MANAGERS AND MILLIONAIRES

S. Menshikov

STRUCTURE OF U.S. FINANCIAL OLGARCHY
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PREFACE TO THE ENGLISH EDITION

This book, written in 1962-63, is a result of a special investigation
of control in large American corporations. I decided not to confine
myself to a study of the sources available at the time, but also personally
to verify the correctness of the managerial revolution theory first advanced
by A. Berle and G. Means in the early 1930s. For this purpose
I collected all the material published in the United States and accessible
to foreign researchers on the distribution of share ownership of the big corporations and banks and other financial institutions,
the position of the top managers in these institutions and corporations,
the fate of the old large fortunes and of the new multimillionaires who
appeared in recent decades despite tax legislation and other state regu-
larly measures. The results were compared with data on the situation
which existed in the United States in the 1920s and 1930s, and the
respective conclusions were drawn, which the reader will find in the
book.

In the course of the work it became clear that it was necessary to
examine in detail the diverse ties between the big corporations in indus-
try and trade, on the one hand, and large banks and other financial
institutions, on the other. For the problem of control in corporations
cannot be understood without considering the tendency of corporations
and banks to form large financial groups. The nature of these groups
and also the centrifugal and centripetal forces operating within them
were examined.

In the autumn of 1962, I had the opportunity of spending four
months in the United States under the programme for the exchange of
scientists between the Soviet Union and the U.S.A. Thanks to the
kind assistance of the Institute of International Education in New York
which took care of all organisational matters, these were very fruitful
months: they made it possible to supplement the materials gleaned
from books, magazine and newspaper articles, handbooks and other
literature with data obtained in the course of personal contact with
leading men in the U.S. business world and scientists of American
universities.
During the stay in the United States I visited New York and Washington, Boston and Cleveland, Chicago, Detroit, San Francisco and Los Angeles. I met chairmen of the board, presidents and vice-presidents of dozens of corporations and of 13 out of the 25 commercial banks which at that time had assets of over $1,000 million each, partners of some of the principal investment banks and law firms, insurance companies and investment trusts. Among them were Henry Ford II and Henry S. Morgan, David Rockefeller and Cyrus Eaton, George Gund and Charles Percy, Frank King of Western Bancorporation and Frederick Eaton of Shearman and Sterling. Many days were spent at the library of the New York Stock Exchange going over proxy statements and other reports of the leading corporations. The results of these meetings and studies were extensively utilised in preparing this monograph.

More than five years have passed since then. In preparing the English edition of the book I have fully reviewed it, giving, whenever possible, the latest statistical data and abridging some places not of prime interest to the foreign reader. I was faced with the question, has not the book become out of date? The world of Big Business is very dynamic and changes take place in it every month, every day. But on turning to the latest literature, I learned that, as the French say, “Plus ça change, plus c’est la même chose”. Hence the decision not to concentrate on altering all details since the main thing, the structure of the U.S. financial oligarchy, has hardly changed during this time.

The reader will find in the book, alongside an analysis of the facts and data, an effort to explain the sum total of the examined phenomena and processes from the positions of Marxism-Leninism. That is the reason why the exposition of the problem begins with a theoretical analysis of the process of separating functioning capital from capital as property. To roam the empirical labyrinth without Ariadne’s thread of theory is a hazardous venture. I am convinced that only with the help of Marxist-Leninist political economy is it possible to find one’s way in this maze of facts, opinions and theories.

Such an approach necessarily makes the book polemical. But it is in keen disputes that the truth is born.

December 1968

S. Menshikov

Chapter I

EVOLUTION OF CAPITAL AND OF THE CAPITALIST

As capitalism developed the nature of capital as a definite form of exploitation of man by man remained unchanged but the mechanism of exploitation became more involved. The progressing social division of labour extended to the ruling class itself and this led to the emergence of special groups differing for the role they perform in exploiting wage labour. The rudiments of these changes were contained already in the simplest elementary forms of capitalist production and circulation. They attained their greatest development in the epoch of monopoly domination and the rise of finance capital.8

We refer to changes connected with the historically inevitable and economically determined separation of functioning capital from capital as property. This separation is chiefly a result of the objective changes in the capitalist mode of production—in the productive forces and in the relations of production.

Under capitalism, the main tendency in the development of the productive forces is the socialisation of production. This is expressed, first, in the enlargement of the enterprises themselves, in the conversion of small production units into large and super-large ones. The initial point of this process is simple capitalist co-operation which develops into a manufacture, then into a factory and, lastly, turns into a modern mammoth integrated works. The progressing division of labour inside the factory makes the production process so-

8 The term “finance capital” is explained in detail in Chapter V.—Translator.
cical, in other words, it is inconceivable without the co-operated interconnected labour activity of many people. As factories grow in size, so does the degree of socialisation of the production process. In an ordinary capitalist workshop scores of labourers worked under single management; in modern plants the number of employees runs to tens and even hundreds of thousands. Lenin wrote: “Capitalism in its imperialist stage leads directly to the most comprehensive socialisation of production; it, so to speak, drags the capitalists, against their will and consciousness, into some sort of a new social order, a transitional one from complete free competition to complete socialisation.”

Second, under capitalism the socialisation of production is expressed in the ever greater division of labour in society, in the constant branching out and birth of new industries united by a single market. While at the initial stages of capitalism this universal connection and interdependence was displayed solely through the spontaneous mechanism of the market, at the highest stage of its development objective conditions arise for centralised social accounting of production and marketing. "Concentration," Lenin pointed out, "has reached a point at which it is possible to make an approximate estimate of all sources of raw materials ... of a country and even, as we shall see, of several countries, or of the whole world. Not only are such estimates made, but these sources are captured by gigantic monopolist associations. An approximate estimate of the capacity of markets is also made, and the associations 'divide' them amongst themselves.”

At the highest stage of capitalism, owing to the colossal development of the banks, a form of social book-keeping emerges for the first time. Even in his day Marx pointed out that “the banking system possesses ... the form of universal book-keeping and distribution of means of production on a social scale, but solely the form.”

Developing this idea Lenin wrote: “The figures we have quoted on the growth of bank capital, on the increase in the number of the branches and offices of the bigger banks, the increase in the number of their accounts, etc., present a concrete picture of this universal book-keeping of the whole capitalist class; and not only of the capitalists, for the banks collect, even though temporarily, all kinds of money revenues—of small businessmen, office clerks and of a tiny upper stratum of the working class. ‘Universal distribution of means of production’—that, from the formal aspect, is what grows out of the modern banks. ... In substance, however, the distribution of means of production is not at all ‘universal’, but private, i.e., it conforms to the interests of big capital, and primarily of huge, monopoly capital.”

With the enlargement of factories and the appearance of capitalist “accounting” and “social book-keeping” the functions of managing production, marketing and banking steadily become more complicated. The further this process develops, the greater the objective need for the emergence of a special category of employees who take over from the capitalist the function of supervision and management and perform it instead of him.

