations where the Morgans were able to completely crush rival firms during the crisis,

Giannini retained control of his weakened, but still important, realm. But his bid for a place in the Wall Street firmament, and for a nationwide banking chain, was crushed.

For fifteen years beginning in 1937 the Federal Reserve Board attempted to break up the Giannini financial empire, with Transamerica a special target. This campaign was really less an anti-monopoly move than a coalition of Eastern interests anxious to keep the California bankers from getting too strong, and secondary Western interests fearful of absorption by Transamerica.

The government suits against the Giannini group were finally defeated in the courts, but to relieve the pressure, Transamerica sold its stockholdings in the Bank of America and joint directorships were eliminated. With the face of an "independent" company, Transamerica then spread out with breathtaking speed. It consolidated all its California banks into the First Western Bank and Trust and bought up important banks throughout the Far West.

Meanwhile, its Eastern and Western rivals combined to push through Congress by 1956 one of the most peculiar "anti-monopoly" statutes. A law to restrict bank holding companies, it exempted either specifically or by special terms every bank holding company in the country except Transamerica. The large New York State bank holding company, Marine Midland, was actually strengthened by the law, and the First National City Bank attempted through its provisions to expand outside the city.

This law was freely referred to as an anti-Transamerica law.

However, past experience with political reverses indicates that this will not slow up the growth of the Giannini banking empire for long. Indeed, temporarily it spurred the process. Preparing for the threatened enactment of the law, Transamerica sold stock in 1955 to raise capital, and used this to buy up 11 banks with $315 million in deposits in the six months before passage of the Act.[12] Presumably it will take some time to digest these new acquisitions, while new tactics and political alignments are formed looking to a renewed stage of conquest.

The formal split-off of the Bank of America and Transamerica permitted the public relations men to issue a spate of stories about the "quarrels," "complete separation" and "intense rivalry" between the two institutions.

Strong evidence indicates that this "rivalry" is approximately like that of different Standard Oil companies whose dealers monopolize the business of a busy intersection, giving the motorist the choice of buying from Standard Oil of New Jersey, New York, Indiana, or California!

Almost all of the Bank of America stock was distributed to Transamerica stockholders, assuring the identity of ownership interests. In the hearings before the Federal Reserve Board in 1951, the government solicitor, J. Leonard Townsend, pointed out that the two companies were closely bound by "tradition" and "personal ties." He noted "important officials whose careers have placed them first in one and then in another of the TA [Transamerica] organizations."[13]

This has been continued. The main officials of both organizations are still old Giannini men, and no outside influences have appeared on Transamerica's Board. While certain business relationships were broken off, and formal joint directorates were eliminated, in 1955 at least seven Bank of America directors were still directors of Transamerica subsidiaries—a common device for maintaining ties in the face of limitations dictated by law or public relations.

Transamerica and Bank of America remain associated in various financial relationships, notably the financing of the Kaiser industrial empire. A small but revealing item: if there were a *genuine* break between the two financial giants, Transamerica would switch the bank accounts of its non-banking subsidiaries to its own banks. But at the end of 1955, Transamerica's Pacific National Fire Insurance Co. kept its main accounts at the Bank of America, with only one-fifth as much in its own First Western Bank and Trust.[14]

Certainly, future rifts are possible, as is always the case within big business circles. But the ties between the two companies are unusually strong, and a basic separation of interests does not appear likely soon. The two must be regarded as parts of the same Bank of America interest group.

KAISER AND HEAVY INDUSTRY

The extension of Bank of America influence to heavy industry was made possible by the World War II development of the Henry Kaiser enterprises. Their association began in the 1920's, when Giannini financed Kaiser's construction contracts, as on the Boulder Dam. During World War II, Kaiser adapted the assembly-line technique to merchant vessel construction, turning out 35% of the immense wartime deliveries. His position in shipbuilding proved temporary. But through excellent connections with the Democratic Party Administration in Washington, he was able to obtain control of basic steel

and aluminum plants, and a major auto plant, with the aid of $193 million in government credits. The Kaiser construction and building material enterprises burgeoned.

His passenger car venture was a failure, but through a merger with Willys, he obtained control of the production of that World War II invention, the jeep, which continued to have a significant peacetime market.

Kaiser Steel, with over 2 million tons capacity, is the leading West Coast producer. Kaiser Aluminum, with about 30% of the national capacity, is one of the Big Three of that growing industry. By 1954, the billion-dollar Kaiser industrial enterprises employed 68,000 workers in 14 countries.

Throughout this expansion, the Bank of America and Kaiser have had a community of interest. During World War II the bank helped the industrialist establish contacts with Washington, and extended a $43-million line of credit. By 1955, the combined Bank of America-Transamerica credits to the Kaiser enterprises were well over $100 million. As security, they have liens on the control blocks of shares in the most profitable Kaiser enterprises, as well as outright ownership, by Transamerica, of $13 million in preferred stock of the top Kaiser holding company. The Bank of America has the main fiduciary agencies for the Kaiser companies. However, the Bank of America position in the Kaiser enterprises is being seriously challenged by the more powerful Rockefeller-Mellon financial interests of the East.

BANK OF AMERICA ABROAD

In the wake of World War I, Giannini bought up and expanded an Italian chain banking system, enthusiastically financing Mussolini's enterprises. Since World War II, Bank of America has become the only bank away from the Eastern seaboard with major foreign connections. Its profits from foreign operations multiplied ten times during the postwar decade.[15] It was the only bank outside New York to handle hundreds of millions in Marshall Plan financing.

The Italian branch, now part of Transamerica, has grown into a $230 million institution. By the end of 1955 Bank of America had established 12 foreign branches and 13 military banking facilities at U.S. bases abroad. It is the largest U.S. bank in Japan and the Philippines, shares U.S. banking in Germany with Chase Manhattan, and is the only U.S. bank in Thailand. Its foreign deposits exceed

$500 million. When those of Transamerica's Italian branch are added, the total matches the foreign deposits of the First National City Bank, traditional leader in the field. Moreover, the foreign business of the Bank of America is increasing much more rapidly than that of any other U.S. bank. In the single year 1956 the resources of Bank of America-New York (International), a subsidiary which handles part of its foreign business, increased from $234 million to $448 million.

However, there is a different emphasis in its foreign operations. Generally, foreign branches of U.S. banks concentrate on servicing affiliated U.S. industrial corporations with investments abroad. The Bank of America and Transamerica have few associations with major exporters of industrial capital. In Italy and Japan, and probably elsewhere, they mainly finance industries owned by nationals. Thus they are exporters of banking capital as such, rather than part of a broader controlling combination. At the same time, their position in foreign countries sets the stage for acquisition of foreign industrial enterprises, and subsequent development in the more typical imperialist pattern.

Already the Bank of America has been associated with the leading Wall Street banks, particularly Chase Manhattan, in a number of foreign loans by U.S. banking syndicates. It is also very active in International Bank and Export-Import Bank loan participations.

CONNECTIONS WITH WALL STREET

Despite its history of supplanting the old San Francisco banks as the dominant West Coast financial interest, the Bank of America has developed more in harmony than in conflict with this group. They have cooperated in periods of financial emergency and have a number of interlocking interests in industrial companies. By and large, however, there are few signs of a general merging of the groups, and their main interests remain distinct.

Historically, the Bank of America has been in frequent conflict with Los Angeles bankers, and has cut seriously into their domain. Nevertheless, the southern Californians also retain ties with the Giannini interests.

The Bank of America includes on its Board of Directors representatives of Chicago-controlled corporations with large-scale operations in California,* and it has certain other ties—essentially secondary in importance—with that Midwest group.

* Sears Roebuck and National City Lines.

Transamerica has interlocking directorates with West Coast enterprises controlled by the Wall Street firm of Allen & Co. and the Marine Midland Co.* Also involved in these companies is George E. Allen (no relation to Allen & Co.), intimate of both Presidents Truman and Eisenhower, and an RFC director when Kaiser enterprises were obtaining loans from the government. The connections with Allen & Co. have added significance because of its control of Colorado Fuel & Iron, largest steel producer west of the Mississippi and a factor on the West Coast market.

More important than any of these are the connections of the Kaiser enterprises with the Mellons and the First Boston Corp. This relationship arose from financial and political necessity. The Bank of America, without investment banking machinery, could not supply all of the financing needed for the building of a billion dollar industrial empire in a decade. Nor did the Bank of America have sufficient national political power to sponsor a new industrial giant. The fact is that under modern conditions money is not enough to start a big business. It is absolutely inconceivable to establish a really large-scale enterprise without a whole series of clearances and arrangements with government agencies. These in turn are requisite for concluding appropriate cartel agreements with the interested industrial corporations, and financial agreements with their bankers.

At the end of 1953, the Big Four Wall Street insurance companies had $144 million on loan to Kaiser's aluminum and steel companies. The Mellon National Bank & Trust Co. is bond trustee for another $29-million Kaiser Aluminum issue. The First Boston Co.—Rockefeller, Mellon, and Boston—acts as investment banker for all of the bond issues of the Kaiser steel and aluminum companies. The Mellon bank led in the initial loans to Kaiser's auto company.

At first glance, this seems strange. Kaiser's most profitable venture, aluminum, was started as part of the first U.S. competition with Mellon's aluminum monopoly. One might expect bitter rivalry, rather than financial assistance—*if the competition were serious.* However, as noted in Chapter XI, the big three in aluminum collaborate.

Faced with the political necessity of yielding 100% control of U.S. aluminum, nothing could suit the Mellon group better than to obtain a financial grip on one of the new companies, to make sure that it would be a loyal cartel partner and not a real rival.

The coming into office of the Eisenhower Administration raised serious problems for Kaiser. Both the industrialist and the Bank of

* Foremost Dairies and Hall-Scott Motors.

America traditionally had better contacts nationally among the Democrats than among the Republicans. The effect was soon apparent.

The new Administration, with General Motors' Charles E. Wilson as Secretary of Defense, cancelled military contracts at the giant Willow Run plant, which Kaiser had obtained from the previous Administration. Kaiser was forced to sell that property to General Motors in order to obtain cash for his hard-pressed auto company.

Kaiser Aluminum built for the government the $15,000,000 Halethorpe, Md., aluminum extrusion press for forging giant aircraft parts. But in November, 1954, Air Secretary Talbott indicated that the profitable assignment to operate the press would go to another company. This was typical Eisenhower Administration treatment for Kaiser. However, in April 1955 Talbott was reversed, and the contract awarded to Kaiser. Representative Flood of Pennsylvania charged that the change was arranged by First Boston Chairman G. D. Woods, who saw Treasury Secretary Humphrey on the matter.[16]

By reenforcing contacts with the Rockefeller-Mellon grouping, so powerful in the Eisenhower Administration, Kaiser was able to redeem the situation for his most vital industrial corporation. In turn, the Rockefeller-Mellon interests got ample financial rake-offs and a rising influence in the affairs of the Kaiser enterprises.

First Boston charged a 10% commission on the initial issue of Kaiser Aluminum stock and a 7% commission on a later issue, when it was a well-established company. This is in addition to regular financial advisory fees and legal fees to the Sullivan & Cromwell law firm.

The only non-Pacific Coast directors of Kaiser Steel (or any other Kaiser enterprise) at the beginning of 1956 were George D. Woods, chairman of the First Boston Corp., and George W. Burpee, senior partner of the well-connected New York engineering firm of Coverdale and Colpitts and a director of the Chase Manhattan Bank. The only Transamerica man on the Board, Sam M. Husbands, was dropped during 1955.

It is too soon to say that the Rockefeller-Mellon interests have displaced the Bank of America in Kaiser affairs, but they clearly present a threat of ultimate Wall Street domination over this West Coast enterprise.

While apparently collaborating with the Mellon-dominated aluminum cartel, Kaiser Steel is engaged in a struggle with Morgan's U.S. Steel for supremacy on the West Coast. The latter is attempting to re-establish its former Pacific Coast dominance by erection of an inte-

grated plant near San Francisco. To secure the necessary iron ore, it proceeded to stake out claims on vacant desert land adjacent to Kaiser's iron mines. Whereupon Kaiser's men invaded the U.S. Steel claims and engaged in activities designed to sabotage the explorations. A court suit followed. The *Wall Street Journal* reporter commented:

> In the meantime the spectacle of two big steel companies embroiled in a knock-down, drag-out fight is causing considerable discussion—and no little amusement—among steel and mining people in California.
>
> One source of merriment has been the names given to the U.S. Steel claims located so close to the Kaiser mine. Good Neighbor No. 1 and Good Neighbor No. 2, for instance, are the names of the first two claims listed in U.S. Steel's complaint.[17]

CHAPTER XIV

The Texas Millionaires

TEXAS CATTLE AND cotton have given way to Texas oil. Not that the former have dwindled—they are worth more than ever. But the growth of oil production and prices have brought the value of this new resource to over $3 billion per year, roughly eight times greater than during the boom years of the late 1920's, and one and one half times the current value of all farm products produced in Texas.

Ownership of oil lands has made wealthy men out of ranchers, cotton and livestock dealers, some estimates running up to a thousand Texas millionaires. These oil men spend their substantial incomes conspicuously. Their political outlays, especially for candidates and causes of the McCarthyite type, are as well known as their garish personal indulgences. And their participation in various out-of-state business ventures has attracted more attention than it deserves.

Business Week identifies four of the Texas oil men as having fortunes of from $200 million to $700 million each—H. L. Hunt, Clint Murchison, Sid Richardson, and Hugh Roy Cullen; several more as having fortunes of from $50-100 million, and most of the 20-40,000 others as small businessmen.[1]

The actual size of these personal fortunes is speculative, depending upon whether one believes those who like to boast or those who prefer to minimize. Cullen lets it be known that he is worth a billion dollars. Murchison will not admit to more than $30 million.

Whatever the amounts accruing to individuals, undoubtedly Texas tycoons realize a huge amount yearly from their oil holdings. Perhaps as much as half of the annual value of Texas oil and gas production, or $1.5 billion, goes to Texans, with a few dozen getting the lion's share.

However, despite their high, largely tax-free, incomes, the Texans

are an insignificant factor in the overall economy. Harvey O'Connor puts it well when he writes: "the newly-rich are riding high, wide, and handsome, hand in hand with the oil corporations which consider Texas almost on a par with Venezuela and Arabia as a province for their enrichment."[2]

The "independent" oil men are finders and cheap-labor contract drillers for the Wall Street oil companies. Their payoffs are not in cash, but in a specified proportion (usually 50%) of the oil they find and drill. Their payments compare with the royalties paid the King of Saudi Arabia and the military clique that runs Venezuela. And the Texans, also, render political services to the oil companies. For, as Texas author Hart Stilwell puts it, "as Texas oil is owned by Wall Street, Wall Street dominates Texas."[3]

By financing the state's political life, they insure a regime suitable for the greatest extraction of profits by the major oil companies and their local aides. One service of the Texas State government is to give official status to the "prorationing" cartel scheme whereby the oil majors allocate production, set prices, and prevent any "independent" refining or distribution of oil. Other services are the passage of right-to-work laws, violence against union organizers, and the actions of the obscurantist Governor Shivers. These delay the organization of the oil-field workers, who, unlike those in the northern refineries, are subjected to irregular employment, intense and dangerous conditions of work. And finally there is the preservation of the obsolete 4.5% severance tax, whereby Texas gets for public benefits only a tiny fraction of the value of the oil taken out.

As in the foreign colonies, oil wealth goes along with mass poverty. The situation has not changed too radically from that of a decade ago when a Texas professor found the state 48th in pellagra control, 45th in infant mortality, 38th in school systems, and 47th in library service.[4]

Also, in typical colonial fashion, this poverty is concentrated among the substantial Negro and Mexican populations who do the heavy labor in agriculture and industry.

The Texas oil men cannot be independent in oil because the northern companies almost completely control its refining, transportation, and distribution. Independent refineries sprang up following the East Texas discovery of 1930, but they were crushed within a few years by combined action of the oil companies and the State and Federal governments. According to Cullen's biography, his luckiest discovery was on an abandoned Standard Oil concession, and all of his large ventures were in partnership with either Standard or Gulf Oil subsidiaries.

The Texans, despite their paper fortunes, have not been able to mobilize the sums required for "diversified" empire building on the modern scale. From the start, they are in debt to oil well supply companies, major oil companies, or banks for the heavy expenses needed in drilling. There are huge losses through unproductive wells (nine out of ten "wildcats" are dry holes). And when the lucky ones become millionaires, their wealth is underground, and can be realized only over a long period of years. To sell out at once to a major company—as the hard-pressed do—means to accept one-half to one-third of the ultimate value. Murchison boasts of his continual indebtedness and his associate Richardson tells him: "The day you get out of debt you will be dead."[5] *Business Week* explains: "If and when the independent does hit a big oil pool, he has several courses open to him. He can (1) sell out, at perhaps $1 a barrel, to a major oil company—and pocket a long-term capital gain, (2) hold on to what production his well gives him, marketing it to the refiners, or (3) keep borrowing from his bank so that he can drill more new wells."[6]

All alternatives emphasize the domination of more powerful financial and industrial enterprises. *Fortune* estimates the Murchison empire of assorted banks, insurance companies, oil, industrial, transportation, and service corporations as having total assets of $300 million.[7]

All of these corporations are small, and none is a leader in its particular field. When Murchison became involved in a major enterprise, as in the New York Central, it was as an agent for Cleveland magnate Robert R. Young (see Chapter VI).

The Brown brothers, Houston contractors, control a more important property than any of the oil prospectors. They dominate Texas Eastern Transmission Co., second largest of the natural gas pipeline companies (with the aid of the Wall Street house of Dillon, Read). Another Texan, Howard Hughes, once a famous aviator, owns a sizeable oil tool company, a small aircraft company, a Hollywood motion picture producing company, and Trans World Airlines, one of the major air transport companies. While Hughes is connected with the late Jesse Jones' City National Bank of Commerce, in Houston, his companies obtain their main financial support from the Irving Trust Company of New York.

The rapidly growing large-scale industry of Texas is almost entirely in the hands of the northern financial centers. The sulphur is divided between Morgan and Standard Oil interests. All important power companies, railroads, and refineries are northern-owned, as are the World War II-created airplane plants. Houston has become a new

center of the chemical industry—featuring petrochemicals, synthetic rubbers, and other products based on oil and sulphur—but Texas capital does not figure in it.

A group of Texas oil men, headed by E. B. Germany, have started locally-owned steel production, through the 500,000-ton capacity of Lone Star Steel Co., almost all of the capital being supplied by Federal loans. Although a potential source of Texas industrial power, it is only half the size of the northern-owned steel plant in Texas, which supplies major oil well equipment and pipe.

The natural gas pipe-lines, with the one exception noted, are northern owned. So are most of the new paper mills. Texas cattle are processed in Chicago-owned packing houses. And the leader in Texas cotton is Anderson, Clayton, & Co. While owned by Texas families, it is actually a financial vassal of the Guaranty Trust Co. (see Chapter III).

The process of concentration and merging of capital has not gone far among the newly rich Texas oil magnates. They retain their wealth in private foundations and holding companies, rather than in the trust departments of banks. Two of the Dallas banks have deposits of over $750 million each. In Houston, the main industrial center, banking is divided among a half dozen banks, all of similar size and none with deposits of over $400 million. Taking advantage of liberal Texas laws, which have resulted in several bankruptcies, the moneyed men of the state have set up numerous insurance companies, with billions in combined business, but no one of them of significant size by Wall Street standards.

There are significant conflicts between the Texas capitalists and the giant oil companies which dominate the state—notably over the import of oil from the foreign holdings of the large companies. But the resultant political battles are minor in scope, owing to the basic dependence of the Texans' interests. With the industry of the state solidly in the hands of Wall Street, and with its wealthy men lacking strong financial institutions of their own but connected as individuals with various northern financial groups, the prospect of a genuine center of finance capital arising in Texas is still remote.

For the present, Texas, like the South as a whole, remains a domestic colony of Wall Street. But the specific influences in Texas are conditioned by oil. They signify that the Rockefeller-Standard Oil interests dominate the state. Three Standard Oil companies alone produce 27.2% of Texas oil and consume about half the total.[8] Standard Oil has the major say in the prorationing activities of the Texas Railroad

Commission, and Standard Oil (NJ) is the price "leader," which establishes the price of crude oil for all companies.

The newer industry of piping natural gas (see Chapter XI) is led by the Stone & Webster grouplet, with its close links to the Chase Manhattan Bank. Standard Oil companies have directorates on important Dallas and Houston banks.

The largest steel producer in Texas, Armco Steel, has a predominant Standard Oil family interest, as has Freeport Sulphur, the second largest company of its kind. (The Morgans control the largest, Texas Gulf Sulphur.) The Reed Roller Bit Co., an important maker of oil well equipment, is a Rockefeller outfit.*

The Morgans, the Mellons, and the Chicago bankers also have important interests in Texas, but the Rockefeller group clearly leads all the rest.

The Rockefellers play an important role in Texas politics also. O'Connor writes of Texas: "The 'bad old days' when Standard Oil kept U.S. Senators and Federal judges on its payroll are gone"[9]—he gives powerful examples, however, to show that the same effect is accomplished now in less crude ways. For instance, Standard Oil retains former Governor Jester as attorney, and it dominates the Mid-Continent Gas & Oil Association lobby in the Texas legislature.

The same applies to the increasingly important Texas role in national politics. In 1951 Winthrop Aldrich visited Houston on behalf of the Eisenhower candidacy, talking among others to the "independent" oil magnate Cullen. Cullen had "preferred" Taft, but "engineered the revolt of the Texas Republicans which paved the way for the victory of Dwight Eisenhower in Chicago in July."[10]

The Deep South has also enjoyed rapid industrial expansion and some diversification during the past 15 years. However in this area there has not appeared even the semblance of independent monopoly power. Whether it be steel or chemicals, paper or textiles, railroads or utilities, almost all important corporations operating in the South are northern-owned. The only exceptions among the giants are the R. J. Reynolds Tobacco Co. and the Coca-Cola Co., and these depend on the New York banks for their major financing. The growth of industry has been mostly an invasion of branches of northern-owned corporations, increasing the already dominant weight of Wall Street in the southern economy.

* Its Chairman, Stephen B. Farish, is an old Humble Oil man whose brother, also from Humble Oil, became chairman and president of Standard Oil (NJ). Chase Manhattan Bank is transfer agent for the Reed Roller Bit stock.

Part Three: Politics

CHAPTER XV

The Grand Merger with the State

For many decades unions, farm organizations, various anti-monopoly groups and political parties have fought for more government activities in the interests of the people, including government ownership of certain industries. Big business reaction has always fought these measures as "socialism." While doing so, however, monopoly has promoted government activities and regulations in *its* interest, and even government ownership where business purposes could be served. Since 1940 there has been an enormous expansion in the volume and variety of government economic activity sponsored by economic royalists. At the same time, a whole series of activities traditionally carried out by government as a public service, have been taken over partly or wholly by private operators for private profits.

Changes of both types—government entering into business and vice versa—have led to a blending of government and private activities. The lines of demarcation between the two often become blurred.

No longer can government relations be regarded as a subsidiary matter by any large-scale enterprise. Munitions and construction contracts, use of government-owned plants, stockpiling and subsidies, regulations of many kinds, taxes, government-sponsored foreign investments—all have become massive functions involving billions and tens of billions of dollars, impinging on private corporation affairs at a thousand points.

This grew as a logical counterpart of large-scale monopolistic companies, whose operations became national and international in scope. It was enormously accelerated by two World Wars and the permanent militarization of the economy.

Government-private arrangements have become the most dynamic path for the latest stage in the centralization of economic power. The

merging of private and government capital becomes more potent than mergers of separate companies, although these continue. Government-sponsored price-fixing and supply allocations go beyond the scope and authority of private cartel systems. Utility and transport rates selected by giant corporations are given the sanction of law. Spheres of influence, mapped out privately, are confirmed publicly. Unwelcome competitors are forbidden to operate.

In after-dinner speeches, this trend is referred to as "partnership between government and industry." *State monopoly capitalism* is a more scientific term.

Scores of academic economists and well-paid publicists portray this in reverse, as government intervention to protect the public from large corporations. Their usually unstated assumption is that government is a special institution, above and outside competing private interests and classes, operated by a special caste of "public servants" to balance fairly all private interests. The British Labor Party leader John Strachey finds government-industry partnership working in the public interest through the institutions of "contemporary democracy," which "is rooted in Northwest Europe, Australasia and North America alone . . . small brightly lit islands in the vast oceans of political time and space."[1]

The bald fact which these men slur over is that Federal government has come to function, in many respects, as a special extension of the private governing apparatus of big business. The executive branch of government especially is run mainly by the leading lights of high finance, its chief manipulators and managers, all men of wealth and some having great fortunes.

With this in mind, the picture falls into focus. The regulated become the regulators. Government-business partnership is seen as an extension of the web of interlocking directorates and other connections which tie together the empires of profit and power. The government becomes the focal point for the further growth of private domains and their merging into still larger aggregates.

Of course, the political structure continues to operate under its own laws and mechanisms. The people continue to exert pressure. They seek more effective ways of keeping and practicing their democratic rights. They try to convert the government from an instrument of monopoly to an instrument of the masses, from the uses of war to the needs of peace. Sometimes they win concessions. But ultimate control has remained even more firmly in the hands of high finance. Government decisions, even concessions to public pressure, are increasingly extensions of the policies of Wall Street. And political conflicts are often reflections of battles among the great private empires.

Sometimes these battles can be turned to social use, when the people take advantage of them to intervene in public affairs and force concessions and reforms. This relates, however, not to government structure, but to the weaknesses and incompleteness of monopoly control.

Another aspect requires mention. Since World War II official publicity, backed by a whole school of academic economists, has emphasized the types of government regulation supposedly designed to stabilize the economy and avert depressions.

Certainly social insurance, minimum wages, and certain other New Deal measures represented real gains for the American people. Without going into their merits, or those of monetary controls, as economic stabilizers, we shall see that the main types of government intervention, with the maximum impact on the economy, are designed primarily for purposes quite remote from economic stabilization. Certainly they affect the entire economy. But far from assuring stability, they result in structural distortions, waste of resources, and inflationary tendencies which in the long run can only result in more disastrous fluctuations, regardless of their immediate effects.

Prior to World War II state monopoly capitalism spread most extensively in European countries, where the system was in acute crisis and these measures were needed by big business not only to increase profits but to maintain its very existence. And among the European countries it was developed to the utmost by the main aggressive power preparing for war, Hitler Germany (and correspondingly by Japan in Asia).

Many powerful U. S. tycoons, who had lashed out at the mild New Deal measures of government intervention in the economy, especially when they included satisfaction of some popular needs, admired the government-business partnership developing so intensely in Nazi Germany. During World War II state monopoly capitalism necessarily developed here on a massive scale. The corporate moguls moving into Washington studied these Nazi methods very carefully and tried to copy them, though limited by the political relationships then prevailing in the United States.

After World War II there was no "return to normalcy" as in 1921. Instead, our own masters of capital snatched the torch of "world leadership" dropped by the Axis, and in pursuing this far-reaching

policy became most active in deepening and inventing new forms of government-business relations. Some of the devices used were connected directly with war preparations, others appeared to be concerned only with civilian activities. But all arose in an economic and political environment dominated by corporate expansion abroad, super-military budgets and continuing war dangers.

The various forms of state monopoly capitalism have certain common features:

(1) Each is a means of increasing profits, usually by government transfer of funds from poor to rich, or by newly enforced payments to private companies for services previously supplied by government.

(2) Each is a means of increasing concentration, of using government to allot business among selected monopoly firms at the expense of weaker competitors.

(3) All are subject to the financial control of the Wall Street power centers, on a level more effective, more massive, and productive of more profits than the direct connections between industry and finance which they supplement and strengthen.

Public opinion in the United States has always been sensitive to use of government to advance private interests. Exposés have been frequent, often for partisan political purposes. The Republicans exposed scandals of the Truman Administration, while the Democrats exposed "giveaways" of the Eisenhower regime.

While large in comparison with earlier scandals, these are trifles when compared with the vast profits provided through the continuing forms of state monopoly capitalism. These super "giveaways" which involve tens of billions of dollars each year, are by and large ignored or praised as part of the modern "American way of life" by both Republican and Democratic politicians.

Here we deal with some of the most significant and characteristic forms of state monopoly capitalism in the United States.

DEBT AND TAXES

Battles over the government debt and taxation stem from the earliest days of the Republic, when Hamilton sought to burden the public with a national debt and then impose taxes to pay for it, while the Jeffersonians opposed him.

What is new is the huge scale of government financing, the astronomical rise in debts and taxation, their use by high finance as a major

source of profits and lever of economic control, and as the life-blood of all government-business "partnership" arrangements. Since 1914 the Federal budget has multiplied 100 times, the Federal debt and internal taxation 200 times. The interest on the Federal debt, over $7 billion yearly, equals one-sixth of all corporate profits. Most of it goes to financial giants and wealthy individuals. A few Wall Street banks and associated specialist bond houses derive much additional profit from distributing and trading in government bonds.

As taxes rise, a larger proportion is paid by working people, a smaller proportion by the wealthy. A recent study by Labor Research Association concludes: "The entire development of tax levies over the past 15 years reveals how the tax load has been shifted onto the backs of the people. At all government levels, the pattern has been the same, with various techniques to serve special interests."[2] Examples of tax-shifting were cited in Part One. Within the monopoly structure, the most powerful groups compete for the largest tax advantages, with significant effects on the overall balance of profits and power.

Banks and insurance companies have been winners in this rivalry. The life insurance companies are virtually tax-free, while Chase Manhattan Bank, for example, paid only 34% on net operating income in 1955, as compared with the customary corporation rate of 52%. Companies with foreign investments have special tax advantages, as have armament and heavy industry firms, through the "accelerated depreciation" on capital investments. The most massive tax favors are realized by the oil companies, through such devices as the 27.5% depletion allowance, characterized by Harvey O'Connor as "Open Sesame into the modern den of the Forty Thieves."[3] Fourteen large refining companies paid an average tax of only 24% in 1954, and specialists in crude oil paid even less. The oil company tax favors, in the billions yearly, speak volumes for their political influence, and at the same time contribute to the rise in economic power of the Rockefeller and Mellon groups.

Finally, one must consider the profitable cycle of taxes, armament orders, and government loans. The people pay increased taxes and buy small government bonds. The proceeds go to pay for armament orders. Arms contractors deposit the funds in the banks, which in turn lend them to the Federal government for additional arms orders, and to other enterprises for working capital. The social impact of this is the weakening of the financial status of the population through rising taxation and credit inflation. From the viewpoint of the financiers it is the cheapest of bonanzas. But not without risks. For the multiplication

of the Federal debt brings into question its soundness in the event of economic crisis. It adds to the burdens which under certain conditions can be resolved only through financial collapse.

One cannot dismiss lightly the warnings of "hair-curling" depressions from such arch-conservatives as George Humphrey and Herbert Hoover. Or the reasoned conclusion of the left-wing writer, Hyman Lumer: "The costs of empire-building are becoming prohibitive indeed! For the American people the financial burden of all-out war mobilization would sooner or later mean sure disaster; in fact, even the maintenance of the present level of war spending has already given rise to serious financial difficulties."[4]

But the game is too profitable to give up, and its very dangers stimulate more government borrowing and spending to keep the militarized boom alive. Deeply involved, the bankers have muted their traditional plea for debt reduction and economy in government. Occasional big business campaigns for reduction in Federal spending are directed in practice only against the secondary outlays for social services.

AIRCRAFT AND ALLIED INDUSTRIES

State monopoly capitalism flourished with the growth of arms manufacture, and its main current forms involve military preparations, directly or indirectly. The applications range from direct production of weapons to activities quite remote from wartime needs, but for which military necessity serves as the convenient excuse for the use of the government to increase profits.

Traditionally in the United States, government arsenals were the main sources of munitions for the armed forces. Periods of wars were exceptions, when fortunes were made by capitalists selling additional munitions and supplies. The multiplication of arms production has relegated the government arsenals to a secondary position. A permanent private arms industry has developed as one of the major industries of the country, increasingly integrated into the spider web of high finance.

But the private capitalists of the arms factories are typical in only one way—they get all the profits. The government supplies all the business, most of the capital, and much of the research and engineering. The essential problem of the arms capitalist is not to invest money for profits, but to establish the political relationships through which he can be permitted to get the profits from the people's money. The old government arsenals were primitive examples of state capitalism.

The new private arms corporations, multiplied in size, are products of state monopoly capitalism in its most brazen, piratical form.

Aircraft is the leading armaments industry. Military strategy has evolved to the point where over 70% of the major procurement of the Department of Defense consists of aircraft and guided missiles. Eight of the ten largest military contractors in the period 1950-55 were airplane companies. By late 1956 the aircraft industry had become the largest manufacturing employer, with 850,000 workers.

An example of the financial arrangements is provided by Boeing, the largest bomber manufacturer. In 1950 it was operating with $150 million of government-owned fixed capital, and only $53 million of its own.[5] Government "progress payments" supplied its entire working capital. Using only $82 million of stockholders' capital (and 90% of that reinvested profits), Boeing had 1954 sales of $1,033 million, a turnover of the entire *private* capital every month. Profits before taxes totalled $77 million, or almost 100% of private invested capital, and profits after taxes were $37 million, or 45%.[6] In addition, fantastic overhead charges conceal unusually large secret profits of control in the aircraft industry.

Prior to World War II the airplane companies were speculative footballs, frequently traded between different interests, some of them secondary. Now these companies are prized possessions of the top circles. The First National City Bank of New York leads in the industry. Next come the Los Angeles financiers, with various Wall Street groups following.

The scope of the industry is indicated by the fact that there are eight airplane companies among the 100 largest manufacturing corporations in sales and profits, and two more among the 100 largest in one or the other of these measures. The companies, and their principal financial connections, are shown in Table 22.

Other military products are supplied mainly by makers of goods for civilian markets. Including ordnance, ships, and components for aircraft manufacturers, as well as operating supplies for the armed forces, this business is large in volume and varied in kind. A number of industries depend on the military for from 10% to 50% of their business. These include electronics, shipbuilding, oil, aluminum and other non-ferrous metals, heavy construction contracting, electric power, and communications equipment. The business is distributed unevenly between industries, and between individual companies in the same industry. It changes greatly between wartime and peacetime, with fluctuations in the military budget, shifts in tactics, and in the Pentagon connections of corporations.

TABLE 22. LEADING AIRCRAFT MANUFACTURERS AND FINANCIAL INTERESTS

Company	1954 Sales (millions)	Major Financial Interests
Boeing Airplane	1,033	First Nat'l City Bank
Douglas Aircraft	915	Los Angeles
Lockheed Aircraft	733	Los Angeles
United Aircraft (engines)	654	First Nat'l City Bank
General Dynamics	649	Lehman Brothers, Blyth & Co.—First Nat'l City Bank
North American Aviation	646	du Pont
Bendix Aviation (parts)	608	Morgan
Curtiss-Wright Corp. (engines)	475	Manufacturers Trust First Nat'l City Bank
Republic Aviation	323	Morgan
Glenn L. Martin	271	Mellon-Rockefeller Fiduciary Trust, N.Y.

NOTE: Aside from the specific interests mentioned, Chase Manhattan Bank is a leading lender to aircraft companies, and Merrill Lynch, Pierce, Fenner & Beane a major underwriter.

Thus there is fierce rivalry among the monopolies over the sharing of arms orders, involving a struggle for influence and position in Washington, and also over those government policies which affect the scope and types of military business. The general impact of this rivalry is pressure from big business for ever-higher military budgets. There is little contrary pressure for reductions from corporations not getting orders, despite the possibility that such reductions would permit lower corporate tax rates. For the collateral advantages of a militarized economy are of considerable value even to those monopolies not directly involved. And the most powerful financial groups all participate directly through one or more of the corporations in their sphere of influence.

THE GENERALS' $140-BILLION ENTERPRISE

The biggest business of all is the government-owned military establishment. The leading generals and admirals do not function mainly as military technicians. They are executives supervising the operations of a $140-billion establishment—the fixed capital of the armed forces—which employs 4 million workers, two-thirds of them in uniform, and spends $40 billion per year.

While not run for direct profit, almost every cent expended creates opportunities for business gain. The manufacturers of armaments, the

suppliers of uniforms, food, and petroleum, the contractors who handle the construction of military bases and installations, the banks operating military base facilities, the concessionaires with their service establishments near military fields—all partake.

Competition for these profit opportunities is intense and adds to the power of the military men in a position to hand them out. The relations between the generals and the capitalists, always close, have become much more intimate. On the one hand, the professional generals entrust the details of procurement to thousands of executives of big corporations taking their tours of military duty. On the other hand, the professional generals readily "retire" to the more lucrative posts awaiting them in private corporations.

Public attention has been drawn to the many former officers now employed as executives by major corporations, and drawing retirement pay from the government at the same time. The advantages to a business of having a general to obtain military contracts from his friends in the Pentagon goes without saying.

A pertinent question is: To what extent does this movement of military men into business denote a turn towards military control of business, with the generals and admirals emerging as a new financial power group?

This happened to a certain extent in both Germany and Japan in the decade before World War II. Goering, master of the Luftwaffe, became a big steel magnate. The Japanese generals acquired extensive industrial interests in Manchuria. This development was associated with the imposition of fascism, and with the militarists taking a major role in policy decisions, accelerating the end of their regimes in aggressive war.

However, in those countries the professional military had developed historically from more or less well-defined classes or strata in society, the Junkers and the Samurai. No such clear-cut military class or caste has crystallized in America. Officers, by and large, are drawn from middle ranks of the capitalist class, and remain subordinate to its leaders.

Matthew Josephson, in an exposé of the trends towards militarization of the economy, indicates that military power in business has not reached the stage of prewar Germany or Japan. The evidence supports this view.[7] In 1955 alone "more than 2,000 'career' officers left the services to take better-paying jobs in industry. They can be found in large numbers in administrative and technical jobs with aircraft firms, civilian airlines, electronics concerns, automobile companies, ship-

building firms, oil concerns, public-relations organizations, among others."[8]

The military men appear, then, not as part of the control groups of corporations, but as salaried executives. Of those with rank of corporate vice president or higher, the majority are with aircraft firms or munitions departments of metal manufacturers. Their role, clearly enough, is mainly that of glorified super-salesman to the companies' best customer.

There are a few exceptions—former generals who really operate in the higher corporate ranks. Outstanding in this respect is General Lucius D. Clay. However, he comes from a wealthy Georgia financial family, and he rose to fame not as a soldier, but as a hander-out of orders for military equipment and as an army political official. Clay is less a traditional militarist entering the business control circles than he is a business executive who functioned in the military during most of his life.

Also, certain financiers place generals in top executive posts not simply for practical advantages, but also for personal affinity to militarism. The multi-billionaire Richard King Mellon had himself made a colonel during World War II and then a brigadier general. Later he picked generals and admirals as chief executives of two corporations and of a research center of the Mellon empire. However, other financial groups have not followed suit, and even the Mellons left military men off the boards of their two mainstays, Gulf Oil and Alcoa.

When C. Wright Mills portrays the military elite as on a par in power with the corporate rich, he is certainly stretching the facts—and indeed the details of his book show the real dominance of the financial oligarchy. The military brass and the financial rulers have become exceedingly intimate, with the former influential but subordinate to the latter, and integrated into their structure of power. This is an outcome of the militarization of the economy, and spurs it further. And the relationships can change in some new crisis, when the strengthened big brass could become leaders in a fascist-militarist bid for power.

Already the military-financial intimacy strengthens measurably the forces seeking ever-larger and more destructive munitions production. Consider the role of Airforce General J. T. McNarney. By the end of World War II a top ranking commander, he occupied key posts dealing with the military budget and procurement in the following years. During this period there was a continuing argument about the Consolidated Aircraft B-36 bomber, ultimately discarded after billions

had been spent on its production. McNarney was one of the most consistent and influential supporters of this model before Congress and within the Defense Department. The day he retired from the airforce he was offered the presidency of the company, which he accepted, receiving roughly $100,000 per year. The intermediary between the then owner of the company, Odlum, and McNarney was W. Stuart Symington, a former aircraft manufacturer who had been Secretary of the Air Force while McNarney worked in Washington,[9] and later, as Senator, became a leading advocate of higher bomber budgets. Year in and year out, on the floor of the Senate, Symington warns of the power of Soviet aviation. To the general public, this is made to appear as a disinterested, if perhaps exaggerated patriotism. The press does not tell the well-known facts about Symington's connections with munitions makers and generals.

More and more openly, the generals, potential future employees of the aircraft companies, and the politicians in touch with them are tending to override the civilian Defense Secretaries in putting through higher and higher military aircraft and missile budgets.

GOVERNMENT PLANTS AND STOCKPILES

During World War II the government constructed large plant capacities for the basic materials then required to meet armament needs. In characteristic "partnership" procedure, these were turned over to large private corporations to operate during the war. In the years after the war, government steel plants were sold, at prices far below cost, to the corporations which had obtained the operating contracts. U.S. Steel got two-thirds of the government ingot capacity and both of the two largest integrated plants, including the Geneva, Utah, works, which put U.S. Steel in an advantageous position for striving to dominate the West Coast market. U.S. Steel paid $47.5 million for a plant which had cost $202.5 million to build.[10]

Similar deals were put over in synthetic rubber and aluminum. The most shocking element in the synthetic rubber disposal was the turning over of *all* of the capacity for butyl rubber, a specialty product for inner tubes, to Standard Oil (NJ) for $32 million. It was Standard Oil (NJ) which held up initiation of a U.S. synthetic rubber industry until 1942 by adhering to its cartel agreement with I.G. Farben, under which it exchanged patents and agreed to bar production of synthetic rubber in the United States. Only wartime pressures, helped by a criminal anti-trust suit, compelled Standard Oil to disgorge the Farben

patents so that production could proceed. It was finally "punished" by getting the contract for operation, and then the outright ownership of the strategic butyl monopoly!

After the war the government switched from building factories to stockpiling "strategic" raw materials. Initially projected as reserves for military contingencies, these have become increasingly devices for bolstering prices and profits of metals producers. By the end of 1955 the stockpiles included supplies larger than could be used in many years, although military authorities expected that any war would be decided in a very brief period. Since 1949 the goals were raised three-fold, reaching $11.2 billion by the end of 1955.[11]

During the 1954 recession, lead and zinc prices fell sharply. The government duly stepped in to buy monthly over 20% of civilian zinc shipments, and corresponding quantities of lead. Wrote the *Journal of Commerce*: "Earnings of major domestic lead-zinc producers have clearly taken the upward path forecast at the time of the inception of the Government's stockpiling program last summer. . . . The stockpiling program . . . has almost singlehandedly accounted for the improvement in earnings. . . . Since the first word of the program got around last March, lead has risen from 12½ cents a pound to 15 cents a pound, while zinc has climbed from 9¼ cents to 11½ cents."[12]

The article warned that "the industry's ills have not been solved on a long-term basis," and that accelerated stockpiling would be needed for further improvement. The failure of stockpiling manipulations to produce stability in markets is proven by the experience of the past years, during which copper, lead and zinc prices have fluctuated more violently than ever before. But this program has been a boon to the controlling interests in the large non-ferrous metals corporations. By helping to draft the stockpiling programs, they can conduct their operations so as to make the most out of them.