Even at the stage of simple capitalist co-operation, the function of supervision becomes so complicated that it is beyond the strength of the capitalist and is separated from him. The capitalist, relieved even earlier of manual labour, hands over “the work of direct and constant supervision of the individual workmen, and groups of workmen, to a special kind of wage labourers. An industrial army of workmen, under the command of a capitalist, requires, like a real army, officers (managers), and sergeants (foremen, overlookers), who, while the work is being done, command in the name of the capitalist. The work of supervision becomes their established and exclusive function.”

The further separation of these functions from the capitalist was linked with the development of the manufacture and large-scale machine production creating “a barrack discipline, which is elaborated into a complete system in the factory, and which fully develops the beformentioned labour

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1 In 1965, General Motors had 735,000 employees; General Electric, 300,000 and United States Steel, 200,000. There were 17 corporations employing more than 100,000 people each, 25 corporations employing from 50,000 to 100,000 and 67 corporations from 25,000 to 50,000 (Fortune, July 15, 1966, pp. 232-49).
3 Ibid.
of overlooking, thereby dividing the workpeople into operatives and overlookers, into private soldiers and sergeants of an industrial army.”

With the transition from the factory to large industrial complexes the participation of the capitalist in managing production is reduced to an infinitesimal or fully disappears. First, the management of modern technology demands special knowledge, which the capitalists and their closest aides do not have, as a rule. Second, an industrial complex consists not of one but of many territorially separated factories, the management of which requires a large number of people possessing special know-how. However large a family a capitalist may have, he cannot staff all managerial positions with his own relatives, nor does he set himself such an aim. Management of industrial complexes is handed over to a special category of employees who could be called industrial generals as distinct from industrial officers, who take charge of separate links of these complexes, and from the industrial sergeants who directly supervise the labour of the workers.

The minimal number of this “generals” and “officers’ corps” is determined by the actual needs of production. Their number directly depends (although not in direct proportion) on the size of the given industrial complex and its enterprises; on the scale and nature of the production ties of the given complex with other complexes, with industries and the consumers; on the scale of technological novelties and improvements; on the level of saturation with machinery specific for the given branch.

The same applies to the non-productive sphere, specifically to the “social book-keeping” system. The largest banking institutions employ tens of thousands of people. The universalisation of the banks, their employment of the latest electronic devices, the need to maintain numerous branches and offices, an army of insurance agents and so on—all this has led to the appearance and growth of a specialised group of bank managers, to the separation of the function of managing the affairs of a bank from its ownership.

The enlargement and socialisation of production under capitalism are effected within the bounds of production relations based on private ownership of the means of production. “Production becomes social,” Lenin wrote, “but appropriation remains private. The social means of production remain the private property of a few.”

Let us examine the evolution in the forms of capitalist property and how this evolution helped to separate functioning capital from capital as property, giving it specific forms in every case.

Originally, private capitalist property assumed almost exclusively the individual form. An enterprise was the property of one capitalist who did not share it with anyone else. Historically this form corresponded to the development of capitalist production from simple co-operation to the factory. Up to the last third of the 19th century, it predominated in all industrially developed countries. But the growth in the size of enterprises, the concentration and centralisation of capital led to the appearance and then to the prevalence of the collective-capitalist form of property. The latter, known as the joint-stock or corporate form, grew up as a means which giganticly accelerated the accumulation of capital.

The corporate form of capitalist property in no way affects the qualitative side of the relations which exist in production, it does not abolish the exploitation of wage labour. It merely signifies a certain realignment within the class of capitalist owners. The place of the individual exploiter is taken by a group, a collective of exploiters. “Scattered capitalists are transformed into a single collective capitalist,” Lenin remarked discussing the banks, but this statement is fully applicable to the corporate form in general.

The corporate form, born in the era of free competition, is also ideally adapted to the conditions of monopoly capitalism. It opens up wide scope for the unprecedented concentration of industry and banking, provides a very convenient and flexible form for organising the largest monopolies, trusts and concerns; it is the basic instrument for the do-

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2 "One thing the top men have to realise is that business has become so big and complicated that no single person can run a large company nowadays any more than the President of the United States can do the job by himself" (Osborn Elliott, Men at the Top, New York, 1959, p. 37).
2 Ibid., p. 214.
mination by separate groups of the financial oligarchy over a number of formally independent enterprises and for their enrichment on manipulations with fictitious capital. Lastly, the corporate form makes it easier to export capital, to divide the world economically among alliances of capitalists and to merge the financial oligarchy with the state machine.

State-monopoly ownership is the third form. It became particularly widespread in conditions of the general crisis of capitalism, which was ushered in by the October Socialist Revolution in 1917. Marx described joint-stock companies as "the abolition of capital as private property within the framework of capitalist production itself." This applies to an even greater extent to the state-monopoly form. Here private property is formally abolished. The owner is not even a "collective" of capitalists but the state, that is, "the whole people". In reality, however, the relations of exploitation remain untouched, merely the form of appropriating surplus value is changed. State-monopoly enterprises actually represent the collective property of the top group of monopoly capital which gets the lion's share of the surplus value created by the workers at these enterprises.

With the evolution of private property from the individual to the corporate and then to the state-monopoly form, the position of the capitalist in managing social production essentially changes. As the individual owner of an enterprise, the capitalist preserves the function of management and acts as a functioning capitalist. As owner of the capital invested in production he obtains the entire profit on this capital, including both interest and income as entrepreneur. As the man who disposes of the capital of others (loan capital) he stands in opposition to the money-capitalist and obtains the lion's share of profit on the loan capital—the entrepreneur's income.

In a corporation the position of the capitalist owner is changed substantially. First, the stockholders, including the holder of the controlling block, become money-capitalists who give their capital to collective owner, the corporation. The latter is in the same position vis-à-vis the stockholders as the functioning individual capitalist is in relation to the money-capitalist.

Second, the capitalist who controls a corporation because he owns a big block of shares or in some other way, administers other people's (collective) capital. He disposes of this capital not in the way an individually functioning capitalist handles the money capital he borrows, but as the manager of the corporation which acts as a collectively functioning capitalist. As such a corporation attracts other people's money and applies it in production, and the capitalist who controls this corporation handles this money not on his own behalf but on behalf of the corporation.

"Transformation of the actually functioning capitalist into a mere manager, administrator of other people's capital," such, in the opinion of Marx, is one of the main distinctive features of the corporate form of private property. This transformation is an antagonistic process fraught with conflicts within the capitalist class.

Third, and lastly, a fundamentally new relationship between the capitalist owner and the managerial personnel arises in a corporation. The function of management is performed here by hired people. Formally, the staff of managers is appointed by the corporation and is accountable only to it. Even a capitalist who controls such a corporation, if he takes part in management, is formally regarded as an employee of the corporation and gets a definite salary for his "work".

Without examining in detail the state-monopoly form of property, let us merely note that all these three tendencies are further developed in it. In a state-monopoly enterprise the state itself (or a state institution) acts as the functioning capitalist. The members and representatives of the financial oligarchy who actually control such an enterprise by holding appropriate government posts, administer the joint property of the monopoly bourgeoisie. And, lastly, the function of management is fully separated from property in capital, "... The transformation of the great establishments for

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1 By "fictitious capital" we mean capital invested in securities (stocks or bonds) as distinct from "real capital", which is invested in material wealth: structures, equipment, raw materials, etc., or used for employment of labour. The movement of fictitious capital, which has no intrinsic value is eventually determined by the movement of real capital, and reflects it. At the same time fictitious capital leads a life of its own and strongly affects real capital and the capitalist economy as a whole.


production and distribution into joint-stock companies... and state property,” Engels wrote, “show how unnecessary the bourgeoisie are for that purpose. All the social functions of the capitalist are now performed by salaried employees.”

Inasmuch as in the United States the corporate form of property plays the decisive part, let us make a more detailed analysis of how it changes the capitalist and his environment. We have already noted that the capitalist who controls a corporation at first becomes a “salaried employee” of the latter. This, naturally, is only a change of form, because the decisive part is played by the main means of obtaining the income. Inasmuch as he is an employee only in part and his main income is derived from money capital which he owns, his salary as an employee is merely an addition, moreover, a relatively small one, to his main income as a rentier. That is why American millionaires look upon their salaries as a subsidiary income which at times can be even ignored. The reason why the capitalist preserves the post of manager in a corporation is not the salary, but the colossal opportunities for enrichment by utilising other people’s capital which this position opens up. This, second side of his activity as manager, for which he does not get a salary, soon becomes the main side, moreover, in a degree that is all the greater the smaller the share of his own money capital invested in the given corporation and the bigger the share of other people’s capital he can administer.

Notwithstanding the big salary and prestige associated with an executive post in a corporation, the controlling capitalist gradually begins to regard this function as a burden. That is why as time goes on the function of top management of corporations is also handed over to hired employees. The capitalist preserves actual control which enables him, as before, to “skim the cream” from other people’s capital, without troubling himself to manage it.

But the “emancipation” of the capitalist does not end at this point. Before long he discovers that he does not have to “skim the cream” himself. This can be done by trusted agents.

This “work” can be assigned to the executive of a corporation, as is frequently the case. This, however, entails certain inconveniences, because the executive has enough of other duties, and, moreover, it is not entirely safe to extend his powers beyond a definite limit. That is why frequently the “cream is skimmed” by specialists: bankers, top bank officials, lawyers, financial advisers, etc. But they also have to be supervised and, as the fortune of the capitalist grows, even this function becomes burdensome. It is handed over to the most select, to the closest aides, while the capitalist leaves himself only one “function” — to do what he likes.

Now the historical evolution of the capitalist is complete. From an entrepreneur he has turned into a financial capitalist in pure form. He is a parasite, a tycoon-rentier who “clips coupons” not simply because he owns securities, but chiefly because he controls colossal industrial-banking empires.

The inevitability of the parasitic degeneration of the capitalist follows from the objective laws governing the development of the capitalist mode of production. The general possibility of such degeneration arises owing to the extensive development of credit, the stock market and fictitious capital. This possibility, lastly, follows from the hereditary nature of private property as such; owing to this, the second, third and, at most, the fourth generation of the founder of a big fortune tends to degenerate, becoming a parasitic growth on the body of society.

But if everything boiled down to this, the class of money-capitalists would long ago have turned into a sort of “House of Lords” shorn of real power. In reality this is not the case because the finance-capitalist is not merely a rentier but the head of gigantic industrial-banking complexes. He is interested not only in the price of the securities he owns, but also in the proper functioning of the companies which bring him a profit. He is also interested in perpetuating the system in which his empire can thrive. Hence the lively interest the finance-capitalist takes in the activity of the government and its home and foreign policy. In a word, the parasitic degeneration has its objective limits, determined by the objective laws of reproduction of the capitalist production relations.

1 F. Engels, Anti-Dühring, Moscow, 1962, p. 351.
2 This applies not only to service in private corporations, but also in government institutions where salaries in most cases do not exceed $30,000–35,000 annually. (Rich people who enter government service are often satisfied with the symbolic annual salary of one dollar.)
But let us get back to the top executive, the “marshal” of the industrial army, whom the finance-capitalist places at the head of his corporations and banks. This executive is now separated from his real master, for whom he ultimately works and of whose existence he may not even suspect. A fuller characteristic of this executive will be given subsequently. Here we will merely trace in brief his evolution.

Originally the corporation he heads is relatively small and possibly unites only two or three large factories. In this case the function of top management is merely to coordinate the activity of these factories. But gradually a corporation grows, absorbing tens of new, formerly independent production units. Their management becomes more involved. The job formerly handled by the top manager now requires dozens and even hundreds of other managers whose activity has to be co-ordinated. As a corporation grows from a large enterprise into a gigantic complex, so does the machine of management. A part of it no longer has a direct bearing on the production process because it exercises the function of monopoly domination of the market. This machine acquires independent existence as a special corporate mechanism subordinate to its own specific, objective laws. This machine is headed by “marshals” of the industrial army who are far removed not only from their real master but also from the working class; these are top managers who for their position and real power differ little from the monopoly bourgeoisie.

In contemporary capitalist society the gigantic monopolies are merely a superstructure over a large number of “freely competing” small and medium-size enterprises. Large and super-large firms exist side by side with small ones and even need the latter as an object for exploitation. The corporate (and in a number of countries also the state-monopoly) form of property prevails, but it coexists with individual capitalist, non-monopolised enterprises.

Although in the United States the number of individual firms (represented by sole proprietorships and partnerships) is large, their share in total receipts of all capitalist firms is about 20 per cent and in industry, only 4 per cent (see table on p. 18). Most of the individual firms are in small-scale industry. The average annual receipts of sole proprietorships are only $26,100 and in industry $33,600; their net profit averages $3,600 annually and in industry $3,000. The average receipts of partnerships are $84,500 (in industry $132,000) and their net profit is $10,200 (in industry $10,000).

The corporate form also conceals colossal differences in the size of establishments; 99.7 per cent of the companies in industry have average receipts of $950,000 annually and a net profit (prior to the payment of dividends) of only $77,000. Even if the main owner gets most of the profits of such a company he can lead the life only of a small, at most a middle, businessman.

At the other pole is a limited number (500) of really large and mammoth industrial corporations. But even here there are gradations: 400 corporations have average annual receipts of $214 million and a net profit of $10 million, while 100 of the super-large ones have average annual receipts of $1,596 million and a profit of $108 million.

Data grouping companies by the number of persons they employ show that in 1964 of the 3.5 million companies which employed hired labour only 8,800 had more than 500 employees each. The overwhelming majority, 98 per cent of the total had no more than 100 employees each.