In the case of nickel, governments were taking 40% of all "free world" supplies in the peacetime year 1956. As a result there was a severe shortage of nickel. This made little difference to the really large users, connected by ties of common ownership and interlocking directorates with the decisive producer, International Nickel. But, according to numerous complaints, it forced curtailment of operations on 3,000 small plating shops throughout the United States.

In such a situation, one might expect government allocation to make a show of "equitable" distribution. Nickel was so allocated during the Korean War, but the controls were suspended in 1953. The government instead entrusted allocation to the single prime producer, International Nickel Corp., whose president Henry S. Wingate told a Senate Committee: "I think the plan works much better than a Government control system."[13] Rarely has there been so crass an official sanctioning for complete private monopoly control of a major product.

The government, chiefly through its military agencies, has also stockpiled enormous quantities of all kinds of equipment and supplies ranging from machine tools to ship anchors—in the latter case the Navy's holdings exceeding the quantity that could be used in a century.

ATOMIC ENERGY INDUSTRY

This newest of industries has been developed most completely on the basis of militarized state monopoly capitalism. Government-financed and owned plants for the manufacture of fissionable materials and atomic weapons are constructed and operated by private companies. The mining of uranium is carried out by private companies under long-term government purchase contracts. The uranium is assayed and milled by government-appointed companies. Rare metals and other special supplies for atomic weapons production are also produced by specially licensed concerns.

In all phases monopoly control is enforced by secrecy and security provisions which prohibit all but selected firms from obtaining knowledge of processes, prices, and the very terms of the business available.

Full details of state monopoly capitalism in the atomic weapons industry are discussed in *Atomic Imperialism* by James S. Allen. This book also shows the hidden struggle among the various monopoly groups for the key positions in the atomic weapons business.

Joint companies of electric utilities are sponsored by the government under long-term contract to supply electricity for production of atomic weapons. It is one of the supreme ironies of the time that atomic energy, the greatest potential source of power, is in its military application the most colossal waster of standard sources of energy. By 1956 production of atomic weapons used 10% of all the electric power generated in the United States—equivalent to one-half of all the power used in private households, and exceeding the entire output of France or of Italy or of all South America. Socially wasteful—but a source of government-guaranteed profits to selected power companies, manufacturers of generating equipment, and banks and insurance companeis which finance the installations.

The main conflict has been between General Electric and du Pont, which control the manufacture of plutonium, and Union Carbide and

Carbon, which manufactures enriched uranium. The Morgan-du Pont alliance is behind the first-named companies, while the latter is connected with the Hanover Bank, and indirectly with Rockefeller-Mellon interests. Up to 1952, the plutonium process had the upper hand. But with the subsequent concentration on production of hydrogen bombs, enriched uranium came to the fore, and by 1954 Union Carbide had a distinct lead. In that year, included among its 70,000 employees "over 16,000 Union Carbide employees [were] working in the Government-owned atomic energy plants at Oak Ridge, Tennessee, and Paducah, Kentucky."[14]

While appearing to be government ownership, with Union Carbide as an outside contractor, the real relationship was not too different from that of the airplane companies having complete control of government-owned factories. The chief practical difference was in bookkeeping. The airplane companies openly run the government-owned factories for profits. But the nuclear weapons companies *formally* carry on only for reimbursement of their costs, and in the case of Union Carbide a "moderate" fee. Since no financial details of these operations are revealed, the full profitability is kept secret from the public. However, considerable details of the actual profits were unearthed by Allen.[15]

As the U.S.S.R. and Great Britain began to develop peaceful uses of atomic energy, the United States government had to permit a loosening of the military monopoly, lest our country be left far behind in the development of this highly productive energy source. The way for this was paved by the Atomic Energy Act of 1954, characterized as follows by Adams and Gray:

> Grants of privilege without a showing of public benefit were authorized; private interests became gratuitous beneficiaries of a $12 billion segment of the public domain; and while it allowed ample scope to private enterprise, the new law provided only the most slender safeguards against monopolistic abuse. Regarded by many as a victory for the "Power Trust," the bill is likely to promote the very concentration which the Public Utility Holding Company Act of 1935 was designed to prevent.[16]

This act provides for the "give-away" of atomic energy to the power trust, on terms retaining major features of state monopoly capitalism. The Atomic Energy Commission retains title to the nuclear fuel. It will "sell" it—in reality rent it—to the selected power companies, then buy back the plutonium ash by-product. The terms of the trading, it was feared by the Federal Trade Commission, would amount to a

secret subsidy, even to the point of the government paying more for the ash than it charged for the fuel![17]

The law also set the stage for the permanent monopoly of atomic know-how in the hands of the companies operating weapons facilities, by a provision that exclusive patents might be had after five years. When it is considered that the government paid for all of the research on which these patents will be based, this provision takes on a particularly shocking character.

EXPORT OF CAPITAL

A major, if little publicized, objective of the military buildup is to facilitate highly profitable foreign investments. After an interlude during the Roosevelt regime, military and diplomatic intervention on behalf of the overseas interests of the most powerful corporations has become far more effective and extensive than during the days of the "Big Stick." The result to date has been an unprecedented expansion of capital exports (see Chapter XVII).

In this process, important new forms of state monopoly capitalism have developed. Treaties were concluded with many countries providing special privileges to U. S. investors, and access to colonial raw materials. Marshall Plan loans were made to U. S. subsidiaries in Europe. The U. S. Government provides insurance against certain types of losses to foreign investments. These forms, often linked with highly publicized foreign aid programs, were described in *American Imperialism*.[18]

The most significant new form developed during the 1950's has been in combination loans of state and private capital. The Export-Import Bank and the World Bank (International Bank for Reconstruction and Development) make loans on behalf of American foreign investors, including loans to governments and certain state enterprises in countries where American companies have interests, as well as direct loans to the foreign subsidiaries of the U.S. companies.

From the start, American bankers have had control over these operations. They held the leading positions in the management of the institutions, and they determined the capital to be supplied by the U.S. Government through their control over the purse strings of the Treasury via the public debt.

But, thought the bankers, why be satisfied with the interest on government bonds representing the capital of the International Bank?

Supply capital directly, and obtain a higher rate of interest. By the end of 1955, $849 million of the World Bank funds consisted of direct borrowings from banks, mostly American. Nor was this the end of the process. The loans by the World Bank to its foreign borrowers carry still higher interest rates. Why not take off the World Bank's hands the safest portions of these loans? So the arrangement was made for the American banks to buy the earliest maturities of the best bonds.

By the end of 1955 private banks, mainly in the United States, had taken participations of $225 million in World Bank loans, of which $59 million had an outright guarantee from the World Bank, the remainder an effective guarantee through prior payment.[19]

The investment bankers also come in under the World Bank umbrella, both by underwriting the sale of World Bank bonds to commercial banks and insurance companies, and by the sale of foreign government bonds coordinated with World Bank loans to these governments.

For example, in April 1955 a Wall Street syndicate sold $15 million of Norwegian government bonds due in three to ten years, while the World Bank loaned Norway $25 million for 20 years. The investment bankers received commissions of 1.5-2.566% on these bonds, guaranteed an easy sale by their priority position.

Other more elaborate forms of World Bank-private finance collaboration have appeared or are in process of development. Most important is the International Finance Corporation, a proposed subsidiary of the World Bank to make direct investments in different countries together with private capitalists. Thus the Wall Street interests would seek to get the 20%-50% returns normal on direct foreign investments under the shelter of government capital.

All of these operations of the World Bank, a nominally international institution, have been completely under the thumb of the United States —and more particularly, of the two leading financial groups, the Rockefellers and the Morgans. The president is Eugene R. Black, placed there by the Chase Manhattan Bank, and his vice president is Robert L. Garner from the Guaranty Trust. During the period 1952-54 all of the World Bank bonds sold in the United States were underwritten by syndicates jointly managed by Morgan Stanley & Co. and the First Boston Corp.

The *New York Times* carried an idyllic picture of the Belgian Ambassador flanked by the Rockefeller man on the World Bank, Black, and Morgan Stanley partner John M. Young on the occasion of the joint World Bank-Morgan Stanley loan to Belgium in 1954. To emphasize the Wall Street character of the transaction, it was consummated not in the Washington offices of the "international" bank, but in the Morgan offices in New York.[20]

Similar partnership arrangements with private banks have been developed by the U.S. Government's Export-Import Bank.

As noted in Chapter VI, partial mergers or joint ventures are most prominent in foreign operations. This trend is encouraged by a glaring inconsistency in the government's formal policy towards monopoly. Officially, domestic monopolies and cartels are frowned on and mergers scrutinized. But identical practices by U.S. companies operating abroad are encouraged—in law through the Edge Act, and in constant diplomatic practice—as being on behalf of American "national" interests. However, the "national" interests are really those of great corporations, consolidating their forces in cooperation with or in rivalry with European cartel partners and in opposition to the populations of the countries where they invest. There is also a political reason for the difference in approach. Domestic monopoly must be disguised to ward off public wrath. There is little point to such pretense in places abroad where U.S. monopolies are imposed at the point of the bayonet.

The joint operations of the State Department, the military and intelligence agencies, and the oil companies in the Middle East are an outstanding case in point. In 1911 the Supreme Court ordered the breakup of the Standard Oil Trust into various component parts. But the government offered no objection when two of these segments, the New Jersey and New York Standard Oil companies, jointly formed Standard-Vacuum Oil Co. as a merged enterprise for the conduct of certain foreign investments. In 1947 the government openly encouraged the joining of three Standard Oil companies with the Texas Corp. in Aramco, the Arabian oil giant. Subsequently, to diminish friction with the lesser oil companies, the State Department helped a new supertrust, American Independent Oil Co., consisting of ten secondary companies, to get a concession on the Arabian peninsula.

The Iranian Oil Consortium organized in 1954-55 represents the ultimate word in state-monopolist organization of the super-corporation. U.S. Government officials were prominent in the overthrow of the Mossadegh regime which had nationalized the once British-owned industry. Based on this exhibition of strength and its influence in the new Iranian government, Washington was able to insist that American companies share in the return of the oil to imperialist control. The new cartel was negotiated in the name of the U.S. Government by Herbert Hoover, Jr., oil company magnate and diplomatic agent,

later Undersecretary of State. Three European companies (all with U.S. minority interests), and the Big Five American companies divide up 95% of the oil, with the remainder shared among nine smaller U.S. companies selected by the Big Five. Ultimate control is nicely balanced between British and American interests, and inter-corporate battles for domination within the consortium are inevitable.

REGULATIVE AGENCIES

Before the growth of war economy, the regulative agencies of government were the most important components of state capitalism. These include the Interstate Commerce Commission, the Securities and Exchange Commission, the Civil Aeronautics Board, the Federal Power Commission, and others. They operate more than ever as instruments of monopoly coordination, for the establishment of cartel-like price structures, etc. But they are now overshadowed by those more intimate forms of government-business relations which have enjoyed such a mushroom growth. However, government regulation remains the main source of illusions concerning the role of government as a restraining force against monopoly (see Chapter II). Here we cannot discuss the regulative activities in detail. The reader is referred to a recent book by two professors, Walter Adams and Horace M. Gray, aptly entitled: *Monopoly in America—The Government as Promoter.* They write: "Among all the devices used by government to promote monopoly, public utility, or public interest, regulation is in some respects the worst."[21]

Where Adams and Gray fail is in speaking of the government as a thing apart which serves the monopolies. As shown in Chapter XVI, the government has become in large measure an integrated part of the business structure. It is run by as well as for monopoly, and the key men of Wall Street are also the key men of Washington.

PUBLIC AUTHORITIES AND TOLL ROADS

Military-connected Federal activities are the main things in state monopoly capitalism as it has developed in the United States. But new and highly profitable partnerships have also grown up in the more familiar area of state and municipal affairs. On top of the old-fashioned sewer scandals and haulage contract rakeoffs, the financial big-wigs have erected modern, strictly "legal" schemes to extract massive profits from the populace.

These relationships were built up during the economic crisis of the 1930's, when the bankers imposed harsh terms on local government bodies as conditions for emergency credits. Most famous was the bankers' dictat to the New York City Government in 1932. In return for temporary funds for the payment of city salaries, the City Administration agreed to accept permanent limitations on its powers to tax wealthy interests, and also to accept the bankers' representatives as permanent controllers of all key projects involving heavy construction outlays.

This agreement has been kept by all City Administrations ever since. The main fiscal terms were enacted into law by the State Legislature in 1938. Robert Moses, the bankers' choice, remained in charge of all city planning and construction work for over two decades, surviving bitter conflicts with the New Deal Administration.

In European countries, government ownership of industry has often been an expendient for bailing out stock and bondholders in bankrupt enterprises. This has not developed on a national scale in the United States. But local governments have followed the pattern of buying up bankrupt transit systems, paying off in big bond issues to the bankers, multiplying fares on these lines, and then selling back the lines or segments thereof which become profitable.

One of the most striking developments of the 1950's was the toll-road system. Free public roads were a main precondition for the flowering of capitalism. The United States far surpassed any other country in the construction of a nationwide network of highways.

During the 1930's the banking interests began to chip away at the free public road principle, through the levying of tolls on new bridges and tunnels, and on the Pennsylvania Turnpike. During the 1950's, when road expansion became imperative to relieve the doubling of traffic on a run-down network, this became for several years the main form of long-distance trunk highway construction. About half of all funds spent for new road, bridge, and tunnel construction in 1954 went into toll facilities.

Like most government-owned transit systems, these are operated by a new form of state-capitalist enterprise, the Public Authority. The Public Authority has no stockholders and pays no dividends. It operates with borrowed money, on which it pays interest, tax-exempt because of the "public" designation. Authority directors are not formally elected by private investors, but appointed by State Governors. But once chosen, they are completely removed from government control. They become a power beyond the influence of voters, elected officials, or public service commissioners.

Through this arrangement, the mighty millionaires obtain all the

advantages of two worlds—the profits of control of a private enterprise, and the financial and political exemptions of a "government" company. Characteristically, the commissioners or directors are "dollar-a-year" men, corporation investors and officials holding their Authority memberships along with directorships in major corporations. Directors of the Port of New York Authority (New York and New Jersey), as of mid-1955, included officials of Bankers Trust, Marine Midland Trust, Prudential Insurance Co., New Jersey Bell Telephone Co. (AT&T), and Sullivan & Cromwell. No representatives of the construction workers or users of the facilities were on the board.

Wall Street investment bankers promote the toll roads and arrange for their management from Maine to Texas. *Business Week* expressed the situation neatly: "Among little-known facts about highway planning today, probably the least known is this: The man who ultimately decides where a toll road shall be built, and how big and fancy, is the investment banker, not the state politician, as it used to be."[22] Prominent among the toll road investment bankers are Lehman Brothers (New York and Texas pikes), Blyth & Co. (New York and Florida), Smith, Barney & Co. (New Jersey), First Boston Co. (Oklahoma), Drexel & Co. (Pennsylvania), B. J. Van Ingen & Co. (Ohio).

Control over toll facilities is exercised by a complex partnership of the financial oligarchy, each member exacting a sizeable tribute. Besides the investment bankers, there are the giant banks, which act as fiduciaries for the bond issues, and the associated engineering and legal firms. For example, the traffic engineering business is virtually cornered by the New York firm of Coverdale & Colpitts, despite fantastic errors in its traffic forecasts. Its senior partner, George W. Burpee, is also a director of the Chase Manhattan Bank, often a bond trustee for toll road issues. The team works to a common purpose; to load future riders with the maximum burden of bonds at the maximum rate of interest, and with allowance for liberal fees to all participating bigwigs.

To see this system in practice, let us be taken for a ride on the New Jersey Turnpike. By the end of 1954 its Authority had borrowed $432 million. Only $260 million had been used on actual construction, $21 million went for engineering and architectural charges, $19 million for financial charges, and $123 million was held idle.

Passenger car tolls roughly equal the cost of gasoline. Only 15% of the 1954 revenues went for operating expenses, while interest took over twice the amount spent for operations.[23] Traffic estimates, and current surpluses, show that the pike could operate successfully with less than half its present scale of tolls. But in practice, the excess

collected provides a huge fund in the control of the banker trustees, and a vehicle for further extension of Authority rule over New Jersey's road system.

One might ask—how can the bankers "get away" with this? The answer is that it is "sewed up" in advance with ironclad laws and agreements. To set up the Authority, the New Jersey legislature had to pass a law abdicating all power to it, while the Authority in turn had to pass resolutions abdicating control over tolls to the engineers. It may not set tolls lower than recommend by the traffic and consulting engineers, and these engineers may not be replaced except with the approval of the bank trustee.

As with the Federal debt, the bankers will never let the bonds be repaid, if they can help it. The Triboro Bridge Authority, operating in the New York area, is one of the most profitable. It is supposed to stop charging tolls after the bonds are paid off. But under the benign guidance of Mr. Moses, it always finds new ways of spending its profits to avoid this dire contingency.

Wealthy investors are major beneficiaries of the Authority system. They get higher rates of return than on Federal bonds, plus tax exemption, which multiplies the effective yield in the upper brackets.

The promoters' glee at this setup is illustrated by a circular advertising turnpike bonds put out by the brokerage firm of Tripp & Co. Under the caption: "The Sad Awakening—Or Toll Roads Did Not Originate on Wall Street," it says: "We have learned that probably the first form of tolls was tribute extracted from travelers back in the days of Babylon by organized bands of robbers (please, no comparisons)." The circular then describes the development of legalized toll roads in England, culminating in the passage of 453 Turnpike Acts by Parliament in the 14 years after 1760, and comments: "Obviously, we in the United States are *pikers* and have scarcely scratched the surface."[24]

Thus the financiers combine all of the complex organization of modern technique with the shackling restrictions of feudalism. On the one hand, these forms are new and more effective tools for extracting profits from the population. On the other hand, they are symptoms of decay. Capitalism, in its latest stage, tends to discard progressive features through which it first became strong.

The Federal road-building program enacted in 1956 may slow up the toll-road trend. But there can be no assurance that it will be stopped or reversed until a new grouping of social forces determines government policies.

CHAPTER XVI

Washington, Incorporated

GOVERNMENT HAS BECOME so important that the biggest businessmen increasingly run it themselves, instead of leaving affairs of state to specialists. The personal union of the top men in each sphere accompanies the functional merging of state and corporation.

Capitalist influences have clearly predominated in Washington since the Civil War. Formerly, however, business insured itself the upper hand by arranging the election of pliable politicians, and the appointment of career men, who could be bought or who exchanged obedience for tenure in office. During this century the leaders of high finance have personally occupied more and more of the key policy posts.

Modern war has been the great accelerator of this trend. Business men entered government on a large scale during World War I, when they took over the wartime economic regulations and handing out of arms contracts by the Wilson Administration. Much of this was continued in succeeding Republican administrations with important tycoons occupying key cabinet posts. The process was temporarily checked during the New Deal, when Wall Street left the Administration to fight it. But with the outbreak of World War II, Roosevelt turned most operations back to high finance, which moved into wartime agencies on an unprecedented scale. This continued in the cold war Administration of Harry Truman, and became still more pronounced under Eisenhower.

The turn to direct rule has been associated with the change in the kind and amount of profits at stake. When American manufacturers were still concerned with European competition on domestic markets, the tariff was a major political issue. Bribery of Congressmen and "log-rolling" sufficed to acquire the needed tariffs. A payoff to a county politician bought a local road-building contract. Now the stakes

include foreign concessions, arms contracts, and tax regulations literally worth billions of dollars. The old methods are too primitive, too risky. The personal touch is required.

During the Harding Administration, the politician Albert B. Fall, Secretary of the Interior, was bribed by secondary oil men to turn over Naval oil lands. This was exposed in the Teapot Dome scandal, and Fall went to prison. But Charles Evans Hughes, Standard Oil attorney who became Secretary of State, used the whole weight of American diplomacy to secure for his company concessions in Iraq and Indonesia worth many times the Teapot Dome leases. No crude bribery was needed, for Hughes was part of the Wall Street inner circle, automatically participating in its loot. For this and other actions, he was honored by being made Chief Justice of the Supreme Court.

Business men moving into Washington are mainly concerned with the newer super-profitable forms of state monopoly capitalism, enshrined as the highest expressions of government policy—although some engage in private corruption of the traditional type also.

Another factor has been the decline of Congress, and the arrogation of most governmental authority to the Executive. Formerly, for example, Congressional drafting of tariff legislation was a matter of some moment. But it is 27 years since Congress passed a Tariff Act. It has ceded authority to the Executive to adjust tariffs within broad limits.

Today most major legislation is written in executive agencies, and subjected only to minor amendments in Congress. Treaties approved by the Senate have been supplanted, largely, by Executive Agreements not requiring Congressional review. The last Declaration of War really debated in Congress started the Spanish-American War of 1898. Foreign and military programs are carried out under general enabling legislation, accompanied by tens of billions in advance authorizations which permit much flexibility in the executive operation. Enormous secret programs are approved by Congress with little or no knowledge of what it has voted for.

The parliamentary decay facilitates the direct handling of government by big business. Some major capitalists have sat in the Senate, but this has never been the rule. For Congressmen have to be *elected,* and the American people mistrust men of great wealth, and will usually vote against them. Within the Executive, on the other hand, all that is necessary is to arrange for the election as president of a politician or military figure who will "play ball" with the wealthy groups, and turn over to them the selection of key personnel. Also,

with Congress less influential, and knowing less about what is going on, it is easier for big business men in the Executive branch to serve their private interests without check or scandal.

MECHANICS OF BUSINESS-GOVERNMENT PERSONAL UNION

Corporations increasingly organize their government operations according to a definite system. Ex-Congressman Robert Ramspeck, now a vice president of Eastern Air Lines, writes of the need for "political executives" who can make policy at the departmental level, and who are experienced in the problems of operating in government.[1]

In the typical corporate organization there are key executives assigned primarily to government relations and others assigned to work for the corporation on the government payroll. Executives alternate between the corporate headquarters and the Washington positions of the given corporation. It has its Washington law firm as well as its New York or Chicago law firm.

The relationship between a man's corporate rank and his government rank is fairly well defined. The president of a secondary corporation, or the vice president of a giant corporation, will rank as an assistant Department Secretary in Washington. A lesser official of a great corporation will rank as the head of an "industry division" or corresponding entity in the government hierarchy. Executives are sent on one-year or two-year "tours of duty" in government, then return to another "private" corporate assignment.

These lesser executives in government serve particular company interests—they obtain government orders, arrange for the acquisition of government properties, handle the corporation's interests in government regulations and allocations, obtain information for their employer.

Over these commuting corporate-government executives are the top policy men of the financial oligarchy, the "Power Elite"—those with their fingers in many corporate pies and in the top councils of government. These settle the great mergers and foreign investments in their "private" offices; they make government policies on foreign affairs, finance, and "internal security" as key officials or advisors of the Administration in power.

Intermingled in the Executive structure are corporation lawyers doubling as government officials, career government administrators linked to the financial oligarchy by social and ideological ties; professional politicians defeated for office and military men occupying civilian government posts. The three last-mentioned groups often end

up in the corporate officialdom, after their tour of service in the government apparatus.

Within the Executive, the reality is quite different from the formal picture of a supreme, elected President who appoints Cabinet members and other aides to carry out and advise him on policies. Since 1921, at least, except for Franklin D. Roosevelt there has been no President who exercised a decisive personal role in that office. The lines of policy, the important decisions, are usually made by the inner circle of the Administration, sometimes with the participation of the President, but often with his mere formal approval. Despite all the talk about the "killing" character of the presidential job, its successive occupants spend an increasing proportion of their time on vacation.

When President Eisenhower occasionally would "step out of line" with an impromptu press conference statement sounding too pacific or too friendly to the USSR, his White House aides or Secretary of State would hasten to correct him. A striking example occurred in June 1956. Eisenhower expressed understanding of the role of neutral nations, and doubts of the efficacy of military alliances. The next day the "White House" issued a partial "explanation" which wiped out half of what the President had said. And the following day Dulles directly contradicted Eisenhower, calling neutrality "immoral."

In the traditional theory of government, a Cabinet member who disagrees basically with the President resigns or is fired. But in the reality of current American political life, a President who disagrees with a Secretary of State directly representative of very powerful financial interests eats crow and avows his great friendship for the gentleman in question.

The key government jobs are filled by self-appointment and selection of close associates by the particular oligarchies in control of a given Administration: "As in the private corporation, the rule is the '*co-optation*' of one's own kind by those who have taken over the command posts."[2]

But, one will ask, why should an elected President, representing a national political party, appoint and defer to men of great wealth? The answer, in brief, is that the men of great wealth have an iron grip on the political parties, and can usually determine the presidential nominees, or at least make certain that they will be individuals amenable to big business domination. This involves long-standing connections with the local political machines, control of publicity media, and possession of the incomes needed to finance national campaigns, now generally estimated to cost about $150 million.

Professor Alexander Heard told a Senate Committee that the buying

of elections is not the fault of individuals, but of "the system we tolerate and perpetuate": "It is standard operating procedure for officials of business (and other) organizations to make contributions to candidates, parties, and campaign committees . . . one-third of the directors of the Nation's 100 largest corporations made officially recorded campaign gifts in 1952 of $500 or more."[3]

In 1956 *reported* contributions of $500 or more accounted for 39% of the moneys spent by Republican Party committees and 26% of the Democratic spending. Emphasizing the fact of Wall Street domination, 30% of the large Republican contributions, and 36% of the large Democratic contributions, came from New York State.[4] The difference between the two parties is that usually more money goes to the Republicans, and the very wealthiest men concentrate their funds on that party, with lesser lights of big business supporting the Democrats. However, in view of the dependence of the lesser monopolists on the main financial centers, ultimate domination of Democratic Administrations generally remains in Wall Street.

The small minority voice of labor in the Democratic Party since the 1930's has had a certain influence on that party's campaign programs, but has not been translated into any significant participation by labor in the actual conduct of Democratic Administrations.

The main issue in the choice of presidential candidates, then, is not which class in society and general line of policy shall prevail; but rather which particular coalition of financial groups shall have the greatest influence and be able to derive the most profits from government-business arrangements.

During the 1948 and 1952 campaigns Chicago and other midwestern interests, backing Senator Taft, sought to win control of the Republican Party. As the *Wall Street Journal* put it after Taft's 1952 defeat: "Again it can be said in a general way that the Middle West lost to an East-West axis."[5]

Before selecting Eisenhower as their nominee, the Wall Street groups had cultivated him and primed him for many years, and assured themselves of his basic loyalty to their interests. Within the Wall Street coalition ruling the Republican Party, the Rockefeller-Standard Oil forces took the lead beginning with 1944. This reflected the rise in the financial power of the Rockefeller group, and the war-derived increase in American power abroad, from which the oil interests had gained so much.

The fact of that group's leading role was evidenced in many ways, including their first place in 1948 and 1952 campaign contributions,

the alleged role of the Chase National Bank in the Republican Party convention of 1952,* and the formation of the Dewey-Aldrich-Dulles triumvirate to run Republican Party affairs, which persisted from 1944 through 1952. Aldrich was the chief fund-raiser and financial pressure man, Dulles the foreign policy advisor, and Dewey the political manipulator.

The key to the selection of Eisenhower's Cabinet was revealed by a *New York Times* article shortly after his election in 1952. Aldrich, after a brief visit to the President-elect, spent several hours with Herbert Brownell, the principal consultant on appointments, and a veteran Aldrich-Dewey political operator.[7]

The party spoils system still prevails at a secondary level, such as in the appointment of postmasters. But party lines are not rigid when it comes to the decisive Wall Street representations.

Henry L. Stimson, a corporation lawyer close to the Morgan interests, and a Republican, was Secretary of War in the Cabinet of President Taft, Secretary of State in the Hoover Cabinet, and again Secretary of War in the Democratic World War II regime of Franklin Roosevelt. Gordon Gray, a wealthy Democrat, was Army Secretary under Truman, then Director of Defense Mobilization under Eisenhower.

THE "CADILLAC CABINET"

The Eisenhower Administration marks a new peak in the extent of direct take-over by big business. *Fortune* found the proportion of businessmen in policy-making bodies twice as great as in the previous Truman Administration. It commented on this "unique" concentration of business power: "In sixty years actually there has been only one appointment comparable in its political audacity to the naming of Wilson and Humphrey—a need that Mr. Eisenhower has committed all at once. That was Andrew Mellon, who, it is well to remember, was immediately made a target of bitter attacks—Mr. Eisenhower could hardly have picked two men more representative of the mid-century Big Corporation, of its methods, its philosophy, and its elan."[8]

* The Chicago Tribune charged that Winthrop Aldrich supplied lists of large stockholders all over the country to Dewey and his aides. The latter wired Chase National's 3,800 correspondent banks which, using the names of stockholder-contributors, warned the delegates to vote for Eisenhower.[6] While the Chicago Tribune is not the most reliable source in the world, this charge is supported by a variety of evidence.

Classifying key appointments, *Business Week* found 17 from business, 12 from politics, five from government, four from journalism, two each from labor, education and the military. But, as the magazine pointed out, a number clasified otherwise "have a strong business orientation, too."[9] To say the least, considering, for example, Nelson Rockefeller, whom *Busines Week* classifies as having a "government" background. The two labor men were soon forced to resign.

TABLE 23. PRINCIPAL OCCUPATIONS OF TOP EXECUTIVES EISENHOWER ADMINISTRATION, MID-1955

Occupation	*Number*
Capitalists	150
Bureaucrats, technicians, minor executives	66
Lawyers	30
Military men	14
Politicians	12
Total	272

NOTE: The classifications are not exclusive. Of the capitalists, 29 were also lawyers, 16 also politicians, 12 also bureaucrats, and 1 also a military man. For the purposes of this classification, a capitalist was defined as including a corporation director, a top official of a major corporation (vice president or higher), a partner (not mere associate) in a leading corporation law firm which has directorates in important corporations, a member of a family controlling important corporations. Many of those classified as lawyers, but not capitalists, are probably also men of considerable wealth and property. The same applies to many of the State Department career men. Thus, the "capitalist" classification is cautious, and involves some underestimation. The 272 individuals were selected according to positions occupied, as shown in the U.S. Government Organization Manual, 1955-56.

SOURCE: Compiled from *Who's Who,* Government manuals and releases, newspaper and periodical accounts.

Our own tabulation covers 272 policy-making or top executive positions within the first Eisenhower Administration—the Cabinet members, undersecretaries, general counsels and key officials peculiar to certain agencies, and the ambassadors to major countries (Table 23). At least 150, a clear majority, were active capitalists or wealthy men through inheritance or former business activity. Moreover, most of the 122 not classified as capitalists had a lifetime of intimate connection with and service to capitalists. They are classified otherwise solely because there is no available evidence of their being personally affluent or in control of significant enterprises. Not a single one had a labor background.

At any rate, men of wealth and capital definitely predominate. The government careerists and the professional politicians have definitely given way to businessmen in the executive control of government. Moreover, the professional military men, who since World War II have entered the civilian government apparatus, have gained a mere foothold there. The proportion of military men in key civilian posts is no larger, and probably smaller, under the Eisenhower Administration than under the Truman Administration.

The 150 capitalists include some from the largest corporations, wealthiest families, and most important corporate law firms. Some are from intermediate ranks, and others still of purely local importance. The one general feature which stands out is the prominence of financiers and financial industrialists, corresponding to the importance of the financial oligarchy in the general structure of corporate control. Of the 150, seventy-one are either predominantly bankers or include important financial institutions in their directorates or known possessions.

The postwar trend towards a more direct operation of government was planned by the "elite," and well started during the "Fair Deal" Administration of Truman—and, it must be said, with that Administration obviously collaborating with it.

The definite plan to this end, and its connection with an expansionist foreign policy and reactionary domestic policy was bluntly set forth by the Treasurer of Standard Oil (NJ), Leo Welch, in 1946. Business men in government! was his slogan. He called on corporations to "make this possible for their outstanding men by placing them in a position, either through groups or singly, where they can weather the strain financially."[10]

Standard Oil went about this quite simply. It merely continued to pay its officials their corporate salaries while they collected government salaries!

WILL WHITE AND NELSON ROCKEFELLER

Mr. Will W. White, a Standard Oil official, went to Washington in 1954 for his two-year "tour of duty" in government. Being a vice president of a Standard Oil subsidiary, he was given the corresponding rank in government, brigadier general, and appointed staff director of petroleum logistics in the Defense Department. "General" White appeared as an Administration witness before a Congressional Committee considering a government pipeline to carry crude oil from West Texas to California. He "rejected the proposal," as indeed, Standard Oil has furiously opposed all projects for government-owned

pipelines. But "General" White demurely refused to state his reasons —apparently they were a military secret!

Even the cynical Representatives were a bit nettled by this, and began to ask "General" White other questions: "Under questioning, General White revealed he still was drawing pay from the Esso Export Corporation, of which he was vice president before going on military duty for two years ending next February. He said he . . . was getting paid the difference between his general's salary and his former pay until he returns to his company next year."*[11]

The Congressmen raised their hands in horror, but the incident was soon forgotten, and Mr. White duly returned to Standard Oil in 1956 as vice president of another subsidiary.

All this is related to the "conflict of interest" statute which states: "Whoever, being a government official or employee, receives any salary in connection with his services as such an official or employee from any source other than the Government of the United States . . . shall be fined not more than $1,000 or imprisoned not more than 6 months, or both."[12]

The same penalties apply to the payer of the salary, whether an individual or a corporation. Needless to say, neither Mr. White, nor anybody from Standard Oil, was ever prosecuted by the Justice Department. If this and other "conflict of interest" statutes were ever actually enforced, the government of the United States, as presently constituted, would virtually collapse!**

Will White is representative of thousands of Standard Oil executives, at various government levels, especially in the Armed Services. Eight of the 14 directors of Standard Oil (NJ), in 1955, had gone through the cycle—Standard to government and back to Standard. Similar arrangements are made by other groups, if not on such an all-pervasive scale as the Rockefellers.

For the really top men of the financial oligarchy, in the Cabinet and National Security Council, it isn't a question of continuing paychecks. These are the multi-millionaire stockholders in many corporations.

* The really fantastic part of the exchange came when Rep. Rivers of South Carolina asked White if his background would affect his economic thinking. "It certainly would not," the General replied!

** Another way of keeping the company executive in government on the home payroll is through the use of "dollar a year men" or—as they are now known—"Without Compensation Employees." Congressional hearings on the operations of the Business and Defense Services Administration, conducted in 1955, showed how these "WOC'S" systematically use their "government" jobs as highly profitable Washington offices of their respective companies.

They simply retain their investments and continue to receive the dividends therefrom, while using the government to promote policies designed to lead to increased dividends and profits of control.

Perhaps the best example of this is the career of Nelson Rockefeller, to whom the executive-General Will White is ultimately responsible through the various echelons of corporate and financial control of the Standard Oil empire.

Rockefeller began his government work in 1942, as Coordinator of Inter-American Affairs. In this and later activity, Rockefeller has consistently used a political variant of the famous Rockefeller philanthropy. Publicly, he is the advocate of people's welfare, especially the economic welfare of underdeveloped countries where Standard Oil investments predominate.

But the more effective objective of his role in the CIAA was, as expressed in his memorandum on the subject, to "take advantage of the opportunity afforded by the closing of European markets to draw the Latin countries closer into our orbit."[13]

Later, as Assistant Secretary of State in charge of Latin American Affairs, Rockefeller played for the good will of the most reactionary Latin American politicians by helping to put over the admission of the Argentine Colonel's regime into the United Nations. The late Senator Tom Connolly said of the San Francisco founding conference of the UN: "Also from the State Department was Nelson Rockefeller, on whom we depended to win the support of South American countries. He was a man of good ability and had had long association with Latin American problems. Several times on close issues, we told him, 'Look, get your people lined up right away'."[14]

Thus was inaugurated the famous "mechanical voting majority" which distorted UN activities for many years. Rockefeller left the State Department in the wake of conflicts arising largely from his UN performance.

But in 1950, he reappeared in Washington, as head of the International Development Advisory Board, to recommend ways of carrying out President Truman's "Point Four" program. In the Eisenhower Administration he was made Undersecretary of Health, Education and Welfare and Chairman of the Advisory Committee on Government Reorganization. Then in December 1954 he was promoted to be the President's foreign policy advisor. The order appointing him contained an unusual paragraph: "You are requested to attend the meetings of the Cabinet, the National Security Council, the Council on Foreign Economic Policy, and the Operations Coordinating Board."[15]

In short, Rockefeller was appointed to *all* of the main strategy and operating centers of the government, including its top body, the National Security Council. At the same time he remained head of the Government Reorganization Committee. On some of these boards he acted as the President's Deputy.

In short, here was a man, never elected to any office—and probably incapable of election by virtue of the Rockefeller name—who was given the key to Washington, and a voice in all councils solely by virtue of his family's enormous economic power and financial position in the Republican Party.

One would think that a man with such varied government responsibilities would be head over heels in work. Not so Rockefeller. All of these taken together were merely a part time job, paid for per-diem on the days Rockefeller was on the scene.* On the other days Rockefeller had to participate in the "private" affairs of Rockefeller Brothers, Inc., and to establish the proper relations between these private interests and his government activities.

Here we see he acme of C. Wright Mill's "decision maker," the ordinary human being who, by virtue of family fortune is transformed into a "superman" empowered to determine issues affecting hundreds of millions of people over a virtually limitless range of economic and political affairs.

Of course, his power was never uncontested. Besides hostile class and national forces, he had to reckon with other "decision makers" representing combinations of comparable power with certain interests in conflict with his. Thus Rockefeller quit the Eisenhower Administration after failing to get adoption of his proposals—their content never publicized—for stepping up the economic cold war after the Geneva Conference had eased it. But while this resignation may have been a sort of personal protest, his group had no intention of ceding the key post. Rockefeller was replaced by W. H. Jackson, another representative of the same approach and set of interests.

DULLES

John Foster Dulles represents the last word in the merging of "private" and "government" affairs. Part of the financial oligarchy, he is connected with most of its important groupings. At the same time, he is specially trained for the tasks of modern imperialist

* Of course, the compensation, at the rate of $15,000 per year, was a joke, that sum being a fraction of Nelson Rockefeller's *daily* dividend income.

government. His grandfather, John Watson Foster, and his uncle, Robert Lansing, were prominent in expansionist diplomacy. And even before World War I Dulles entered the diplomatic scene. His business career has been as a law partner in Sullivan & Cromwell, which specializes in the foreign affairs of U.S. big busines. With the expansion of these foreign interests, it has emerged decisively as the largest Wall Street law firm, and Dulles as its leading partner.

Besides representing American corporations overseas, Sullivan & Cromwell represent the affairs in the United States of their European cartel partners. Prior to World War II, this meant most conspicuously the business affairs of Nazi Germany. Dulles' firm represented I. G. Farben, Vereinigte Stahlwerke, and the American subsidiaries and agents of the former. It did and still does represent the Schroder Trust, formerly Hitler's financial agent. Dulles became dummy voting trustee of German-controlled corporations here in a vain attempt to prevent their seizure during World War II. Hitler's personal agent here, Westrick, had been a Sullivan & Cromwell representative in Germany.[16]

Dulles helped his clients politically as well as professionally. The Mr. Dulles who now condemns neutrality as "immoral" was a great advocate of American neutrality towards fascism. He and his wife were contributors to the America First Committee, and his sister, still in the State Department, was an open Hitler supporter. Dulles was the author of those "famous last words": "Only hysteria entertains the idea that Germany, Italy or Japan, contemplates war upon us."[17]

Or, one might think, they should have been the last words so far as Dulles' political future was concerned. But his powerful friends recognized this as a calculated "mistake" for purposes with which they sympathized. During World War II, Allen Welsh Dulles, brother and law partner of John Foster Dulles, was behind-the-scenes negotiator with German big business for the Office of Strategic Services in Switzerland. After the death of Roosevelt, John Foster Dulles became increasingly prominent as a State Department advisor, and in many respects virtual alternate to the Secretary of State. With the election of Eisenhower, he formally occupied that post; while his brother, already active in government affairs, became director of the Central Intelligence Agency.

Certainly no man has been as influential in American foreign policy formation during the postwar decade as John Foster Dulles. His slogans of "liberation," "massive retaliation" and "brink of war" symbolize the aggressive and dangerous game he plays.

Sullivan & Cromwell partners, including the Dulleses when they are off the government payroll, represent and have interlocking directorates with many leading corporations and banking houses.

While these positions connect with every important New York financial group, two relationships are outstanding. The closest tie is with the main Rockefeller-Standard Oil interests. Sullivan & Cromwell represents Standard Oil (NJ) and the First Boston Corp., key industrial and investment banking firms of the Rockefeller group. Dulles personally was on the board of the Bank of New York which is controlled by a group of Rockefeller-Standard Oil families, and Sullivan & Cromwell represents the industrial corporations closest to the Bank of New York. Dulles was also a director of International Nickel, in which the Rockefeller interests—though not necessarily controlling—are sufficient to justify a personal directorship for Laurance Rockefeller. Before taking the State Department job, Dulles was Chairman of the Rockefeller Foundation, signifying a relationship of unusual trust with the Rockefeller family. As does his taking John D. Rockefeller 3rd as advisor in making the Japanese Peace Treaty, and his decade-long association with Dewey and Aldrich as the top triumvirate of the Republican Party. The other intensive connection is with the Stillman-Rockefeller family of the Schroder Trust and the First National City Bank (see Chapter X).

One other group of Sullivan & Cromwell connections is of particular interest. In 1950, when Dulles unsuccessfully ran for the Senate against Herbert Lehman, it was alleged by Lehman supporters that anti-Semitic propaganda was used by the Republicans. The special associations of the firm with the anti-Semitic Nazis have been noted.

Yet Sullivan & Cromwell has been attorney for Lehman Brothers in some cases, and is the general counsel for the associated investment banking houses of Goldman, Sachs & Co., and Lazard Frères, as well as the Lehman-Lazard investment trust, General American Investors, and the largest of the Lehman department store chains, Allied Stores.

INFORMAL CONTACTS

The affiliation of government and business is not limited to the formal occupancy of government posts. Intimate contact is maintained through Congressional lobbyists, the network of business and financial advisory committees that are consulted on all major policy questions, newspaper editors, public relations and advertising firms. The men in government are in frequent contact with their counterparts in the home offices.

At the highest level, the personal meetings and friendships of President Eisenhower synthesized these contacts. *U.S. News and World Report* listed 474 non-governmental visitors at 38 White House "stag dinners" during 1953 and 1954. The magazine conservatively classified 294 as business men. In contrast, there were eight union officials.

These informal meetings have a definite role in policy formation: "The President mentions a few topics he would like to discuss. As the evening moves on, he may ask each guest, in turn, for his views. Usually, the guests are ready to talk."

Most of the guests are the really top men of the main financial groups. Wall Street influence is shown by the New York addresses of 161, or over one-third of the guests; others reside in New York City suburbs or manage Wall Street controlled corporate affairs from other home addresses. Four Rockefeller brothers are on the list, and the fifth was seeing Eisenhower as a government official. The Morgans matched this with five directors of J. P. Morgan & Co. Also present were the chief executives of financial and industrial corporations of the Rockefeller and Morgan empires.