These data show that the laws we examined earlier pertaining to the separation of functioning capital from capital as property, the parasitic degeneration of the functioning capitalists and the rise of a bureaucratic managerial machine hold good only for a small group of the biggest enterprises which concentrate the lion’s share of production, labour force and profit. It is clear that both the finance-capitalist who is isolated from production and the bureaucratic top group of managers he created are merely a monopoly superstructure over capitalist society, over the mass of small and middle businessmen, over the functioning capitalists who, far from being able to live by “clipping coupons”, cannot

1 In the United States only a small circle of people are aware of the real scale of the financial manipulations engineered by the biggest tycoons. Little information about them is reported in the press.

1 Statistical Abstract of the United States, 1966, p. 490. More detailed data on companies employing over 500 people relate to 1956. At that time only 200 corporations had more than 10,000 employees each and 2,809, from 1,000 to 10,000 (Statistical Abstract of the United States, 1961, p. 483).
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American statistics do not furnish figures making it possible to distinguish the various strata of the capitalist class in the United States. An approximate idea can be gleaned from the figures on the average size of taxable incomes. The initial data for such an analysis are presented in the following table (see p. 20). Of course, by far not all taxpayers listed in the table are capitalists in the strict sense of the word. But it includes highly paid engineers, a large group of persons with incomes of more than $1,000,000—members of the financial oligarchy. The table shows how sharply the ratio of different sources of income changes as we descend from the upper-middle group of corporations (36 per cent) to the group from the lower-middle group of corporations (24 per cent).
This is the sphere of almost exclusive predominance of the finance-capitalists—the upper crust of the monopoly bourgeoisie.

The size of an income does not tell the whole story about the size of the personal fortune. First, the income reported for taxation is deliberately underestimated; second, if a salary is the main source, personal wealth can be much smaller than the capitalised income; third, it is difficult to ascertain the exact degree of capitalisation. Judging by the criteria various authors use to estimate large fortunes and considering the fact that reported incomes are greatly minimised, a declared income usually amounts to about 2 per cent of a large fortune. This means that the number of persons who own more than $50 million approximately corresponds to the category of high income with an annual income of over $1,000,000. The number of millionaires with smaller fortunes is about the same as in the respective categories with incomes from securities and also, in part, from business activity.

A more detailed characteristic of the composition of the U.S. financial oligarchy is given in subsequent chapters. Here we shall confine ourselves to a few additional remarks about the general laws governing the formation of the financial oligarchy.

The tendency of separating functioning capital from capital as property operates in all capitalist countries. It is most developed in industrial imperialist states where the upper crust of the bourgeoisie has long ago turned into the monopoly bourgeoisie. The degree of this separation directly depends on the level of the productive forces, the concentration of industry and banking and the share of the corporate and state-monopoly forms of property.

This general law operates not in a vacuum but in the real conditions of particular countries which can differ considerably owing to the specific features of historical development. Of great importance are such circumstances as the existence or absence of a landed aristocracy, a state machine with monarchical, feudal and militarist traditions, a colonial empire, etc. Where these additional factors are present the financial oligarchy merges, coalesces with the upper crust of the landowner class, with the "blue-blooded aristocracy", the governmental and military bureaucracy and the colonial administrative machine. Hence the specific features of the
stratum of finance capitalists and the caste of top managers servicing it.

In the United States state-monopoly capitalism has reached a high level. The Federal Government, the states and municipalities own about 30 per cent of all the fixed capital (productive and non-productive). State purchases of goods and services are equal to about 20 per cent of the gross national product and state investments make up almost one-third of all new investments. Up to 60 per cent of the annual expenditure on research and development is financed by the government. All this signifies that in the United States (just as in other developed capitalist countries) the reproduction process today dictates the coalescence of the monopolies and the state machine. What is important is not only that the financial oligarchy is devoting more and more of its time and energies to controlling the economic and political activity of the state. Of great significance is also the fact that the bureaucratic machine of managing the largest corporations and banks is organically intertwined with the inflated bureaucratic governmental machine. As applied to the questions we are studying this means that the division of the financial oligarchy into finance-capitalists as such and top executives serving them is becoming characteristic both of the monopolies and of the state.

In Britain which took the imperialist path before other countries, the separation of functioning capital from capital as property is perhaps developed most of all. Powerful banking houses, the wealthiest financial families, the landed and colonial aristocracy and the royal family are represented on the boards of most of the biggest monopoly companies. But the actual function of managing these monopolies is in the hands of a special group of professional managers who differ both from the individual entrepreneurs and from the monopolists. Such managers belong to the wealthy bourgeoisie and make up an exclusive well-knit caste, access to which is governed by strict unwritten laws which have been in force for decades. Loyalty of the managers to the financial tycoons is boundless and the atmosphere of secrecy enables the owners of the biggest fortunes to escape the limelight of the press.¹

A somewhat different system prevails in the Federal Republic of Germany. A considerable number of the wealthiest capitalists, who maintain a close alliance with the banks, still keep in their hands the top management of their empires.¹ There is quite a deep abyss between these supreme rulers (Unternehmer) and the professional managers who operate at much lower levels of the monopoly hierarchy. It should also be borne in mind that in West Germany until recently the joint-stock form served merely as a screen for a large and even super-large family enterprise; the controlling blocks as a rule exceeded half of the shares and the number of other stockholders was small. But the requirements of accelerated accumulation here, too, are sundering the narrow bounds of individual property. "Democratisation" of capital has become the official slogan of the Bonn regime. The practices of the big state-monopoly trusts (for example, Volkswagenwerke before it was returned into private hands) demonstrated the loyalty of the professional managers to the interests of the monopoly top group. In post-war years, an increasing number of leading posts in trusts has been handed over to "industrial generals" not only from among bankers but also from among hired managers of industrial firms. The West German monopolists are clearly drawing on the experience of their American colleagues in cartel agreements. And although it is too early to speak about the emergence of a fully shaped caste of corporate bureaucrats, the structure of the West German financial oligarchy is increasingly drawing near to the pattern of the main capitalist country.

In France and Italy, owing to the distinctions of their development, the process of separating functioning capital from capital as property is by far not completed. This is explained by the lower level of socialisation of production and the relatively less developed corporate ownership. The family establishment in which the main owner is the chief businessman. His function today is to conduct the enterprise with capital provided by others, or from the revenues of the enterprise itself, or both, and often subject to little or no direct control from these or other third parties" (Frederick Harbison, Charles A. Myers, Management in the Industrial World. An International Analysis, New York-Toronto, London, 1959, p. 306).

¹ "In fact, a few leading West German bankers still play a large role in German industry, almost in the way that J. P. Morgan once did in the U.S." (Business Week, August 13, 1960, p. 100).
manager remains the prevailing form of industrial enterprise in both countries. In private companies the transfer of this function to hired employees proceeds very slowly. As a result, the category of professional managers has developed chiefly at state enterprises and in numerous branches of foreign trusts.

In Japan the corporate bourgeoisie has developed to a greater extent than in West European countries. But it still bears the imprint of medieval clans and essentially differs from American standards.