Leaders of the other major financial groups, of the important investment banking firms, of the utilities, major industrial corporations, and radio-TV and newspaper firms were all there, along with assorted Texas oil men and California tycoons. Of those occupying the citadels of power, only one family was missing. Not a single du Pont came to an Eisenhower dinner. Truly a strange omission.[18]

COMPARATIVE INFLUENCE OF DIFFERENT FINANCIAL GROUPS

The distribution of power within the government does not automatically correspond to the hierarchy of economic power. Inner-administration conflicts, and the direction of particular policies, are conditioned by the exact financial interests having the greatest voice in the clique exercising political control.

During the Truman Administration, for example, the Wall Street firms Brown Brothers Harriman & Co. and Dillon, Read & Co. had an unusual degree of influence. The former was represented by W. Averell Harriman, Secretary of Commerce and later Director of Mutual Security, and by Robert A. Lovett, Undersecretary of State and then Secretary of Defense. The latter firm was represented by the schizophrenic James Forrestal, first Secretary of Defense, and by Paul Nitze, chief of the State Department's Policy Planning staff. Harriman, Lovett, and Forrestal were influential, beyond their specific jobs, in

fomenting and accelerating the cold war policies which were the chief feature of the Truman Administration.

Morgan influence was most prominent in the general conduct of foreign affairs, with special reference to their main area of interest, Europe. Three of the four secretaries of state in the years 1944-52 were closely connected with the Morgan group—Edward R. Stettinius Jr., son of a Morgan partner and chief executive of U.S. Steel; James F. Byrnes, between government jobs a director of Newmont Mining (Morgan investment trust), and Dean Acheson, a veteran lawyer of the Morgan-associated law firm, Covington & Burling. Acheson was generally credited with authorship of the Marshall Plan. Lewis Douglas, prominent financier of the Morgan group, was Ambassador to Great Britain in 1947-50, while the son of the original J. P. Morgan's righthand man, George W. Perkins, was Assistant Secretary of State for European Affairs.

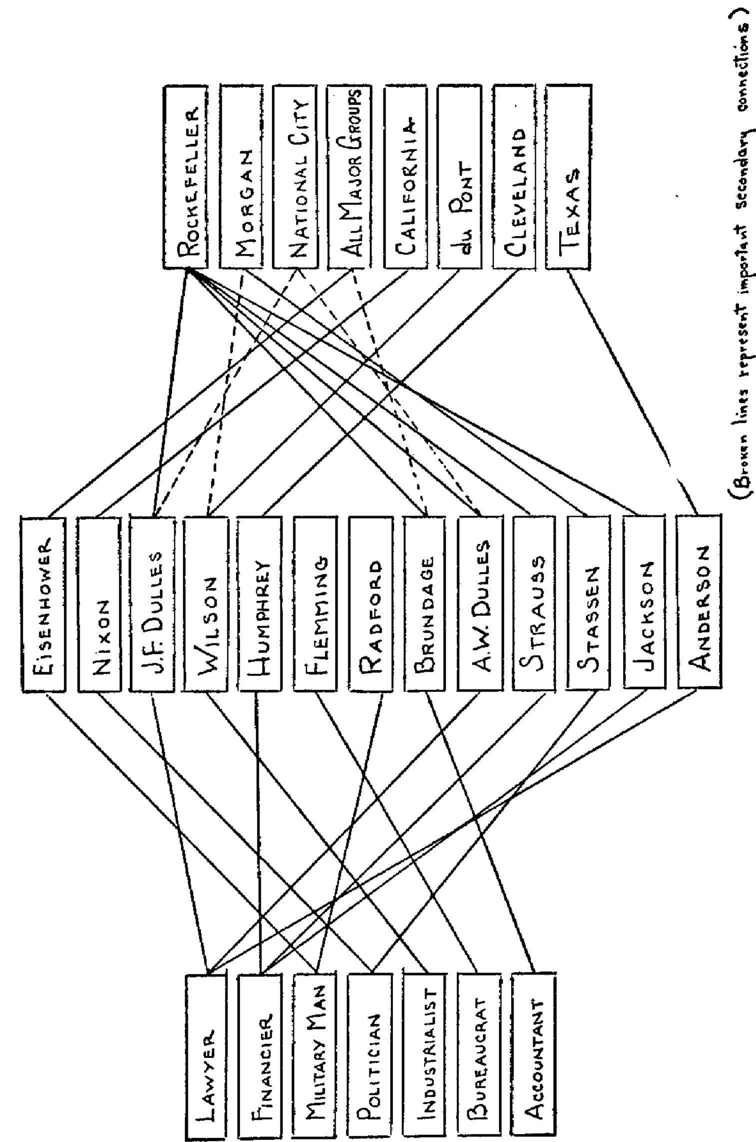
The Rockefeller influence, while less distinct, was still potent. The positions of Nelson Rockefeller and Dulles in the Truman Administration have already been discussed. Representatives of Standard Oil man John Hay Whitney were prominent in intelligence and propaganda work, while the Chase National Bank dominated the International Bank.

In the Eisenhower Administration, this balance was considerably changed, with the Rockefeller interests coming to the fore. The inner sanctum in this Administration was the National Security Council, composed of a baker's dozen of men.

NATIONAL SECURITY COUNCIL

Traditionally the Cabinet was the chief advisory body to the President. However, in recent decades it has deteriorated. Its meetings have become hardly more than informal gossip sessions. Cabinet members exercise their influence mainly through individual contact with the President.

In 1947 a new, smaller body was set up: The National Security Council. The passage of power from the Cabinet to this Council signifies the emergence of military-foreign affairs considerations as the secret but decisive core of State policy. The National Security Council became most active under Eisenhower. It met regularly, had a network of subordinate staff agencies and decided really vital policy issues. During the first two years of the Eisenhower Administration alone, 579 Presidential decisions came out of National Security Council meetings.



Fortune writes: "His (Eisenhower's) use of the National Security Council as the strategic planning body at the apex of government may well become his most significant contribution to the executive technique."[19] *Busines Week* writes that the Council is becoming: "The Nation's top board of directors of national security. . . .The scope of the National Security Council cuts across all branches of the federal government from military matters to atomic energy, economic aid, and psychological warfare. . . . In short, the National Security Council is becoming the top thinking staff for the President. . . . And that may include even domestic policy."[20]

The National Security Council has five members specified by law and eight others by a practice crystallized during the Eisenhower Administration. The thirteen, as of mid-1956 were:

Dwight D. Eisenhower	President
Richard M. Nixon	Vice President
John F. Dulles	Secretary of State
Charles E. Wilson	Secretary of Defense
Arthur S. Flemming	Defense Mobilization Dir.
George M. Humphrey	Secretary of Treasury
Percival F. Brundage	Budget Director
Harold E. Stassen	Disarmament Advisor
Allen W. Dulles	Intelligence Director
Adm. Arthur W. Radford	Chmn. Joint Chiefs Staff
Lewis L. Strauss	AEC Chairman
William H. Jackson	"Cold War" advisor
Dillon Anderson	Pres. Asst., NSC Affairs

Chart VII shows the main formal business or occupational connections of each, and the major financial interest groups with which each man has the closest ties.* Three are financiers, three corporation lawyers, one a corporation accountant, and one an industrial executive. Seven of these eight are from the zenith of the financial ruling cliques, and the eighth was brought into contact with the top circles shortly before his governmental appointment. Two are (or were) professional military men, two are professional politicians, and one a professional bureaucrat. In short, eight from the highest circles, five their technicians and operators.

Eleven of the thirteen have close connections with one or more major financial groups. Eisenhower, the President, is shown as connected to "all major groups," reflecting the inclusive combination of Wall Street interests which put him into power. Five have their strongest links with the Rockefeller-Standard Oil group; two of these also having strong ties with the National City Bank-Stillman-Rockefeller interests, one also having ties with most major groups. One has his primary connection, and another a close secondary link, with the Morgan group. California (Los Angeles), du Pont, Cleveland and Texas interests are each represented by one National Security Council member.

There were periodic changes in membership, but the general balance of forces remained fairly stable throughout the first Eisenhower Administration.

CHECKS AND BALANCES

The title of this chapter names a tendency, not a fully accomplished fact. The tendency towards corporate political monopoly coincides with the tendency towards curtailment of civil liberties and repression of political dissent, as it coincides with the tendency towards a garrison state and war.

Should a particular combination of aggressive, globally expanding financial empires obtain complete dictatorial sway in Washington, then we shall truly confront the danger of the corporate state, and fascism.

But, while particular groups of high finance have, from time to time, obtained a leading place in the Washington hierarchy, none has yet established an outright monopoly of power, or been able to wholly suppress rival financial groups politically.

* Most of the connections shown in Chart VII are obvious from well-known corporate positions. Others require brief explanations. *Strauss,* formerly a Kuhn, Loeb partner, became in 1951 financial advisor to the family firm of Rockefeller Bros. Inc., and director of various family-owned corporations. *Brundage* was a partner in the largest corporate accounting firm, Price, Waterhouse & Co., which audits the books of many giant corporations, with special emphasis on the Standard Oil group. *Anderson* was a partner in the Houston law firm of Baker, Botts, Andrews & Sheperd, which represents local interests as well as Wall Street interests in Texas. Anderson was himself director of Houston firms, as well as Westinghouse (Mellon-Rockefeller), and chairman of Electro-Mechanical Research Corp. of Conn., a small but significant armaments firm in the First National City Bank sphere. *Nixon* was brought to political prominence by the Southern California reactionary capitalists. He received a private slush fund from several score of these, including Herbert Hoover, Jr., and others who later obtained Eisenhower Administration posts. His acceptability to the Wall Street interests is indicated by the fact that he was selected for the vice-presidency in 1952 out of eight potential candidates by Dewey and Brownell.[21] *Stassen* was floor manager of Wendell Willkie, the Morgan utility man, at the Republican Convention in 1940. His own 1952 campaign manager was Bernard Michael Shanley, Newark corporation lawyer and director of Morgan-group companies. Just as Eisenhower was groomed at Columbia, Stassen was prepared for a top political post as president of the University of Pennsylvania—where from 1930 to 1944 a J. P. Morgan partner had been president. The most important banker behind Stassen, according to newspaperman Larston D. Farrar, is John W. Hanes of the Bankers Trust.[22]

More to the point, if Wall Street generally predominates in Washington, its power is not yet absolute. Governments in America must still reckon with the labor movement, farmers, small business. They must still take into account elections and parliamentary and judicial procedures. On important occasions they have been forced to bend their sails to the winds of public opinion.

The point of this chapter, then, is not to break down confidence in democratic action, procedures, and institutions. On the contrary, its lesson is the need for a multiplied participation of the population in these affairs, and with that unity and organization required to match the concentrated power of high finance. Our future requires success in this, in order to transform "Washington Incorporated" into "Government of, by, and for the people."

CHAPTER XVII

Wall Street Abroad and Foreign Policy

The U.S. has had a hand in making and unmaking several governments since World War II. U.S. ambassadors are today "running" more countries than the record will ever show. Through USIA, Americans are laboring not only to "make friends" but to mold the group and individual minds of millions to U.S. ends. Officially and unofficially, Americans around the world are working to build anti-Communist unions and smash pro-Communist unions. They instruct and indirectly command foreign armies. They manage and sustain national economies. —FORTUNE, FEBRUARY 1957.

INTERNATIONAL NEWS USUALLY dominates the front page of the *New York Times*. World events usually come first in radio news broadcasts. Since the 1930's the center of governmental action and informed public attention has been shifted from internal to external affairs. And with good reason.

For two decades, the world has either been at war or afflicted by serious international tensions containing the danger of war. America has emerged as one of the two great world powers, with its international military and economic expansion beyond precedent. The U. S. Government, for a decade, has followed a policy loosely described as the "cold war." Instituted and carried forward by Wall Street administrations, it synthesized the drives and aims of American big business. These include the seeking of profits from military contracts and foreign investments, the attempt to suppress or "contain" the socialist system, whose successes can undermine the political domination of monopoly in other countries, and the use of "international emergency" as a political weapon against American anti-monopoly forces, who can conveniently be branded as "subversives."

Here we focus attention on one of these driving forces, promotion of foreign investments, which is of particular interest in a volume dealing with monopoly domains. It is all the more useful to do so, because the general public is given little information on this score. Facts concerning the scope and profitability of foreign investments,

and their relevance to crucial foreign affairs questions, are minimized, shrouded in silence, or distorted into a supposed kind of charitable aid advanced by our country to others.

The foreign properties of American corporations now exceed corresponding holdings of any other country in all history, and are growing more rapidly and yielding more profits than foreign investments ever did before. The cold war has contributed much to these results, and a continuing major objective of U.S. foreign policy is the protection and advancement of the international empire of high finance.

A penetrating conclusion of Lenin's theoretical research is particularly applicable to the United States today: "Under the old capitalism, when free competition prevailed, the export of *goods* was the most typical feature. Under modern capitalism, when monopolies prevail, the export of *capital* has become the most typical feature."[1]

The volume of U.S. foreign trade, in comparison with the 1930's, has doubled, and the United States now leads all other countries in trading volume. More significant, the value of U.S. long-term foreign investments has multiplied four times since 1939, and far exceeds the combined totals of all other countries put together.

Already, the scale of business based on foreign investments is more than twice that based on foreign trade. (Table 24.)

TABLE 24. BUSINESS GENERATED BY EXPORT OF CAPITAL AND BY EXPORT OF GOODS, 1955

Country or Area	*Sales Abroad of U.S. Subsidiaries* (millions)	*Exports from U.S.*[a] (millions)
World	$30,000 plus	$14,262
Canada	6,000[b]	3,400
Latin America	4,946[c]	3,490
United Kingdom	2,500[b]	924

[a] Excludes military grant aid shipments. [b] Manufacturing companies only. [c] Apparently excludes European colonies in Latin America, notably Aruba.

SOURCES: Exports from *Survey of Current Business*, December 1956. Sales abroad of U.S. subsidiaries: World: estimate of Lionel Edie, in *Business Week*, April 7, 1956; Canada: *ibid;* Latin America: *Survey of Current Business*, Jan., 1957; United Kingdom: estimates of Prof. John H. Dunning, in *Business Week*, March 31, 1956.

Moreover, foreign investments are the dynamic factor which assures the foreign trade position. A substantial proportion of U.S. machinery exports are to foreign subsidiaries of American corporations. U.S. exports of general commodities are wholly predominant in those countries where American corporations control the main industries.

Of the imports of major raw materials into the United States in 1955, some 58% came from U.S. companies abroad.[2] It is safe to say today that foreign investments and the profits therefrom are the main factor in international economic relations, with foreign trade in a secondary and derivative position.

The growth of American foreign investments is shown *partially* in Table 25:

TABLE 25. U. S. INVESTMENTS ABROAD, SELECTED YEARS, 1914-55
(*billions of dollars*)

Year	*Investments* *Total*	*Direct*
1914	$ 3.5	$ 2.6
1919	7.0	3.9
1930	17.2	8.0
1939	11.4	7.0
1946	18.7	7.2
1953	39.6	16.3
1955	44.9	19.2

SOURCE: *Survey of Current Business*, Aug., 1956.

Direct foreign investments—that is, the foreign properties of U.S. corporations—doubled in the decade after World War I, and tripled in the decade after World War II (allowing for the further growth during 1956 not shown in Table 25).

Foreign investments are more profitable than domestic investments, for a very simple reason: Wages everywhere are lower than in the United States, and, in some countries where foreign investments are concentrated, are a mere fraction of those prevailing in the United States. Table 26 shows the rapid postwar rise in profits on foreign investments, and how American corporations' dependence on foreign profit sources is increasing.

In the ten years since 1946 corporate profits from foreign investments increased more than 250%, while profits on domestic investments increased less than 50%. Formerly accounting for 7% of total corporate profits, foreign investments now account for 15%, and the proportion is growing rapidly.

Moreover, foreign investments are highly concentrated among the largest corporations. It is not unlikely that the 200 largest corporations, now receiving 57% of total corporate profits, receive over 90% of foreign investment profits (omitting financial companies in both cases). Considering giant corporations as a whole, something like one-fourth of their profits come from foreign investments.

TABLE 26. PROFITS ON DIRECT FOREIGN INVESTMENTS AND TOTAL PROFITS, U. S. CORPORATIONS, 1940 AND 1946-56

Year	Corporate Profits after Taxes (millions) Foreign	Total	Percent Foreign of Total
1940	$596	$6,486	9.2
1946	939	13,440	7.0
1950	1,769*	22,141	8.0*
1955	2,846	21,133	13.5
1956 (preliminary)	3,153	21,500	14.7

* Commerce Department tabulations beginning with this year are compiled on a new basis which reduced the official figures of foreign investment profits by 7.5% in 1950, and may be presumed to have a corresponding effect in later years.

SOURCE: Compiled from various publications of the U.S. Department of Commerce. 1956 estimates based on trend for first 9 months.

All this appears on the surface. Like an iceberg, the larger part is hidden from view. The official figures are based on book value, but, as the Commerce Department observes, "the market value of direct investments could well be more than double their book value." Furthermore, "the market value would more nearly reflect the great productivity and earning power of these enterprises."[3] *Fortune* comments that this statement "opens up some tremendous vistas. For the real value of direct corporate investment overseas may well be on the order not of $19 billion but of $50 billion or more. . . . The total U. S. commitment overseas may well be in the neighborhood of $75 billion, or roughly equivalent to the annual national incomes of the U. K., Canada, and the Netherlands combined."

Moreover, if various forms of reinvested hidden profits were counted, 1955's "new direct investments . . . might be $3 billion to $5 billion rather than $1.6 billion, and certainly American investment abroad would be seen in a new dimension."[4]

Taking the midpoint of the range suggested by *Fortune,* the total profits from foreign investments come to $5.8 billion in 1955. Beyond this, there are the collateral incomes derived from a dominant foreign investment position (shipping and insurance income, royalties, sales above value and purchases below value), estimated in *American Imperialism* to have totalled $5.6 billion in 1948.[5] *If these have not been reduced, the total take, direct and indirect, of American big business from its foreign holdings now exceeds $11 billion yearly.*

Special reports of the National Association of Manufacturers and other big business organizations project an accelerated future growth in foreign properties and profits. *Business Week* devotes a special report to executives to this subject, under the title: "The World in 25 Years: How the U. S. Economy Will Reach Around It." It is based on the theme that "American business will have to look overseas as it has never done before" for raw materials and for "foreign investments to find a profitable use for its capital." The entire Western Hemisphere, all of Africa and the Middle East, and Australasia, will be under the sway of U. S. capital, with European imperialism completely squeezed out. One college graduate in four will be employed by U. S. corporations abroad, living in style in transplanted American-suburbia type communities isolated from the local populations. The beauty spots of the world, from North Africa's Riviera to Australia's Great Barrier Reef, will be transformed into vacation resorts for American tourists prospering from their share of the fabulous profits from foreign investments that are projected.[6]

The impact of all this on the half a billion people living in the areas claimed (*Business Week,* unlike some others, "modestly" leaves the Far East to Japan), is dismissed with generalities about rising living standards and warnings against their trying to industrialize too rapidly. The bland assumption that they will permit the realization of this imperialist Utopia is certainly open to question. But that U. S. foreign policy strives to implement it is not.

OIL

The stake of American big business in foreign investment is distributed most unevenly as between different industries and different centers of financial power. The varying intensity of foreign investment is shown in Table 27.

In every case, the real importance of foreign investments is greater than indicated by the percentage figures, because of the factors of understatement mentioned above. This applies particularly to oil investments. The Chase Manhattan Bank estimates the gross investments in fixed assets of U. S. oil companies abroad at about $8 billion in 1955, and the "intrinsic" or "going concern" value as "some multiple" of that.[7] Thus the actual foreign stake of American oil companies is at least $16 billion.

Table 31 makes apparent the overwhelming position of oil, both in the stated value of its foreign investments, and as having the highest percentage of foreign investments to total investments. Second place is occupied by the metal industries, but this also is very uneven.

Foreign investments are a very large proportion of the total for aluminum, copper, and certain other non-ferrous metals, but comparatively small though growing for steel. The "all other" manufacturing industries, with the very low percentage of foreign investments, consist mainly of consumers goods. Public utility investments abroad are low, because they do not yield such high rates of profits, and because the low level of economic development in the traditional areas for investment limit the market for power and other utilities.

TABLE 27. FOREIGN INVESTMENTS AND TOTAL INVESTMENTS, MAJOR INDUSTRIES, 1955
(millions of dollars)

Industry	*Investment* *Foreign*	*Total*	*Percent Foreign of Total*
MINING AND MANUFACTURING			
Petroleum	$5,792	$24,000	24
Metals	2,966	21,500	14
Motor Vehicles	963	9,105	11
Chemicals	945	11,672	8
Machinery (non-elect)	673	10,891	6
Food Products	622	11,362	5
Electrical Machinery	602	5,814	10
Rubber Products	386	2,127	18
All other	848	35,000	2
Public Utilities	1,588	53,000	3
Trade	1,289	35,000	4

SOURCE: Foreign investments from *Survey of Current Business,* Aug., 1956. Total investment equals stockholders equity of manufacturing corporations, as shown in FTC-SEC *Quarterly Financial Report, Fourth Quarter 1955,* plus same for mining corporations, public utilities and trade corporations, as shown in *Statistics of Income* for 1952, with roughly estimated additions to allow for growth between 1952 and 1955.

While oil has long been a leader in American foreign investments, its clearcut dominance of the field developed during the postwar decade. Between 1943 and 1955 petroleum investments abroad increased fourfold, and from 19% of all direct foreign investments to 30%.[8]

In 1955, 77% of the profits of Standard Oil (NJ) came from abroad, and the rate of return on its foreign investments was six times that on its domestic investments. More than half the profits of each of the remaining four of the Big Five U. S. international oil companies came from foreign sources. Table 28 shows the dramatic rise of the oil companies in the amount and share of foreign investment income they receive.

TABLE 28. INCOME FROM DIRECT FOREIGN INVESTMENTS, 1940 AND 1955
(millions of dollars)

Industry	*1940*	*1955*	*Number of Times Increase 1940-1955*
Total	412	1,978	4.8
Petroleum	94	1,039	11.1
Manufacturing	113	398	3.5
All other	205	541	2.6
Percent petroleum of total	22.7%	52.5%	

NOTE: The income figures shown here are less than the profit figures shown in Table 26 because Table 28 excludes all reinvested profits.

SOURCES: 1940 from U.S. Dept. of Commerce, *International Transactions of the United States during the War, 1940-1945,* Table 16, p. 73, Wash., 1946; 1955 from *Survey of Current Business,* Aug. 1946.

The billion dollars shown here for 1955 petroleum income is a fraction of the actual return. For example, it includes $351 million of income from the Middle East. But Burnham & Co., a Wall St. house, estimates the "gross profits" of the Big Five American companies from Middle Eastern oil at $867 million, and notes that its estimate is less than the "cash flow" basis used by oil stock speculators.[9]

But the table does give a reasonably accurate comparative picture. In 15 years oil companies' foreign profits multiplied eleven times, as compared with three times for all other corporations. Oil companies' share in total foreign income increased from over one-fifth in 1940 to over one-half in 1955. Almost all of the foreign oil profits go to the Big Five, distributed roughly as follows: three Standard Oil companies, 66%; Gulf Oil (Mellon), 20%; Texas Co., 14% (prorated according to foreign crude oil production).

This means that the Rockefeller interests control from their foreign oil properties alone more than one-third of all profits from direct foreign investments, in addition to the foreign investment profits of the Chase Manhattan Bank and other enterprises of the group. Considering the foreign oil, aluminum and other properties of the Mellon interests, it is reasonable to estimate that these two allied groups together control about one-half of all foreign investment profits.

INVESTMENTS IN EUROPE AND THE MORGANS

All major big business groups, in greater or lesser degree, have extended their foreign holdings with the postwar surge of American economic and military power. The Rockefellers, despite their primacy

in this respect, could not alone determine the general course of U. S. foreign policy. The others, by and large, have similar objectives, although with variations in detail which on occasion become significant.

Especially important has been the expansion of American interests in Western Europe. The capitalists of this area depended on American military and financial support to maintain their power after World War II. In return, they had to open the doors wide to U. S. investors. Professor John H. Dunning found that in England, manufacturing production by U. S. firms expanded five and one-half times between 1938 and 1955. In the latter year they employed 300,000 British factory workers, accounted for 6% of British manufacturing output, and 10% of British exports. American corporations accounted for more than half of total British production of many kinds of machinery, including strategic oil drilling equipment, and of chemicals. An indication of the profitability of this financial invasion is the fact that the American companies pay British workers one-third the stateside wages, although the British workers operate at 95% the efficiency of their American counterparts.[10] Investments in West Germany, France, and other countries have also expanded.

Besides the establishment of more factories owned or controlled outright, American investors have bought up substantial minority blocks of shares in the leading European combines. By the start of 1955, foreigners owned 24% of the shares in 1,110 large German corporations.[11] Details were not reported, but it is likely that a substantial proportion of that 24% was held by Americans, directly or through Swiss intermediaries. By the start of 1957, the Royal Dutch company president reported that Americans owned over 25% of the shares in his company, second largest aggregate in world oil production.[12] Other European corporations have become the object of avid speculation on the New York Stock Exchange, with more and more of the shares crossing the Atlantic.

A few examples will show the importance of this move to American interests. In each case, the statistics refer to world-wide investments, but Europe occupies first place. As recently as 1948, 75% of the products sold by Remington Rand abroad were manufactured in the United States, 25% manufactured abroad. By 1956, when it merged with Sperry Corp., these proportions were reversed.[13] Almost half of the 1955 profits of National Cash Register (First National City Bank group), were made by foreign plants.[14] International Harvester, of the Chicago group, often thought to be disinterested in European affairs, derived 39% of its 1956 profits from foreign operations, particularly in Europe. United Shoe Machinery (Boston), Goodyear (Cleveland), General Motors (du Pont), are among the big ten U. S. investing corporations in England.

The Morgan group, now definitely second to the Rockefellers in world-wide interests, has held its place in the postwar expansion of U. S. interests in Europe, and retains a certain financial leadership in the area. Historically, the house of Morgan arose as the agent for the flow of European capital to the United States. Now it strives to maintain its position by guiding the reverse flow of capital from America to Europe. It is the leading influence in corporations with outstanding European investment positions, such as General Electric, International Business Machines, and International Telephone & Telegraph (with First National City Bank).

The Morgans are the leading U. S. banking interests in England and France. The merchant banking house of Morgan Grenfell is flanked by three London branches of Guaranty Trust and Bankers Trust. Morgan Grenfell directors are on the boards of Shell Transport and Trading, British portion of the Royal Dutch-Shell group; Vickers, the armament trust; Harrods, and leading British insurance companies.

Morgan & Cie., the Paris branch, is the largest U. S. bank in France, where there is also a Guaranty Trust branch. It is represented on the Boards of de Wendel, leading heavy industry combine, and various other industrial and financial companies. Moreover, the Morgans handle the European financial affairs of American industrial corporations in varied spheres of influence. Morgan & Cie., according to French sources, performs this function for General Motors, which in 1955 manufactured 554,000 vehicles abroad. It is represented on the boards of French subsidiaries of Bendix Aviation (du Pont), International Harvester (Chicago group), and Simca, the Credit Suisse firm which recently took over the French Ford subsidiary.[15]

The Morgan group is also very active in organizing the buying into European corporations by American investors. Perhaps as a means of entry into the Rockefeller-dominated international oil business, it specializes in the leading European oil companies—Royal Dutch, British Petroleum, and Petrofina (Belgian), in addition to promoting Montecatini, the Italian chemical trust, and other major enterprises.

A number of other Wall Street banks participate in this business, notably Chemical Corn Exchange, Irving Trust, and Chase Manhattan. The Rockefellers, with their huge oil investments, offer a serious challenge to Morgan leadership in U. S. financial penetration of Europe, and their Chase Manhattan Bank appears to be the most

important U.S. financial mechanism in the key country of West Germany.

Besides their European penetration, the Morgan group has been prominent in the postwar expansion of U.S. metal mining investments. Through such companies as Kennecott Copper, Newmont Mining, and U.S. Steel, they lead in the multiplication of American investments in colonial Africa. They are investment bankers for the Rothschild-Rio Tinto companies, which have one-third of the $1.5 billion in contracts for uranium in Canada, developing as the main center of production of this metal of the future. A number of the Kennecott developments are also in strategic war metals, such as columbium and titanium, in Canada and Africa.

CORPORATE FOREIGN POLICY AND ITS INSTRUMENTS

Greatly enriched by World War II, American big business had the capital to carry out the foreign economic expansion outlined. With multiplied military strength, it was able to impose the political "climate" necessary for these investments in a large part of the world. This meant: the continuation of capitalist social relations, regardless of the wishes of the populations concerned; the dislodging of competing imperial interests, notably the British and French; the direct establishment of military bases in a position to police the main areas of economic interest; the support or imposition of rulers and armed forces which would collaborate with U.S. financial and political interests. Relevant details of the operation of this strategy were discussed in the earlier work *American Imperialism,* and in many other books by progressive writers.

Of course, all this was presented to the public as a program for protecting the world from the supposed menace of Soviet aggression, and as motivated by an unselfish desire to aid other countries in obtaining higher living standards and political freedom. This is not the place to repeat the exposés of this justification. Suffice it to say that many of the countries concerned have been subjected to the most notorious of dictatorial regimes, and that the people therein remain, by and large, in abysmal poverty and, in many cases, continue to subsist in a state of near starvation, as attested by a series of United Nations reports. Suffice it to say that within the United States, the population bears the bulk of the rising burden of taxes associated with the immense military effort abroad. While the U.S. Government has not formally annexed other areas, the reality of domination has been

expressed in the seizure of key economic positions by American corporations, and key military bases by American armed forces. And the reality of exploitation is expressed in the fabulous profits realized, and by the draining from the rest of the world of natural wealth, to the point where U.S. corporations now control something like half of all the industrial materials of the capitalist world.

Despite State Department protestations to the contrary, Asians and Africans increasingly refer to this as the substitution in new forms of the hated colonialism of the European powers.

Whatever it is called, the broad lines of policy reflected monopoly's never-satiated drive to expand. All sections of big business supported and participated in organizing this overseas movement. Different groups, however, have been most prominent at different times, reflecting the changing areas of emphasis, and changes in the economic and political power positions of the monopoly groups.

Immediately after World War II, the center of attention of U.S. policy was Europe, where the very existence of capitalism was ended in the East, and shaken by powerful pro-socialist movements in the West. The Marshall Plan, the restoration of cartelists and militarists to power in West Germany, the formation of the North Atlantic Pact, were the high points of that stage.

In view of the intimate involvement of the Morgan interests in Western Europe, it is not surprising that they had much to do with those aspects of foreign policy. The prominent role of this group in State Department affairs during the period following World War II was shown in Chapter XVI, along with that of the Harrimans, who also specialize in European investments (Chapter X).

By the 1950's, with capitalist rule temporarily secured in Western Europe, and the basic postwar military alliances and bases established, the center of political attention turned to Asia and Africa. Here were the most lucrative opportunities for profits from the cornering of the world's raw materials, and the exploitation of the very lowest-wage labor. And here was the great upheaval, the mighty movement of a billion and a half people against colonialism in all its forms—a threat to foreign investment interests dramatized by the final defeat of Chiang Kai Shek in China in 1949.

Overwhelmingly, the oil interests have been the greatest beneficiaries of U.S. penetration in Asia. The Near East has not only been the prime area of their multiplication of foreign oil holdings since World War II, but the key to their growing influence in Europe, where they refine and market much of the Middle Eastern oil.

Add this to the clear emergence of the oil interests as the leaders—by a wide margin—in foreign investment profits, and it becomes understandable that the Rockefeller interests should appear so prominently in recent years in governmental posts dealing with international affairs.

Of course, this change did not occur in any simple mechanical way. It was the resultant of complex political maneuvers and struggles maturing over a long period. For example, these involved the consolidation of control of the Republican Party by the Dewey-Aldrich machine, the winning of the popular figure Eisenhower by the Republican Party, and the ensuing electoral victories of the Republicans. Also involved were the Korean War, the rise of McCarthyism, and the intensive smear campaign against Acheson, as being, of all things, "soft on Communism." But regardless of the details of political infighting, the material basis for its outcome was provided by the great rise in power of the Rockefeller and associated interests, and the incentive for seizing the key positions by the prospect of even greater gains to come. And regardless of most changes in the top Administration, the entire diplomatic and military apparatus remains at the service of all leading big business groups in the pursuit of their strategic policies and immediate profit needs.

The private diplomatic apparatus of the great corporations buttresses the official agencies. Let us hear from Mr. Berle on this: "Some companies with large and widespread overseas interests frequently maintain their own edition of a tiny State Department. . . . They have their own resident or traveling diplomats." These private staffs may be smaller, but are scarcely less powerful than the governmental. Indeed, according to Mr. Berle, the corporate giants deal directly with foreign governments in preference to going through American embassies.

The balance of power he presents is as follows: "In foreign affairs as in domestic economy, the United States relies on the large corporation as a substantial factor. In foreign as in domestic matters, the American state leaves primary responsibility in the hands of the corporate managers."

The corporations regard American government diplomats as auxiliaries, "rating them according to their probable usefulness in advancing or protecting the company's interest." But, to go beyond Berle, the corporations while preferring to use their own staffs as much as possible, *must* be assured of support by U. S. Government diplomatic and military power—or else their private diplomats could get nowhere. Hence the international giants will strive to obtain the

decisive influence in these key governmental agencies, and those that succeed will be in the most favored position for further expansion abroad.

Standard Oil, as the leader in foreign investments is also the leader in corporate foreign diplomatic activities. Berle refers to the oil industry as "the outstanding illustration" of that "stable and working world government" which he claims has been approached through the international cartel structure and the diplomatic apparatus of big business.[16] We may disagree with Mr. Berle on the stability of the structure, but scarcely on its scope and its striving for absolute power.

In addition, one must consider those organs of foreign policy which, while private in form, have a semi-official status. Prominent in this category is Crusade for Freedom and its affiliates, Radio Free Europe and Free Europe Press. They are devoted to cold war activities in Eastern Europe, their objective being the "liberation" of these countries from Communist rule. Based on U.S.-occupied West Germany, they operate the largest radio stations in Europe, and the hundreds of thousands of propaganda balloons launched by Free Europe Press have been a source of continuing friction: "Both operations are considered delicate. Unlike the Voice of America, which is necessarily subject to diplomatic limitations, Radio Free Europe enjoys a wider freedom of expression."[17]

The control of Crusade for Freedom is a striking commentary on the character of many "public" organizations today. Millions are urged by billboards, newspapers, and radio plugs to contribute. But the public is not even given a token participation in the affairs of this outfit. Nor would it be sufficiently precise to speak of it as a big business enterprise. More specifically, every one of its ten directors is a major Wall Street figure. Seven are top men in corporations of the Rockefellers, Morgans, First National City Bank, du Ponts, or Mellons. The other three are heads of key corporations in propaganda (*Time*, CBS, and a public relations counseling firm).

The chairman of the board is Eugene Holman, also Standard Oil (NJ) chairman, and that corporation also has its counsel, Cecil Morgan, on the Crusade for Freedom board. It was founded by a committee headed by Allen Dulles, whose Rockefeller connections have been noted, and who subsequently became head of the U. S. Central Intelligence Agency. Thus the closest possible personal ties connect the "private" and "public" intelligence, propaganda, subversion and sabotage agencies of the cold war, and Standard Oil influence leads in both.

"The cold war is still on in earnest," asserted Holman, launching

the annual $10-million fund drive of Crusade for Freedom in 1955. He said that knowledge of contributions from millions of Americans "gives a lift" to persons in the "satellite countries," and gives the Russians "plenty to worry about."[18] Actually, little money comes in from individual contributors, with the great bulk coming from giant corporations. Standard Oil (NJ) leads the list with $250,000 yearly, deducted for tax purposes as a business expense.

The fruits of Radio Free Europe's "freedom of expression" were revealed at the time of the Hungarian uprising in 1956. It was widely charged by conservative German and French sources and by Hungarian emigres that Radio Free Europe encouraged discontented people to turn to armed revolt with false promises of U.S. military aid. Moscow charged further that Radio Free Europe officials supervised the flying of armed Horthyite agents into Hungary. Much of the practical work of Radio Free Europe is carried out by fascist emigré elements, who move freely between Radio Free Europe payrolls and those of large American corporations, notably Standard Oil.

The large corporations behind Crusade for Freedom talk of restoring "free enterprise." A more practical concern is recouping their $279 million investment stake in Eastern Europe, long since nationalized. The valuable Standard Oil investments in Hungary and Rumania, for example, were taken over in 1948 after Standard Oil had persistently kept output below peak levels, and claimed it was impossible to find more oil. Strangely enough, the supposedly incompetent nationalizing governments soon raised oil output to record levels and found new oil fields.

STANDARD OIL FOREIGN POLICY

Owing to the importance of Standard Oil in foreign investments, it is relevant to examine the particular emphasis which it seeks to impose on the general big business foreign policy of the government. There are two main themes: to obtain additional foreign concessions and to ward off or reverse nationalization measures. The first objective involves conflict with the oil companies and governments of other countries, most notably Great Britain, and with the peoples of such countries as Brazil who have so far prevented the granting of oil concessions. Prior to World War II the main emphasis was on this theme, and the main weapons were diplomatic and economic bargaining with European rivals. This continues, and at every critical turn during and since World War II American oil companies have succeeded in extending their positions at the expense of the British trusts, taking advantage of their inability to cope with anti-imperialist movements unaided.

But perforce the emphasis has shifted to dealing with the nationalization of foreign investments.

Mr. Charles R. Carroll, Counsel to the National Foreign Trade Council, observes that foreign manufacturing investments are largely concentrated in Canada and the developed countries of Western Europe, avoiding areas of great political risks. But mineral interests, especially oil, have gone everywhere, regardless of the political environment: "the world demand for oil has been so insistent, and its strategic value so obvious, that no large field (certainly not one containing three quarters of the world's known reserves) could be ignored—however unpropitious the climate for investment generally. That is, simply stated, why the United States oil interests in the Middle East are so substantial—whereas investments of other categories are not significant in this region."

"Investments in extractive ventures," Mr. Carroll tells us, "are almost unique in their exposure to outright expropriation." Such actions are "defiant delinquencies" which cannot be excused on the grounds that the nations so acting have "but recently emerged from colonial status . . . The United States is committed to the institution of private property, and to the sanctity of contract. Its foreign economic policy parallels its domestic law in requiring respect for these concepts."[19]

The enormity of this position scarcely needs comment. Nor is it essentially new. It is merely an unusually blunt statement of the drive of monopoly for the past 70 years—to seize for itself every possible source of raw materials anywhere on the globe. At the same time it exposes the cant of politicians who attempt to clothe this in fine moral precepts. The claimed right of American oil interests to all the fields is sheer jungle morality. The support demanded of American law, backed by the wealth and blood of the American people, is an outrageous swindle.

As suggested by Mr. Carroll, "defiant delinquencies" of people who do not wish to be jungle victims are a growing problem for Standard Oil. In all parts of the world, people demand that their natural resources, above all oil, be controlled by nationals and that the proceeds be used for building up their own countries and raising living standards therein. Movements reflecting this aim have become very powerful, and have won control of many governments, embracing different

social systems. Oil investments have been nationalized in Mexico, Bolivia, and—temporarily—in Iran, countries retaining the capitalist system. They have also been nationalized in all the countries where socialist revolutions were accomplished.

Because of the new power of the anti-colonial movement, the means of combatting it have become more decisively military in character. Oil investments are protected by U. S. military bases, arms, and advisors, and by more or less open U. S. intervention in the political life of the countries concerned.

Going through the main expressions of U. S. foreign policy throughout the postwar period, we find the influence of oil repeatedly prominent. The Truman Doctrine had as its primary strategic aim the creation of a "hard shell" of U. S. military power around the Middle East oil fields. Standard Oil investments were continuous sources of friction between the United States, on the one hand, and Hungary and Rumania, on the other, with State Department documents parroting the positions taken by Standard Oil. The future of Standard Oil in Austria was the principal stumbling block which delayed for years conclusion of the peace treaty with that country.

While not primary, oil interests gained as much as any in new foreign investments and foreign trade positions from the operation of the Marshall Plan. Nor did they suffer from the erection of military oil pipelines across Western Europe as NATO installations. Oil did not figure publicly in the tense conflict between the United States and China, but the leading position of Standard Oil among U. S. investors in China under the old regime is well known.

The central role of oil in the Eisenhower Doctrine of 1957 was widely noted. Senator O'Mahoney (D., Wyo.) charged on the floor of the Senate that Dulles had openly asserted that "our policy in the Middle East will be to protect the concessions" of the major oil companies. And Senator Kefauver, a former vice-presidential candidate, denounced the doctrine, explaining: "I don't think the American people want a foreign policy based on the judgment of the international oil interests."[20]

In a number of countries dominated by U. S. investments anti-imperialist governments which had arisen were overthrown. Standard Oil was the obvious main beneficiary of three of these coups—in Peru and Venezuela in 1948, and in Iran in 1953. The deposed President of Venezuela, Romulo Gallegos, charged that foreign oil interests, diplomatic agents of an unnamed foreign government, and certain

Venezuelan capitalists were responsible for the reactionary conquest.[21] The *Saturday Evening Post* credited the Iranian coup to "a CIA [Central Intelligence Agency] maneuver," involving Allen Dulles, U. S. Ambassador to Iran Loy Henderson, and U. S. General H. Norman Schwarzkopf, who made the necessary arrangements with the Shah's entourage and Iranian reactionaries and supplied them with arms.[22]

Oil was not immediately involved in two other reactionary overturns, in Costa Rica and Guatemala, but American oil companies received concessions in both these countries after they succeeded.

Big business hostility to the Soviet Union and China stems from a complex of causes, of which their nationalization of foreign investments is not necessarily the most important one. This conflict involves the continued possibility of World War, and the maintenance of huge armaments to create the material basis for such a conflagration. On the part of Standard Oil, unlike certain manufacturing interests, this hostility is not mitigated by the desire to trade with socialist countries, in view of the increasing competition on world markets offered by Soviet and Rumanian oil.

The Rockefeller family personally exhibit the more irreconcilable cold war tendencies. In the work of the Rockefeller Foundation, "Special emphasis has been placed on the Russian Institute of Columbia University, which has been given about half a million dollars to train specialists and promote knowledge about Russia and the Russian people. Many of the State Department's experts and advisors on Russia have come from the Institute."[23]

At a conference held by the State Department on policy towards China in 1949, all but one of the big businessmen there favored trade with and recognition of the new regime. Only one, John D. Rockefeller 3rd, strongly opposed any friendly relations, and advocated economic pressure to discredit the new regime and bring about its downfall.[24] Evidently, Rockefeller had more influence on the actual development of U. S. policy than the combined voices of General Electric, Bankers Trust, and American and Foreign Power, whose spokesmen took an opposite position. They enthusiastically urged trade with the new regime, in which they saw greater opportunities than had existed under Chiang Kai-Shek.