Separation of functioning capital from capital as property has gone beyond national bounds and has become a manifestation of capitalist parasitism on an international scale. "The world," Lenin wrote, "has become divided into a handful of usurer states and a vast majority of debtor states.... The export of capital, one of the most essential economic bases of imperialism, still more completely isolates the rentiers from production and sets the seal of parasitism on the whole country that lives by exploiting the labour of several overseas countries and colonies." The activities of managers of foreign branches of U.S., British and other monopolies who ensure the profits of their overseas masters graphically reveal the parasitic nature of the international financial oligarchy.

Chapter II

THE VERY RICH

The American plutocracy exists today, just as it did a quarter or a half a century ago. The old multimillionaire families who made their fortune at the dawn of monopoly capitalism have been preserved in the main and many of them have greatly increased both their wealth and their influence. Relatively few of these families have declined, but their place has been taken by the numerous energetic group of nouveaux riches. The share of the national wealth owned by the plutocracy, far from declining, has even increased. The growth of finance capital and the greater domination of the financial oligarchy in political affairs and the ideological sphere have been accompanied by more thorough and carefully devised camouflage on the part of the millionaires and multimillionaires.

1. American Plutocracy in the 1960s

It is no easy task to detect a millionaire and ascertain his wealth. It is even more difficult to determine the exact number of people who could be put in the category of "top wealth-holders" in America. Official U.S. statistics is silent on this score, limiting itself to information about the number of persons who pay taxes on incomes of different size. So far no attempt has been made in official statistics to divide the country's population into categories depending on the amount of capital personally owned by various families. The results of a survey made by the Federal Reserve System and published in the spring of 1964 enable us to

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1 See Chapter I.
establish the number of millionaires indirectly. According to these data (end of 1962), among families with an annual income from $25,000 to $50,000 only 3 per cent had a fortune exceeding $1,000,000; among families with an income from $50,000 to $100,000, 20 per cent; and with an income above $100,000, 35 per cent. If this ratio is correct, by applying it to the figures on the number of taxpayers with the indicated incomes (for 1960) we estimate:

<table>
<thead>
<tr>
<th>Millionaires with an income of</th>
<th>$ 25,000-50,000</th>
<th>$ 50,000-100,000</th>
<th>over $ 100,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>$ 25,000-50,000</td>
<td>13,227</td>
<td>29,216</td>
<td>8,527</td>
</tr>
<tr>
<td>$ 50,000-100,000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>over $ 100,000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>41,970</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

These figures are close to the estimates made on the basis of data in Lampman’s book. Lampman estimated that in 1953 there were 27,500 millionaires. The substantial rise in stock quotations over the next 10 years greatly increased their number. This is indirectly proved by the bigger number of persons who paid a tax on an income of over $1,000,000. In 1953, there were 145; in 1960, 295, and in 1961, 398.

In 1964, as compared with 1960, the number of families with an annual income from $50,000 to $100,000 rose from 101,000 to 158,000, and with an income of over $100,000, from 24,000 to 34,000. At the same time the number of families with an income of from $15,000 to $50,000 increased from 1,549,000 to 2,643,000, i.e., by 70.6 per cent. Applying this proportion to the group with incomes from $25,000 to $50,000 we estimate their number at 752,000 in 1964 and also the number of millionaires in 1964:

<table>
<thead>
<tr>
<th>Millionaires with an income of</th>
<th>$ 25,000-50,000</th>
<th>$ 50,000-100,000</th>
<th>over $ 100,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>$ 25,000-50,000</td>
<td>22,600</td>
<td>31,600</td>
<td>11,900</td>
</tr>
<tr>
<td>$ 50,000-100,000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>over $ 100,000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>66,100</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

All these figures, however, are undoubtedly minimised because the richest families in all cases are inclined to report smaller wealth and incomes than is actually the case. C. Wright Mills, following Lundberg, remarked that minimising incomes and fortunes of the rich families at least by two-thirds is quite a feasible thing in the United States. Therefore, the actual number of millionaires is not less than 100,000. The reality of this estimate is confirmed by the latest calculations made in the United States on the basis of studies by economists of the Federal Reserve System and the National Bureau of Economic Research. According to these estimates, there are now from 90,000 to 95,000 millionaires in the United States.

Information regularly published in the American press and some personal observations have convinced me that the “smaller” millionaires (with capital of one to three million dollars) make up quite a large category of the American bourgeoisie today.

As for the upper crust (with fortunes above $10,000,000) our estimates (based on capitalisation of income) yield a figure of about 3,800.

Let us compare the results of our studies with the conclusions at which Fortune arrived at the end of 1957. The magazine did not resort to statistical calculations and based its estimates on a poll of income tax experts and the millionaires themselves, on materials of government archives and information about the wealth of millionaires which appear in the press from time to time. According to various estimates, to which Fortune refers, the number of persons owning more than $50,000,000 ranged from 150 to 500. Studying for several months the biggest fortunes, the magazine succeeded in definitely establishing the names of 155 persons who owned capital of that size. The magazine remarked that most likely there is another 100. Fortune thus estimated that there were approximately 250 persons each owning more than $50,000,000. This conforms to our estimates made on the basis of income tax data (230-300).

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4 C. Wright Mills in his book *The Power Elite* cited data about 90 richest families with a fortune of more than $30,000,000. He admitted
While in 1957 Fortune estimated that 45 individuals were worth $100 million or more, in 1968, i.e., only a decade later, the same source easily identified 153 men and women as belonging to this category. This means a more than three-fold increase in the number of the super-rich, unprecedentedly high in the history of the United States.

Economic conditions in the U.S.A. after the war were exceedingly favourable for the growth of the biggest fortunes and the replenishment of the ranks of the plutocracy by new multimillionaires. One of the main reasons is the swift development of state-monopoly capitalism. The latter, in combination with other objective tendencies, brought about definite changes in the mechanism of the capitalist cycle. Post-war overproduction crises in the American economy have been less deep and prolonged than in the past. A considerable part of the losses caused by the chronic instability of the economy (slowing down of growth rates in the 1950s, underemployment of productive capacity, etc.) were covered from the federal budget. The monopolies have gained the opportunity to work for the relatively large, stable and definite government market, to make huge new investments on account of direct and indirect government subsidies and to wax fat on the swift advance of certain industries which enjoy especially privileged conditions owing to government support.

In 1940, American sociologist James Burnham, father of the theory of the “managerial revolution”, asserted that the economic conditions of contemporary capitalism could no longer give rise to new multimillionaires and could not swell the old biggest fortunes. Bourgeois authors have constantly reiterated this assertion in their post-war writings, laying stress on the supposedly unfavourable conditions created by the state, particularly through the taxation system. All these claims are predicated on a distortion of the actual relationship between the state and the monopolies.

The swift increase in the number of multimillionaires in the United States and the high growth rates of their wealth are explained by the broad possibilities for enrichment opened up by the system of American monopoly capitalism both in its private and public sectors.