At the time of the Geneva Heads of State Conference in 1955 there was a significant trend within the Administration for coming to some real agreement for disarmament with the USSR. Stassen, reflecting this

trend, advanced a disarmament plan sufficiently close to proposals of other countries to provide a basis for agreement.

Nelson Rockefeller, then in the Administration, personally led in defeating Stassen's plan, and in counterposing the "gimmick" of aerial inspection and blueprints without disarmament, to which Stassen was "quite cool": "Nelson S. Rockefeller, President Eisenhower's special assistant for psychological warfare, took the lead in bringing the blueprint proposal to the attention of the President. In addition, the proposal had the support of Admiral Arthur W. Radford, Chairman of the Joint Chiefs of Staff."[25]

Thus, Rockefeller-Standard Oil interests have been among the most consistent in promoting aggressive, brink-of-war, "cold war" policies. However, they have not been clearly identified with the most irresponsible elements, such as Knowland, McCarthy, and sometimes Nixon, and certain fire-eating generals, who if they had their way would have long since pushed us over the brink.

THE MORGANS AND FOREIGN POLICY

Granted the present leading role of Standard Oil in foreign affairs, the situation is far from that where oil alone can determine the course of American foreign policy. The Morgan interests are much less given to publicity than the Rockefellers. And since the Korean War, comparatively little was heard from politicians close to them. But late in 1956, when international tension mounted, Henry Clay Alexander, chairman of J. P. Morgan & Co., expressed his views in one of the rare public statements emanating from the House of Morgan. He called for higher arms outlays, and denounced most vehemently the USSR and Egyptian President Nasser. He demanded that our country threaten war rather than permit the oil of the Middle East to "go to the Soviet side": "We cannot abdicate to the United Nations. There should be an American doctrine for the Middle East, as there is an American doctrine for Greece and Turkey, and as there is an American doctrine for Formosa, Quemoy and Matsu."[26] Within a few weeks the President obliged with the "Eisenhower Doctrine" for the Middle East.

True, Alexander's insistence on retaining Middle Eastern oil is linked with his group's specific interests. He stresses its need for the stability of Western European capitalism, with which the Morgan group has its main overseas connections. But if the Rockefellers are fighting to directly profit from the oil, and the Morgans more to guarantee continued profits from their European investments needing that oil, the result of their united drive can be quite disastrous to peace, regardless of the variations in motive.

Aiding Standard Oil's Holman on the board of the provocative Crusade for Freedom is Benjamin Fairless, former chairman of U. S. Steel, key industrial corporation of the Morgan group. The President of Crusade for Freedom, Arthur W. Page, is an AT&T man connected with both Morgan and Rockefeller corporations. And if Standard Oil had hopes of regaining Hungarian oil fields out of the abortive 1956 revolt there, the ten-day uprising provided ample time for Morgan group executives to stake their claim: "I.B.M. (International Business Machines) officials got their first peek at their Hungarian plant in years. Just before the Iron Curtain closed again last week, a group of the office machinery manufacturer's executives visited the factory taken over by the Reds in 1945."[27]

The investment has been written off years ago, and the corporation is engaged in collecting compensation from the U. S. Government, but Wall Street still regards it as "their" plant. Similarly, in greater or lesser degree, one finds that most major centers of finance capital publicly assume and support the general line of the cold war, with its high military budgets, hostility to the USSR and China, and intervention in the affairs of other countries.

CONFLICTS IN INTERESTS AND POLICIES

In the pursuit of cold war policies, there are frequent divergencies on details among big business men and their political representatives. Examples are the fights over foreign aid, "Asia First" versus "Europe First," airpower versus "balanced forces." These differences are compounded of particular profit interests, the pressures of competing military groups, political judgments as to which course will be most successful for big business generally, vote-seeking, and degrees of adventurousness or caution.

Sometimes the particular profit motive is fairly clear. For example, it is no mystery why Senator Symington, with his airplane company connections, is an indefatigable campaigner for greater airpower. Or why Harry F. Guggenheim, of the American Smelting & Refining Co., should demand major emphasis on Latin America in foreign policy.[28] It is also understandable why the Morgans and other Wall Street groups persistently support aid to Europe, while Chicago financial interests oppose it so long as they are excluded from the lucrative banking business involved.

In other cases, direct profit considerations are so intertwined with political, military, and psychological factors that they cannot be isolated with certainty.

Most important are the conflicts affecting the entire policy of the cold war, or at least its intensity. A whole series of developments, in the world and at home, have undermined the basis of that policy. Here they can only be sketched: The USSR gained in economic strength and obtained nuclear weapons, rendering more dubious the military threat which was always the logical conclusion of the cold war policy. The Western European allies of Washington sought increasingly to follow a more independent line. There developed everywhere an unprecedented movement of entire peoples against war and imperialism, leading to the formation of a large "neutral bloc," particularly among the former colonial lands of Asia and Africa. Growing peace sentiment in Western Europe further undermined ties with U.S. policy. And in the United States also, mass peace sentiment grew, balking threats of U.S. intervention against the Chinese mainland and in Indo-China, and forcing Presidential candidates to stress their peaceful intentions in the 1952 and 1956 election campaigns.

Whenever the cold war weakened, conflicts about it among big business circles came to the surface. Practically alone among the upper crust was Ernest T. Weir, Chairman of National Steel Corp., who for several years has advocated abandonment of the cold war policy, and substitution of one of peaceful coexistence. More recently another financial leader of the Cleveland group, Cyrus Eaton, has expressed similar sentiments. And many big businessmen have advocated relaxation of particular aspects of cold war policies.

Some, such as Philip Reed of General Electric and Charles E. Wilson of General Motors, expressed deep concern about the excessive level of military spending. Many more showed a desire to trade with socialist countries, either verbally or by specific actions. These have included top officials of the automotive Big Three, Kaiser Motors, General Electric, International Harvester, Anderson, Clayton & Co., St. Joseph Lead, and others. In the same category, but expressed more conditionally, were statements of the U.S. Chamber of Commerce and of the U.S. Council of the International Chamber of Commerce. The *Wall Street Journal* and the *Pacific Shipper,* organ of West Coast maritime interests, at times editorialized in this direction.

By and large, such positions were taken by particular manufacturing corporations at times when business was slack, and the possibility of additional orders appeared attractive. There was never a persistent propaganda campaign, for which such giant corporations certainly have the resources, and their suggestions ceased when they obtained instead larger military orders or a boom in civilian business.

A still larger number of corporations never expressed any interest in East-West trade. One can look far and not find any statements by oil, aircraft, or aluminum manufacturers, or with few exceptions, other primary metal companies. Nor from many large processing and fabricating corporations, which might just as logically profit from East-West trade as those mentioned above.

In general, then, the division of opinion in business circles cuts across the major financial groups analyzed in Part Two, with none giving consistent support for the decisive easing of trade barriers or other cold war features. Certain major groups, however, notably the Rockefellers and Mellons, showed no signs of division. They remained solidly pro-cold war.

Growing public sentiment in favor of a more pacific foreign policy encourages, and is aided by, divergencies in big business circles. This was reflected in increasing differences in the Eisenhower Administration. During the 1950's frequent Washington accounts told of such differences, with Dulles, Nixon, and the military men on the more aggressive side, Humphrey and Wilson on the more pacific side. The *New York Times* political correspondent James Reston in August 1955 describes how Dulles' "control of foreign policy has been almost complete. But at critical points, usually when he seemed to be veering close to war with the Communists, the President has intervened and imposed a more moderate line."

According to Reston (and others) the 1955 Geneva Conference was a setback to Dulles, "and he played an important part in the recent decision to start emphasizing the substantive differences that still exist between Washington and Moscow."[29]

The inside resistance to the more aggressive circles in the Administration was neither firm nor consistent. For example, Humphrey and Wilson, despite their occasional fretting, ended up supporting rising military budgets. Stassen, the Morgan-associated politician, followed a shifting course which suggested temporary political opportunism more than basic policy. Prior to 1952 he attacked the Truman Administration as not aggressive enough, particularly in regard to China. Within the Eisenhower Administration, he tried to promote disarmament—since any success in this field for which he was responsible would be a feather in his cap—but joined the Republican chorus

of denunciation of Adlai Stevenson when that Democratic candidate urged stopping H-bomb tests in 1956.

The differences within big business, despite their conditional character, have importance. For example, on at least one occasion, early in 1955, fear of the consequences in Wall Street circles was one of the factors which pulled Dulles back from a "brink of war" crisis. In past works, big business differences have been studied in relation to such secondary foreign affairs issues as the tariff. Here such differences have been *explored* in relation to the decisive issues of world affairs. A really intensive study of this question would certainly be in order.

At the same time, the limited significance of big business differences should be clearly recognized. The attitudes of different sections of finance capital, the policies of their "private state departments," which they attempt to transfer to the U.S. Government, are basically reacionary policies of war-oriented monopolies. They vary from time to time, not according to principle, but according to the shifting evaluation of each group's interests in a changing world situation.

For example, Louis Fischer, in his 1926 study, *Oil Imperialism*, found that "the position of Standard Oil was for years the most effective bar to the establishment of normal relations between the United States and the Soviets."[30] But he noted that at the time he was writing Standard Oil, because of contracts just concluded with the Soviet oil industry, had reversed its attitude towards recognition, at least for the time being.

Such changes can occur again. But for a rather long moment in history the Rockefeller-Standard Oil interests, and their immediate allies, have been among the leading, most persistent forces, pressing a foreign policy devoted to the expansion and protection of their overweening world-wide interests, at the cost of much money and frightful threats to the existence of peoples everywhere, including the United States. Mr. Fischer's concluding words had prophetic insight: "King Coal has been dethroned; coal and iron probably chalked the last war to their credit when the guns began to boom in the summer of 1914. Now oil is having its day. We are living in the Oil Age, and Oil Imperialism is in the saddle. The history of the next generation or two will be read in the light of the struggle for oil."[31]

The Morgan interests are quite prominent in uranium. In the future the world hunt for uranium may surpass that for oil as a source of profits and conflict, although such a development appears at least a decade away. Even today, Fischer's assessment would have to be broadened to include, besides oil, the whole congerie of expanding

foreign interests and armament industries which provide the driving force behind the foreign policy of imperialism.

The character of the history of our generation can be changed, but only if the people of all countries, especially our own, succeed in subordinating the struggle for oil, uranium, arms orders, etc., to their own interests. Ninety-nine percent of the American people own no shares in international oil companies. However, it is they who are called on to pay the costs of advancing the oil cartel's interests in a new world—a world which has changed so that to advance these interests is infinitely more complicated, infinitely more expensive in lives and money than ever before.

Never before have so many people in all parts of the world demanded the ending of the arms race and of the nuclear war danger. If the American people join in this demand with sufficient forcefulness, there is real hope of success.

The basic structure of the American economy, as shown in this volume, remains as it was thirty years ago. There is no "People's Capitalism," but more monopoly domination. There is no diffusion of financial influence, but a more potent Wall Street center. The increased concentration of private ownership of the means of production makes for more instability. The present boom, like that of the 1920's, contains features which presage a new depression.

During the major depression of the 1930's the American people struck back against the money power. Their actions led to reforms which eased depression hardships and set the stage for improved living conditions later. A revival of anti-monopoly actions now can do much to protect these standards against the effects of future economic fluctuations.

The main operative changes in the system have been in the relations between government and big business, now much more comprehensive, more intimate, and more decisive for extra-large profits.

The trend towards the interlocking of government and private economic life is not likely to be reversed. But anti-monopoly politics, to be fully effective, will have to change its content—from government service to monopolies at the expense of the public to government service of the people's needs at the expense of big business; from the covert encouragement of greater concentration of economic power to increasingly effective restraints on that power; from emphasis on armaments and foreign investment to emphasis on schools, hospitals, low-cost homes, conservation and development of natural resources; from

government backing of corporations in laying off millions of workers seasonally and cyclically to government insistence on the maintenance of full employment in constructive ways; from technological unemployment to the translation of automation into a shorter work week and larger income; from government buttressing of the money and credit manipulations of high finance to effective public control and use of the hundreds of billions of dollars in the financial system; from hostility to nations abroad seeking to control their own natural resources to genuine assistance to them in developing these resources in their own behalf, and to our own ultimate advantage as well; from tax gimmicks and giveaways which increase the power and wealth of billionaires to measures which will make the "American standard of living" accessible to the tens of millions of Americans who do not enjoy it; from the development of nuclear weapons to the development of peaceful atomic power and that great advance in the life of our country which modern science, technology, and labor skills make possible.

Someday the strong majority who oppose monopoly will jointly strive to accomplish these ends, regardless of their differences in interpretation of the facts and in ultimate programs. That will be the start of the people's victory.

APPENDICES

1.

CORPORATE SHAREHOLDINGS OF DU PONT, MELLON AND ROCKEFELLER FAMILIES, APRIL 1956

Family and Corporation	(1) % of Shares Outstanding	(2) Number of Shares (000)	(3) Value ($000,000)
du Pont			
American Sugar	1.05	5	—
du Pont: common	43.93	19989	$4417
" : 4.5% pfd.	6.33	106	12
" : 3.5% pfd.	6.33	44	4
General Motors	0.87[a]	2404	106
U.S. Rubber: common	15.74	851	47
" : pfd.	6.46	42	7
Phillips Petrol.	2.63	451	45
United Fruit	0.27	24	1
Wilmington Trust	50.00[b]	116	21[c]
Total			4660
Mellon			
ALCOA: common	35.21	7199	864
" : pfd.	24.98	165	16
Aluminium Ltd.	7.00[a]	698	84
Bethlehem Steel	2.20	211	34
Gulf Oil	70.22	19724	2387
Jones & Laughlin: common	3.47	219	11
" : pfd.	3.41	10	1
Koppers Co.: common	52.42	1202	79
" : 4% pfd.	82.00	123	12
Lone Star Gas	6.14	339	10
Pittsburgh Cons. Coal	20.03[b]	1301	52
Pittsburgh Plate Glass	5.43	533	49
Pullman, Inc.	10.13	224	16
Westinghouse	0.47	78	5
Mellon National Bank	50.00[c]	1202	135
Total			3769
Rockefeller			
Atlantic Refining	1.50	134	13
Ohio Oil	18.65	2448	108
Sinclair Oil	5.96	876	60
Socony Mobil Oil	16.34	5716	463
Standard Oil (Cal.)	11.88[a]	3756	421
Standard Oil (Ind.)	11.36	3755	229
Standard Oil (NJ)	13.51[b]	26521	1591
Cons'd. Natural Gas	13.51[c]	1097	38
Union Tank Car	13.51[d]	317	11
Eastern Air Lines	3.22[e]	81	4
Chase Manhattan Bank	5.00[f]	6000	500
Rockefeller Center			150[e]

Appendix 1 cont'd.

Family and Corporation	(1) % of Shares Outstanding	(2) Number of Shares (000)	(3) Value ($000,000)
Aviation, nuclear, etc. cos.			$ 15[e]
Int'l. Basic Economy Corp.			12[e]
Misc. foundation holdings			100[f]
Total			3515

Sources: (1) TNEC Monograph #29, pp. 1508-1528, except as indicated below; (2) (1) times number of shares outstanding; (3) (2) times market price per share Apr. 30, 1956; shares outstanding and market price from Fitch Stock Record, May 1, 1956.

Notes: du Pont: a) Excludes holdings by the du Pont Corporation. b) Arbitrary estimate. c) Shares outstanding and market price from Paine, Webber, Jackson & Curtis, A Comparative Analysis of the 100 Largest Banks as of Dec. 31, 1955. Mellon: a) Estimated from data on Mellon stockholdings in Moody's Industrials, 1955, as of the first quarter 1954. b) Estimated at 2/5ths of proportion of Pittsburgh Coal Co. common stock held by Mellon family in 1937, on basis of terms of subsequent mergers as reported in Moody's Industrials. c) Based on Harvey O'Connor, Mellon's Millions, N.Y. 1933, p. 428. O'Connor estimated Mellon holdings in this bank and the Union Trust, since merged, at 80% each. Substantial dilution is assumed subsequently, because of the numerous small banks bought up. Rockefeller: a) Excludes holdings of William Rockefeller heirs. b) Excludes holdings by Standard Oil Co. (Indiana). c) Companies established by distribution of shares to holders of Standard Oil Co. (NJ) shares. Rockefeller proportion assumed equal to their proportion in Standard Oil Co. (NJ) shareholdings. d) Eastern Airlines, Report to the Civil Aeronautics Board, 1954. e) Fortune, February, 1955. No allowance for Winthrop Aldrich stockholdings, nor for dilution of family interest in merger with the Bank of the Manhattan Co. f) Roughly estimated from annual reports of the Rockefeller Foundation.

General: Holdings by controlled industrial corporations are omitted. Holdings by controlled foundations are included. Except where specified, no allowance has been made for dilution of family holdings since date of TNEC statistics, by virtue of issuance of additional company stock for acquisition of merged enterprises, or for options to company officials. However, major distributions through stock splits and stock dividends are taken into account. No allowance is made for scattered holdings in companies not listed in the table, although these holdings are substantial for all three families.

2.

FINANCIAL CONNECTIONS OF
BIG FOUR LIFE INSURANCE COMPANIES

A. Directorates of Chief Executive Officers (end of 1955)

Metropolitan: Frederic W. Ecker, president, is a director of Chase Manhattan Bank. Leroy A. Lincoln, chairman, is a director of Chase Bank (Chase Manhattan subsidiary). John J. McCloy, chairman of Chase Manhattan Bank, is a director of Metropolitan.

Prudential: Carrol M. Shanks, president, is a director of Guaranty Trust.

Equitable: Ray D. Murphy, president, is a director of Chase Manhattan Bank. H. A. de Butts is also director of both institutions.

New York Life: Devereux C. Josephs, chairman, is a director of J.P. Morgan & Co. Charles D. Dickey, chairman of the executive committee of J.P. Morgan & Co., is a director of New York Life.

There are many other interlocking directorates with leading New York banks, including Morgan representatives on Rockefeller insurance companies and Rockefeller representatives on Morgan companies. But the total pattern is on the whole consistent with the dominant features shown above.

B. Bank Deposits

Insurance Company	Regular Deposits Dec. 1953 peak (millions) Chase Natl.	4 Morgan* banks	Natl. City
Metropolitan	$64	$ 6	$16
Prudential	2	15	14
Equitable	51	15	14
New York Life	2	11	3

Source: Compiled from Annual Reports to New York State Insurance Department.

* J.P. Morgan & Co., Bankers Trust, Guaranty Trust, and First National Bank (since absorbed in National City).

C. Industrial Loans

Type of Loan	Loans Outstanding Dec. 31, 1953 (millions) Metropolitan	Equitable	Prudential	New York
All industrial & miscellaneous	$4,180	$2,441	$2,471	$1,080
Large oil companies	595	415	129	224
Oil tanker companies	207	10	0	0
Certain companies with strong Morgan connections:				

Appendix 2 cont'd.

Type of Loan	Loans Outstanding Dec. 31, 1953 (millions) Metro-politan	Equitable	Prudential	New York
International Business Machines	0	0	215	0
Olin Industries,Inc.	0	0	50	0
Anderson, Clayton & Co.	0	48	0	0
General Motors Accept. Corp.	130	75	205	41

Source: Annual reports to New York State Insurance Department.

3.

LEADING CORPORATION LAW FIRMS

Law Firm	Principal Companies and Interests Represented
Sullivan & Cromwell	Standard Oil (NJ) First Boston Co. Bank of New York Schroder Trust Co. Blyth & Co. Glore, Forgan & Co. Goldman, Sachs & Co. Lehman Bros. (partly) Lazard Freres Marine Midland Corp. International Nickel
Morgan Firms Davis, Polk, Wardwell, Sunderland & Kiendl	J. P. Morgan & Co. Morgan Stanley & Co. American Tel & Tel Harriman interests
White & Case	Bankers Trust U. S. Steel General Electric
Covington & Burling	Guaranty Trust Smith, Barney & Co.
Drinker, Biddle & Reath (Phila)	Drexel & Co.
Winthrop, Stimson, Putnam & Roberts	Morgan utilities
Rockefeller-Standard Oil Firms Dewey, Ballantine, Bushby, Palmer & Wood	Laurance Rockefeller American Tel & Tel

Appendix 3 cont'd.

Law Firm	Principal Companies and Interests Represented
Patterson, Belknap & Webb Debevoise, Plimpton & McLean Milbank, Tweed, Hope & Hadley Carter, Ledyard, & Milburn	Various Rockefeller and Standard Oil family interests
Other Wall Street Firms Shearman & Sterling & Wright	First National City Bank Ford family White, Weld & Co.
Cahill, Gordon, Reindel & Ohl	Dillon Read Stone & Webster
Cravath, Swayne & Moore	Kuhn, Loeb & Co. Seligman interests (Union Securities)
Simpson Thacher & Bartlett	Lehman Brothers Electric Bond & Share
Some important out-of-town firms* Choate, Hall & Stewart	Boston interests
Morgan, Lewis & Bockius	Philadelphia interests
Reed, Smith, Shaw & McClay	Mellon interests
Jones, Day, Cockley & Reavis	Cleveland interests
Sidley, Austin, Burgess & Smith Bell, Boyd, Marshall & Lloyd	Chicago interests
Brobeck, Phleger, & Harrison Orrick, Dahlquist, Herrington & Sutcliffe	San Francisco interests
O'Melveny and Myers	Los Angeles interests
Baker, Botts, Andrews & Sheperd, Houston Vinson, Elkins, Weems & Searls, Houston	Texas interests

* These out-of-town firms also represent the major Wall Street corporations in local matters.