When a personal fortune reaches a definite size its further increase becomes practically automatic. In the opinion of a number of American authors, the minimal boundary in the middle of the 50s was the sum of $50,000,000. Towards the end of the 1960s this minimum—also considered the lower boundary for a life of “spectacular luxury”—has risen to $100,000,000. Explaining the difference between owners of $5,000,000 and $50,000,000, Fortune writes: “Unlike the petit millionaire, or the newcomer with five or ten million who considers he's still got his way to make, the fifty-millionaire has attained a kind of equilibrium in the shifting world of money... He has an immense potential of power and leadership, setting the style in these for wealth generally.”

An income which automatically stems from the possession of tens and hundreds of millions of dollars is so great that, even after satisfying all luxury “needs”, a very large sum remains which again can be turned into capital. A finance-capitalist who has $100,000,000 invested exclusively in securities, is assured, if he fully turns into a coupon clipper, an annual income of $3,500,000-5,000,000. (According to official figures, the annual income on various forms of fictitious capital in 1965 ranged from 3 to 4.9 per cent of the market value of the securities.) Abstractive ourselves from taxation, the influence of which will be discussed later on, we may conclude that such a fortune will increase from 2 to 3 per cent annually and it will double within 25-35 years.

But instances when finance-capitalists confine themselves solely to coupon clipping are extremely rare. As a rule their capital is invested in the most diverse spheres which bring a big profit. A considerable part of their property, however, consists of securities. Lampman cites the following figures (see p. 30) on the approximate distribution of gross estates by type of property of the top-wealth holders (per cent of the total).

The share of fictitious capital in the property of the multimillionaires increases with the growth in the size of their

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1 Fortune, November 1957, p. 176.
wealth: from 60 to 70 per cent for persons who own from 1 to 3 million dollars, to 90 per cent and more for persons who own more than 10 million dollars.

So far we proceeded from the assumption that the capital of the multimillionaires increases by itself even if the prices of the securities they own remain unchanged. In reality, however, for the top group of finance-capitalists, whose wealth consists of fictitious capital to the extent of 90 per cent, the market value of this capital is of prime importance. If the price of securities rises more or less systematically a millionaire can spend his entire current income, knowing that his fortune is growing because of the laws operating on the stock market. According to Lampman's estimates, stock quotations rose by 450 per cent from 1922 to 1956, increasing by 150 per cent in the first ten post-war years (1946-1956). In 34 years quotations of bonds of private companies increased by 30 per cent but in post-war years declined by 13 per cent; quotations of municipal bonds respectively rose 40 per cent and declined 16 per cent.1 According to data of Standard and Poors, the quotations of private and municipal bonds in 1965 were lower than in 1940, but the market quotations of common stock during this period rose 8 times.

Thus, stocks are among the most profitable forms of investment for the multimillionaires. A fortune of $100,000,000 fully invested in stocks of a wide range of American corporations 20 years ago would have automatically increased to $500,000,000 without the least exertion on

the part of the tycoon. The rate of this self-growth would be the bigger the larger the share of capital invested in corporate stock. And since this share, in its turn, is all the larger the greater the wealth, it is clear that bigger fortunes must increase faster than relatively smaller fortunes.1

One certainly has to take into account the wide fluctuations in the market value of stocks, which can bring about sizable increases or decreases in the personal fortune of multimillionaires. Thus, for example, Mr. Edwin H. Land, whose net worth was estimated at about $500 million in the late 1960s, saw the value of his holdings decline by $200 million between December 1967 and March 1968. Such fluctuations do not, as a rule, mean bankruptcy, and when overvalued stocks settle down at more normal levels, their multimillionaire owners usually remain in the super-rich category to which they have come to belong. And most of them manage to insulate themselves against fluctuations by diversifying their holdings.

The tendency towards a more or less stable increase in stock quotations in the last 20 years is explained by many factors. One of them, usually the least mentioned, is the effect of state-monopoly capitalism. Accumulation in capitalist corporations is accelerated by the system of government subsidies, orders, tax privileges, etc. The accumulated surplus value is expressed in bigger assets which belong to corporations but not to individual multimillionaires. But ultimately the latter appropriate the surplus value because the increase in real capital causes a corresponding growth in the value of fictitious capital. In this case surplus value is appropriated not directly but indirectly, but the nature of the enrichment is not altered.

With the general rise in the value of fictitious capital, stock quotations of certain corporations increase faster than the average growth rate of stock market prices. Even when a boom is slowed down a considerable part of the securities continues to rise in value. From this follows the constant process of flow of the capital of multimillionaires from some in-

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1 It follows from Lampman's data that an average property of $8,000 had to increase by 53.5 per cent between 1922 and 1956; property of $65,000, by 73.9 per cent; $250,000, by 130.3 per cent and a property of $1.5 million by 209.8 per cent (R. J. Lampman, op. cit., pp. 222-23).
Industries and enterprises into others; in some cases there is also well-calculated speculation on a drop in quotations. This "heads-I-win-tails-you-lose" game is largely based on comprehensive information which now can be obtained only from a ramified network of agents, not only in corporations and banks but also in the government machine. State-monopoly capitalism, in addition to everything else, is thus a system for the steady enrichment of the millionaires via the stock market.

American millionaires as a rule do not invest all their capital in stocks, although their market value grows faster that that of other securities. A considerable part of their wealth is placed in federal and municipal bonds. This is explained not by the refusal of the tycoons to get rich, as claimed by some bourgeois authors, but by the specific features of tax legislation, which in many cases exempts the income on government securities from taxation.

Two main methods of taxing the wealthiest families are applied in the United States: the income tax and the estate tax. The income tax, first introduced on the eve of World War I, is now quite an important factor influencing the size and composition of the biggest fortunes.

Bourgeois literature now extols the income tax as an "outstanding" example of progressively taxing the Very Rich, now roundly criticises it as "confiscatory", which supposedly deprives the big capitalists of any stimulus for engaging in economic activity. These versions are designed both for home and foreign consumption. While the aim of the first version is to picture contemporary America as a "people's" and "anti-monopoly" state, the second version pursues a very practical purpose: either to bring about a reduction of the tax rates or at least condition the public to look favourably upon the numerous loopholes utilised for evading the tax laws.

At first glance the income tax rate might really seem "confiscatory" (see p. 33).

If these rates were really applied to all the incomes of the millionaires, the top-wealth owners would have had to pay to the treasury on each million dollars of personal income from $850,000 to $910,000 prior to the 1964 reform. For a coupon-clipper with a capital of $100,000,000 this would have meant a reduction of his annual income from

<table>
<thead>
<tr>
<th>Taxable income, thousand dollars</th>
<th>Single person</th>
<th>Married couple</th>
</tr>
</thead>
<tbody>
<tr>
<td>up to 2000</td>
<td>20</td>
<td>20</td>
</tr>
<tr>
<td>20-100</td>
<td>22-28</td>
<td>20-26</td>
</tr>
<tr>
<td>100-200</td>
<td>43-53</td>
<td>30-34</td>
</tr>
<tr>
<td>200-400</td>
<td>56-69</td>
<td>48-58</td>
</tr>
<tr>
<td>400-1000</td>
<td>72-87</td>
<td>60-69</td>
</tr>
<tr>
<td>1000-2000</td>
<td>89-90</td>
<td>70</td>
</tr>
<tr>
<td>More than 2000</td>
<td>91</td>
<td>70</td>
</tr>
</tbody>
</table>

$3,500,000-5,000,000 to $370,000-500,000 or nearly by nine-tenths. This sum would be sufficient for a life of luxury but it could hardly satisfy the members of the financial oligarchy. The tax reform proposed by John F. Kennedy in 1963 and adopted by Congress at the beginning of 1964 cut the rates especially for persons with the biggest incomes. This measure undoubtedly met the interests of the Very Rich. The 6 per cent increase of the income tax in 1967 did not fundamentally alter this picture.

The taxes actually paid by the millionaires are much lower, which is admitted even by official statistics. The U.S. Department of the Treasury reported, for example, the following data for 1960.2

<table>
<thead>
<tr>
<th>Size of income, thousand dollars</th>
<th>Gross income of group, million dollars</th>
<th>Taxable income, million dollars</th>
<th>Taxes paid, million dollars</th>
<th>Tax rate, per cent of taxable income</th>
<th>Tax rate, per cent of gross income</th>
</tr>
</thead>
<tbody>
<tr>
<td>100-200</td>
<td>2,438</td>
<td>1,939</td>
<td>1,001</td>
<td>51.6</td>
<td>41.1</td>
</tr>
<tr>
<td>200-500</td>
<td>1,370</td>
<td>1,056</td>
<td>607</td>
<td>57.5</td>
<td>44.3</td>
</tr>
<tr>
<td>500-1,000</td>
<td>486</td>
<td>383</td>
<td>226</td>
<td>59.0</td>
<td>46.5</td>
</tr>
<tr>
<td>Over 1,000</td>
<td>584</td>
<td>456</td>
<td>281</td>
<td>61.5</td>
<td>48.1</td>
</tr>
</tbody>
</table>

It turns out that the actual income tax paid by the wealthiest families, even before the tax reform, was about half of the official rates and in no case even reached 50 per cent of the total income. The tax reform reduced the tax payments of the financial oligarchy even more.

The bourgeois state sees to it that taxation should not be burdensome for the rich. The participation of the wealthiest families in replenishing the treasury is relatively insignificant. In 1964, persons with incomes exceeding $100,000 paid an income tax $2,700 million, that is, about 6 per cent of the total. At the same time Americans in lower bracket incomes (less than $5,000) contributed 10 per cent of the total and the group with incomes of $5,000-10,000 paid 34 per cent of the total. In other words, the working people and the petty bourgeoisie paid more than half of the income tax and the millionaires, one-sixteenth. Such is the real value of bourgeois “progressive” tax legislation.

It should be borne in mind that we do not refer to unlawful methods of evading the payment of taxes. The American millionaires have the broadest opportunities for concealing from treasury officials the real size of their incomes. Lundberg who studied data of the 1920s arrived at the conclusion that the wealthiest families paid only one-third of the taxes they ought to pay according to the law.

Mills who studied the same problem in the 1950s points out that Lundberg’s statement fully remains in force in our days. The financial oligarchy is systematically violating the tax laws, but the real reasons for its prosperity are different. The wealthiest families are able to wax fat because even strict adherence to the letter of the tax laws promotes the growth of their capital to no lesser degree than their violation.

Legal methods of evading payment of the highest income tax rates are extremely diverse. To begin with, not every type of income is taxable. A considerable part of the securities issued by the government is tax-free on the ground that it is “absurd” to take away with one hand from private persons what is paid to them by the other. Hence almost 40 per cent of the capitals exceeding $10,000,000 is invested in government securities, of which from 50 to 75 per cent bring in a tax-exempt income.

By keeping big blocks of stocks a millionaire expects to get dividends, but this is not his chief interest. These blocks give him the right to control a definite group of companies (or to participate in their control) and to enjoy colossal opportunities for enrichment and power associated with this control. As long as stock market quotations show a tendency to rise, his fortune automatically grows. Lastly, and what is especially important, possession of shares opens the possibility of systematically playing on the stock market. By selling his stock at a price exceeding the one he paid, the millionaire gets the difference which if there are many shares is quite considerable. U.S. tax legislation provides a maximum tax rate of only 25 per cent for such incomes (known as a capital gain), a circumstance fortunate for the millionaires but by no means accidental. The share of stock market profits and subsequent capital gains in the general incomes of the wealthiest families is quite high. Here are the respective figures of the Treasury Department for 1964.

<table>
<thead>
<tr>
<th>Size of income, thousand dollars</th>
<th>Net profit on capital gains, million dollars</th>
<th>Gross income of the given group, million dollars</th>
<th>Capital gains, per cent of gross income</th>
</tr>
</thead>
<tbody>
<tr>
<td>50-500</td>
<td>2,416</td>
<td>15,703</td>
<td>15.4</td>
</tr>
<tr>
<td>500-1,000</td>
<td>298</td>
<td>568</td>
<td>52.5</td>
</tr>
<tr>
<td>Over 1,000</td>
<td>464</td>
<td>790</td>
<td>58.7</td>
</tr>
</tbody>
</table>

More than 50 per cent of the income of the Very Rich comes from stock market speculation. It is profitable for the financial tycoons to sell even part of the stock of the companies they control if they are confident that their control is not challenged by rivals. At any rate, they are always

1 “But the Very Rich typically carry 25 to 30 per cent of their fortune in tax-exempt securities and some go as high as 75 per cent (Mrs. Horace Dodge Sr. sank her entire $56-million legacy in tax-exempts); lately these have been earning a pleasurable 3 per cent, equivalent to a taxable return of 90 per cent” (Fortune, November 1957, p. 238).
3 According to data of the Stock Exchange and Securities Commission, millionaires systematically engage in stock market operations with the shares of their companies.

3 See C. Wright Mills, op. cit., p. 378.
able to repurchase their shares in order to make another coup on the stock market.

Stock market manipulations of the millionaires at times involve losses. This is especially true of periods of crises when the prices of the shares of many corporations drop. During the periods of revival and boom some stocks also become unsuitable as a means of automatic growth of capital. But the laws help to reduce these losses to a minimum. They allow millionaires to deduct stock market losses from their current income, which means that the government covers 70 per cent and more of these losses.

U.S. tax legislation also encourages stock market and other speculation by allowing the deduction of interest paid on loans from current income.