4.

MORGAN AND BOSTON GROUP LARGE STOCKHOLDINGS IN GENERAL ELECTRIC, 1938

Stockholder	Shares (thousands)	Percent of Total
A. Morgan group		
J.P. Morgan & Co.	296	1.03
Bankers Trust Co.	207	.72
Guaranty Trust Co.	77	.27
Phipps family[a]	112	.39
Sun Life Assurance Co.of Canada[b]	281	.97
Total:	973	3.38
B. Boston group		
White family[c]	89	.31
Gardner family[d]	65	.22
Massachusetts Investors Trust	61	.21
Total:	215	.74

a. In name of D.T. Moore & Co. The Phipps family were important factors in the Carnegie Steel Corporation, and joined their fortunes with the Morgans in the formation of U.S. Steel. b. This company held shares in some companies through Bankers Trust, indicating a close working relationship with the Morgan group. c. This is the family of the leading investment banking firm, White, Weld & Co. While New York residents, their main financial connections appear to be with the Stone & Webster interests of Boston, although also close to the Rockefellers since World War II (see Ch. XI). d. An old Boston family powerful in the First National Bank of Boston, United Fruit, and other Boston concerns.

5.

MAIN COMPONENTS OF LEADING FORMER UTILITY HOLDING SYSTEMS

A. United Corp.

Company	Area	Assets, 1955 (millions)
Columbia Gas System	Ohio-Penna.-W.Va., 5 other states and DC	$ 721
Consumers Power Co.	Upstate Michigan	646
Niagara Mohawk Power Co.	Upstate New York	748
Philadelphia Electric	Phila. and environs	766

Appendix 5 cont'd.

Company	Area	Assets, 1955 (millions)
Public Service Gas & Elec.	New Jersey industrial area	$ 846
Southern Corp.	Ala.,Ga., parts of Miss., Fla.	880
Total:		$4,607

Controls

(As indicated by identity of directors, suppliers of financial and legal services, and stockholders. Names in parenthesis represent secondary interests.)

Columbia Gas System: Morgan (Kuhn,Loeb)
Consumers Power Co.: Morgan (First National City Bank)
Niagara Mohawk Power Co.: Morgan (Marine Midland Corp.)
Philadelphia Electric: Morgan, via associated Philadelphia bankers
Public Service Gas & Elec: Morgan (Newark bankers)
Southern Corp.: Morgan (Boston group)

Notes: The United Corp. continues to exist, but is inactive. Morgan stockholding position in Niagara Mohawk Power and in Public Service Gas & Electric based substantially on former United Corp. holdings trusteed with First National Bank. Shifting of these trust accounts to the First National City Bank may affect the balance of power significantly.

B. Electric Bond & Share

Company	Area	Assets, 1955 (millions)
Electric Bond & Share	Holding co.	$ 79*
American & Foreign Power	Latin America	657
American Gas & Electric	Ohio, W.Va.,Ind.,Va.	1,071
Middle South Utilities	Ark., La., Miss.	590
Texas Utilities Co.	Texas	537
United Gas Corp.	Gulf Coast States	630
Total:		$3,564

* See note to Appendix 8.

Appendix 5 cont'd.

Controls

Electric Bond & Share Corp.: Morgan (Lehman, Seligman, Boston)
American & Foreign Power: 56% of stock owned by Electric Bond & Share
American Gas & Electric: Morgan (Lehman)
Middle South Utilities: Morgan (Boston)
Texas Utilities Co.: close Electric Bond & Share ties predominate
United Gas Corp.: Electric Bond & Share retains effective control, with 4.9% of stock

6.

COMPANIES INCLUDED IN CALCULATIONS FOR CHART II

Mellon: Gulf Oil, Alcoa, Aluminium, Ltd. du Pont: General Motors, E.I. du Pont de Nemours (operating profit only), U.S. Rubber, North American Aviation. Rockefeller: Standard Oil of NJ, Cal., Ind., Ohio, and Socony-Mobil Oil Co. Cleveland: Republic Steel, National Steel, Youngstown Sheet & Tube, Wheeling Steel, Cleveland Cliffs Iron. Chicago: Armour, Swift, Wilson, Cudahy, Sears Roebuck, International Harvester, Inland Steel, Marshall Field. Morgan: U.S. Steel, General Electric, Kennecott Copper, Continental Oil. Boston: United Fruit, United Shoe Machinery, U.S. Smelting, Refining & Mining. Kuhn, Loeb: Penna. R.R., Union Pacific, Chicago, Milwaukee, St. Paul & Pacific.

Sources: For individual companies, Moody's Industrials and Moody's Transportation manuals. For all corporations, U.S. Dept. of Commerce.

7.

MORGAN CONTROL OF UNITED STATES STEEL CO.

1. Directors with Morgan connections:

Arthur M. Anderson, director (recently Vice-Chairman), J.P. Morgan & Co.
H.P. Davidson, president, J.P. Morgan & Co.
Alexander C. Nagle, until 1955 president of First National Bank of City of New York, now Chairman of Executive Committee of First National City Bank.
Roger M. Blough, Chairman of U.S. Steel, formerly partner in White and Case, law firm of U.S. Steel and Bankers Trust.
Irving S. Olds, ex-Chairman, U.S. Steel, partner in White & Case.
Myron C. Taylor, ex-Chairman, U.S. Steel, retired from most connections formerly director of First National Bank of New York and other key Morgan corporations.
Enders M. Voorhees, Chairman of finance Committee, U.S. Steel, arose to prominence with Johns Manville, Morgan-organized building material trust.
John S. Tennant, general counsel (not a director), U.S. Steel, formerly partner, White & Case.

Appendix 7 cont'd.

2. Banking Services:

Investment banker—Morgan Stanley & Co.
Bond trustee—J.P. Morgan & Co.
Common stock registrar—Guaranty Trust (also a Chicago bank—company acts as its own New York transfer agent).

3. Stockholdings:

TNEC Monograph #29 showed that in 1939 Morgan-influenced or controlled blocks of shares comprised a dominant grouping. There is no evidence of subsequent change.

8.

COMPANIES AND ASSETS IN MORGAN SPHERE OF INFLUENCE

Company		Assets, 1955 (millions)
Financial Companies		
J.P. Morgan & Co.		$ 975
Guaranty Trust		3,191
Bankers Trust		2,785
First Pennsylvania Banking & Trust		1,098
Philadelphia National Bank		1,026
Girard Trust-Corn Exchange Bank		684
Prudential Insurance		12,521
New York Life Insurance		6,051
Mutual Life Insurance		2,475
Connecticut General Life Insurance		1,458
Connecticut Mutual Life Ins.		1,189
Insurance Co. of North America (group)		820
Hartford Fire Insurance (group)		754
Aetna Insurance		260
Glens Falls Insurance (group)		147
Affiliated Fund (group)		370
Newmont Mining		295
State Street Investment Corp.	$ 164*	82[a]
Adams Express		80
Total		36,261
Transport and Utility Companies		
Atchison, Topeka & Santa Fe R.R.		1,533
Northern Pacific R.R.		923
American Telephone & Telegraph	14,480	7,240[b]
International Telephone & Telegraph	687	344[c]
Peninsular Telephone		66

Appendix 8 cont'd.

Company		Assets, 1955 (millions)
Southern Corp.		$ 880
Public Service Electric & Gas		846
Philadelphia Electric		766
Niagara Mohawk Power		748
Columbia Gas		721
Consumers Power		646
Electric Bond & Share	$ 79**	
American Gas & Electric	1,071	
American & Foreign Power	657	
United Gas	630	
Middle South Utilities	590	
Texas Utilities	537	
Electric Bond and Share group	3,564	1,782[c]
Total		16,495

Industrial Companies

Company		Assets, 1955 (millions)
United States Steel		3,620
General Electric		1,728
Kennecott Copper		793
International Business Machines		630
Olin Mathieson Chemical	622	311[b]
International Paper	620	310[b]
B. F. Goodrich	508	254[d]
Continental Oil		504
American Can		482
Anderson, Clayton & Co.		456
Phelps, Dodge & Co.		424
J. P. Stevens & Co.		289
American Viscose		274
Coca Cola		244
Scott Paper		227
Johns Manville Co.		217
Philco, Inc.		178
Standard Brands		160
Merck & Co.		154
Air Reduction		151
J. I. Case		134
Texas Gulf Sulphur		122
International Minerals & Chemicals		120
Rohm & Haas		117
Berwind-White Coal Mining		100***
American Brake Shoe		102
Scovill Manufacturing		91
St. Joseph Lead		85
Lehigh Coal & Navigation		67
Pennsylvania Salt Manufacturing		65
Royal McBee		55
Magma Copper		44

Appendix 8 cont'd.

Company	Assets, 1955 (millions)
Olin Oil & Gas	$ 44
Total	12,550
GRAND TOTAL	$65,306

a. Control shared with Boston interests. b. Control shared with Rockefeller interests. c. Control shared with Lehman-Seligman and Boston interests. d. Control shared with Dillon-Read interests. e. Control shared with First National City Bank.

* Total assets where control is shared with other groups.
** Excluding investments in American Foreign Power and United Gas, duplicated in accounts of those companies.
*** Estimated. No statistics published.

9.

COMPANIES AND ASSETS IN ROCKEFELLER SPHERE OF INFLUENCE

Company		Assets, 1955 (millions)
Financial Companies		
(a) J.D. Rockefeller family control		
Chase Manhattan Bank		$ 7,509
Morristown Trust		36
Metropolitan Life		13,936
Equitable Life		8,048
Merchants Fire Ins. & Indemnity Cos.		90
American Express		621
Rockefeller Center		150
Travelers Insurance		3,001
(b) Allied family control		
New York Trust		871
Bank of New York		570
U. S. Trust Co. of N.Y.		191
Total		35,023
Transport and Utility Companies		
(a) J.D. Rockefeller family control		
Eastern Airlines		174
Union Tank Car*		129
American Tel & Tel	$14,880**	7,240[a]

Appendix 9 cont'd.

Company	Family		Assets, 1955 (millions)
Consolidated Natural Gas*			$ 496
(b) Allied family control			
Southern Railway	Milbank		856
Virginia Railway	Rogers		188
Total			9,083

Industrial Companies

Company	Family		Assets, 1955 (millions)
(a) J.D. Rockefeller family control			
Standard Oil (NJ)			7,164
Socony Mobil Oil			2,362
Standard Oil (Ind.)			2,352
Standard Oil (Calif.)			1,856
Westinghouse Electric		$1,288	644[b]
Olin Mathieson Chemical		622	311[a]
International Paper		620	310[a]
Ohio Oil			347
Standard Oil Co. (Ohio)			322
Chesebrough - Pond's Inc.*			29
Punta Alegre Sugar			26
Reed Roller Bit			24
Vertol Corp.			21
(b) Allied family control			
Armco	Payson (Payne-Whitney by marriage)		565
Borden Co.	Milbank, Borden		310
Corn Products Refining	Milbank, Moffett		206
American Sugar Refining	J.D.R., Milbank Bedford		156
Great Northern Paper	Payne-Whitney		111
Freeport Sulphur	Payne-Whitney		82
Minute Maid	Payne-Whitney		72
National Sugar Refining	Havemeyer		43
Vitro Corp.	Payson		12
Total			17,303
GRAND TOTAL			$61,409

a. Control shared with Morgan interests. b. Control shared with Mellon interests.

* Formerly part of Standard Oil (NJ).
** Total assets where control is shared with other groups.

10.

SPHERE OF INFLUENCE OF FIRST NATIONAL CITY BANK

Company		Assets, 1955 (millions)
Financial Companies		
First National City Bank		$ 7,201
Great American Insurance Co. (group)		315
Federal Insurance (group)		161
Fundamental Investors (group)		430
Total		8,107
Utilities and Rails		
International Tel & Tel	$ 687	343[a]
Consolidated Edison		1,606
Erie Railroad		445
Total		2,394
Industrial Companies		
Anaconda		912
W. R. Grace & Co.		415
United Aircraft		279
Boeing Airplane		256
National Biscuit		219
National Cash Register		211
Deering-Milliken		200*
Corning Glass Works		131
Georgia-Pacific		59
Total		2,682
GRAND TOTAL		$15,183

a. Control shared with Morgan group. The $687 million are the total assets of the company.

* Estimated.

11.

COMPANIES AND ASSETS IN DU PONT SPHERE OF INFLUENCE

Company	Assets, 1955 (millions)

Financial Companies

Appendix 11 cont'd.

Company	Assets, 1955 (millions)
General Motors Acceptance Corp.	$ 3,800
National Bank of Detroit	2,015
Wilmington Trust	295
Equitable Security Trust, Wilmington	121
Delaware Trust	61
Continental American Life Ins.	90
United Funds	273
Total	6,655
Industrial Companies	
General Motors	6,345
du Pont de Nemours Inc.	2,156[a]
United States Rubber	576
North American Aviation	261
New York Air Brake	29
Total	9,366
GRAND TOTAL[b]	$16,021

a. Includes $763 million investment in General Motors, duplicated in assets of that corporation. b. Excludes Bendix Aviation, where du Pont control is doubtful, and holdings of Florida branch of du Pont family.

12.

COMPANIES AND ASSETS IN THE MELLON SPHERE OF INFLUENCE

Company		Assets, 1955 (millions)
Financial Companies		
Mellon National Bank & Trust		$ 1,942
Fidelity Trust, Pittsburgh	$ 249*	125[a]
General Reinsurance (group)	118	59[b]
National Union Fire Ins.		82
Total		2,208
Utilities		
Lone Star Gas		252

Appendix 12 cont'd.

Company		Assets, 1955 (millions)
Industrial Companies		
Gulf Oil		$ 2,161
Westinghouse Electric	$1,288	644[c]
Aluminum Corp. of America		1,011
Aluminium, Ltd.		953
Jones & Laughlin Steel		653
Pittsburgh Plate Glass		532
British American Oil, Ltd.		263*
Pittsburgh Consolidation Coal	230	115[d]
Pullman, Inc.		215
Koppers		174
H. J. Heinz	169	84[e]
Warren Petroleum		164**
Allegheny Ludlum Steel		164
Crucible Steel		163
Rockwell Spring and Axle	151	76[a]
National Supply		140
Diamond Alkali		126
Blaw-Knox Corp.		90
Harbison-Walker Refractories		82
Carborundum Corp.		74
Shamrock Oil & Gas		62
Rockwell Manufacturing	55	28[a]
Mesta Machine		34
Superior Steel		17
Pittsburgh Forgings		15
Total		8,040
GRAND TOTAL		$10,500

a. Control shared with Hillman interests. b. Control shared with Stone & Webster interests. c. Control shared with Rockefeller interests. d. Control shared with Cleveland interests. e. Control shared with Morgan and First Natl. City Bank interests.

* Total assets where control is shared with other groups.
** Acquired by Gulf Oil in 1956.

13.

CLEVELAND GROUP COMPANIES AND ASSETS

Company	Assets, 1955 (millions)
Financial Companies	

Appendix 13 cont'd.

Company	Assets, 1955 (millions)
Harshaw Chemical	$ 31
National Acme	30
Chesapeake Industries	29
Lamson & Sessions	28
Medusa Portland Cement	28
Richman Bros. Co.	25
Valley Mould & Iron	22
West Kentucky Coal	19
National Screw & Manufacturing	17
Basic Refractories	15
Cleveland Twist Drill	15
White Sewing Machine Basic Refractories	15
Jack & Heintz	14
Murray Ohio Mfg.	14
Towmotor Corp.	14
Parker Appliance	12
Apex Electrical	11
Total	5,127
GRAND TOTAL	$15,664

a. Includes Wheeling & Lake Erie R.R. b. Control shared with Mellon interests. The $230 million are the total assets of the company.

* Estimated.

14.

CHICAGO GROUP COMPANIES AND ASSETS

Company	Assets, 1955 (millions)
Financial Companies	
First National Bank, Chicago	$ 2,977
Continental Illinois Bank & Trust	2,739
Northern Trust	776
Harris Trust & Savings Bank	776
City National Bank & Trust	437
American National Bank & Trust	370
Continental Assurance	395
Continental Casualty	276
U.S. Life N.Y. (Continental Group)	78
Lumbermen's Mutual Casualty	203
American Motorists Insurance Co.	62
Chicago Title & Trust	69
Allstate Insurance (Sears Roebuck)	351

Appendix 14 cont'd.

Company		Assets, 1955 (millions)
Allstate Fire Insurance		$ 31
American Mfgrs. Mutual Ins.		17
Total		9,527
Transport and Utilities		
Chicago & Northwestern R.R.		542
Chicago, Rock Island, & Pacific R.R.		483
Commonwealth Edison		1,250
Peoples Gas, Light, & Coke		483
Northern Illinois Gas		156
Total		2,914
Industrial Companies		
Texas Co.	$2,115*	1,057[a]
Sears Roebuck		1,596
International Harvester		1,018
Montgomery Ward		741
Swift & Co.		543
Inland Steel		514
Armour & Co.		470
Pure Oil		457
John Deere & Co.		454
Weyerhauser Timber		374
Borg Warner		344
U.S. Gypsum		254
Whirlpool-Seeger Corp.	146	73[b]
Marshall Field & Co.		150
Quaker Oats		134
Wilson & Co.		126
Chicago Corp.		112
Peabody Coal		105
American Marietta		104
Spiegel, Inc.		104
Fairbanks Morse & Co.		99
Wm. Wrigley Jr.		88
McGraw Electric		86
City Products		68
Anderson-Prichard Oil		61
Stewart-Warner		60
Liquid Carbonic	58	29[c]
Cudahy Packing		56
Walgreen		49
Hart Schaffner & Marx		47
Elgin National Watch		45
Material Service		41
Cuneo Press		34
Coos Bay Lumber		22

Appendix 14 cont'd.

Company		Assets, 1955 (millions)
Poor & Co.		$ 21
United Stockyards Corp.		20
Consolidated Naval Stores		10
Total		9,564
GRAND TOTAL		$22,005

Control shared with (a) Hanover Bank and others, (b) Goldman Sachs & associates, (c) old San Francisco group.

* Total assets where control is shared with other groups.

15.

COMPANIES AND ASSETS IN BANK OF AMERICA SPHERE OF INFLUENCE

Company		Assets, 1955 (millions)
Financial Companies		
Bank of America		$ 9,669
Transamerica Corp:		
First Western Bank & Trust	$ 877	
First National Bank, Portland, Ore.	905	
First National Bank, Nevada	211	
Bank of Nevada	30	
National Bank of Washington	143	
First National Bank of Arizona	185	
Southern Arizona Bank & Trust	90	
Occidental Life Insurance Co.	517	
Fire & Casualty Insurance companies	104	
Allied Building Credits	39	
Capital Co.	19	
Banca D'America E D'Italia	248	
Miscellaneous assets	92	3,458
Total		13,127
Transportation Companies		
Consolidated Freightways		30
Pacific Intermountain Express		27
Total		57
Industrial Companies		
Kaiser Companies:[a]		
Kaiser Aluminum & Chemical	490	

Appendix 15 cont'd.

Company		Assets, 1955 (millions)
Cleveland Trust		$ 1,447
Central National Bank of Cleveland		544
National City Bank of Cleveland		750
Colonial Trust Co. (New York)		80
Alleghany Corp.		102
Portsmouth Steel		18
Investors Diversified Services (group)		1,812
Beneficial Finance		401
Total		5,154
Transportation and Utilities		
New York Central R.R.		2,638
Chesapeake & Ohio R.R.		983
Missouri Pacific R.R.		911
N.Y., Chicago, & St. Louis R.R. (Nickel Plate)		460[a]
Interlake Steamship		31
U.S. Truck Lines		18
Cleveland Electric Illuminating		342
Total		5,383
Industrial Companies		
Goodyear Tire & Rubber		786
Republic Steel		764
National Steel		591
Youngstown Sheet & Tube		573
Wheeling Steel		279
Pittsburgh Consolidation Coal	$ 230	115[b]
M. A. Hanna		149
Sherwin-Williams		146
Thompson Products		146
Cleveland Cliffs Iron		141
Eaton Manufacturing		109
White Motor		108
Glidden		107
Detroit Steel		106
Interlake Iron		106
Industrial Rayon Corp.		94
Steep Rock Iron Mines Ltd.		63
Clevite Corp.		62
Anchor Hocking Glass		60
Island Creek Coal		59
National Malleable & Steel Castings		45
Midland Steel Products		39
Weatherhead		37
Ferro Corp.		35
Harris-Seybold		35
Warner & Swazey		33

Appendix 15 cont'd.

Company		Assets, 1955 (millions)
Kaiser Steel	$ 277	
Kaiser Industries	226	
Permanente Cement	57	$ 1,050
Transamerica companies:		
General Metals	25	
Columbia River Packers	10	35
Basalt Rock		10
Lucky Stores		19
Di Giorgio Fruit		20*
National Motor Bearings		11
Producers Cotton Oil		28
Puget Sound Pulp & Timber		35
Solar Aircraft		50
Total		1,218
GRAND TOTAL		$14,402

a. Assets for closest date to Dec. 31, 1955, available.

* Estimated.

REFERENCE NOTES

Abbreviations for publications and government agencies:

BW—*Business Week.*
FRB—*Federal Reserve Bulletin.*
IDD—*Investment Dealers Digest*, Corporate Financing Directory.
JC—*Journal of Commerce.*
NYT—*New York Times.*
SCB—*Survey of Current Business.*
Stat. Abs.—*Statistical Abstract of the United States.*
WSJ—*Wall Street Journal.*
FTC—Federal Trade Commission.
H. of R.—House of Representatives.
SEC—Securities and Exchange Commission.
TNEC—Temporary National Economic Committee.

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