The right to deduct any, and not only stock market, losses encourages the millionaires to resort to the most risky speculations. Investment in oil-bearing lands has again become a favourite haunting ground of the financial oligarchy in post-war years. The main advantage of such investment is that the law exempts from taxation 27.5 per cent of the gross profit on operating oil and gas wells on the pretext of covering the “depletion of resources”. But that is not the only point. This is how Fortune magazine describes the benefits of this speculation: “The tax advantages are greatest when an investor gets into a venture before the well is drilled. If the hole is dry, he can then write off his entire cost against income. If the well proves productive, the investor can still write off the ‘intangible’ part of the development cost, i.e., everything except the cost of physical equipment; ordinarily, this means he can write off at least 70 per cent of the total. When the well is actually producing, up to 27.5 per cent of gross income from it is tax-free because of the oil-depletion allowance, and in addition the investor can now begin depreciating the physical equipment too; in sum, as much as 50 per cent of this profit from the well could be tax-free.”

Both the multimillionaire and his heirs are interested in that the transfer of rights to the “sacred” private property after his death should be done as swiftly as possible and with the least obstacles. The bourgeois state, except certain anomalies, has nowhere and never challenged the right to inherittance. The law sets no ceiling to the property that can be inherited. But for the same reasons that the government is formally obliged to set high income tax rates for the rich, an inheritance tax has been in force in the U.S.A.

In the United States an inheritance tax was first introduced in 1916 and substantially increased in 1932-35 and then also during World War II. While originally the maximum tax rate was 20 per cent on the part of an estate above $10,000,000, in the mid-1930s it was raised up to 70 per cent on everything above $50,000,000. Since World War II, the rate has been 77 per cent. Thus, outwardly the inheritance tax is also of a “confiscatory” nature.

But the inheritance tax, as the record shows, is not particularly burdensome and the rates are not as high as might seem at first glance. The rate rises as the fortune grows. But it is much smaller than the maximum rates set by law. Even if we add to the inheritance tax all the other related expenses (payment for the services of executors of the will or trustees appointed by court in the absence of a will, payment of debts, and so on) they make up a small part of the inheritance. Specialists have calculated that the total is 23 per cent on an estate of $100,000; 31 per cent on an estate of $250,000; 37 per cent of $500,000; 40 per cent of $750,000 and 42 per cent on an estate of $1,000,000.

These rates are true only if the size of the inheritance is indicated correctly and if the entire property of the millionaire is handed over to the heirs after his death. The actual situation is different because the law affords various legal means for evading the tax.

Millionaires as a rule underestimate the size of their fortune with the help of various book-keeping devices. One way the millionaire avoids paying the inheritance tax is to hand over to the family a considerable part of his fortune during his lifetime.

The law allows placing personal capital in trust, provided after the death of the owner the property passes on to the heirs, while during his lifetime the heirs may receive only the current income on the capital. Two

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1 Fortune, September 1961, p. 212.

2 “In estate-tax matters, they also pursue the common goal of trying to pass on as much money as possible this side of heaven” (Fortune, November 1957, p. 238).
birds are killed with one stone. First, the property placed in a trust fund is deductible from the current income of the millionaire who thus sharply reduces his income tax; second, inasmuch as the capital is removed forever from the personal property of the millionaire, it is not subject to the estate tax in case of his death.

The 1948 law stipulates a special way of handing over property to a wife. Under the law, a person may bequeath up to half of his property to his wife and this sum is not subject to the estate tax during her lifetime.

The same law greatly extends the right to make gifts, which is also utilized as a means for preserving and passing on fortunes of many millions. Moreover, up to 30 per cent of the current taxable income can be written off as gifts. This largely compensates the millionaires for the need to pay an additional tax on gifts.

The accompanying table shows that the main item of gifts are stocks—proof that this is a way of reducing the estate and handing it over in part during the lifetime of the owner. Earlier data (1959) indicate that the share of stocks rises with the size of the gifts. In gifts up to $50,000 it is less than half (which is also quite a lot), while in gifts over $1,000,000 it reaches up to three-fourths.1

<table>
<thead>
<tr>
<th>Gifts in 1962</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of gifts</td>
</tr>
<tr>
<td>of which taxable</td>
</tr>
<tr>
<td>tax-exempt</td>
</tr>
<tr>
<td>Total sum of gifts, million dollars</td>
</tr>
<tr>
<td>of which tax-exempt</td>
</tr>
</tbody>
</table>

The tax on big gifts is quite high, up to 40 per cent. But it brings a tremendous double saving—on the income tax and the inheritance tax. When a millionaire makes his son a gift of $1,000,000 he has to pay a gift tax of $390,000. But he no longer has to pay the income tax on the $1,000,000, which is tax deductible (over a number of years). This saves more than $750,000. Moreover the one-million-dollar gift is free of the inheritance tax of $450,000. Should the money be passed over to philanthropy the saving for all practical purposes is tantamount to a net income. Hence it is not surprising that of the biggest gifts almost one-fifth goes to philanthropic funds.

The American plutocracy is discovering ever new profitable ways of making gifts. For example, under the operating law, it is possible to present a large sum for educational establishments, retaining the right to receive the current income from this sum for life and, moreover, to pass on this right to a wife, children and even grandchildren. In this case, naturally, the saving includes the money which otherwise would have to go for the payment of the income tax and estate tax. Making a gift of big sums is particularly advantageous when this is combined with other forms of tax privileges.

Millionaire Marriner Eccles, one of the leaders of the financial group of the Rocky States, remarked at one time: "No one should assume that philanthropy is necessarily good for the economy. Philanthropy today is merely a tax dodge with no other motivation." Citing this statement, Fortune adds that "many Very Rich men, of course, rely heavily on foundations to do their spending for them."1

One of the booklets issued for American millionaires, advising them how to utilise to full advantage the tax laws, is aptly called Taxes and Art.2 It deals with the problem of making gifts of art objects.

An analysis of U.S. tax legislation shows that it, far from preventing the swift growth of the big fortunes, in many cases helps to enrich the millionaires. Of course, for a man who is not well versed in fine points, tax laws may seem exceedingly harsh. But the American plutocracy is well familiar with its hidden springs and one who is unable or unwilling to learn all these intricacies, can have at his beck and call an army of specialists who grew up on the soil of state-monopoly capitalism.

In the 1960s, the American plutocracy remains the exclusive caste it was half a century ago. This particularly applies

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1 Fortune, November 1957, p. 225.
to those who inherited the wealth from the former "robber barons". But the *nouveaux riches*, too, despite their ostentatious democracy, increasingly merge with the "mass" of the financial oligarchy. The colossal wealth of the plutocracy places it in an exclusive position, isolates it from society and raises an invisible gold barrier.¹

But the point, of course, is not only the worship of the dollar and the aura that surrounds "fabulous wealth". The financial oligarchy deliberately isolates itself from society. It does this not only through watchmen and personal bodyguards but also through an army of managers and hired ideologists. The millionaires have their own, class reasons for doing it.

They are afraid of the people and they want them to know as little as possible about their way of life so that the man in the street should not even suspect the real importance of their wealth and their power. This fear rose immensely after the 1930s with their colossal economic upheaval and growth of the class struggle. Mills writes: "They have also adopted every conceivable type of protective coloration for the essentially irresponsible nature of their power, creating the image of the small-town boy who made good, the 'industrial statesman', the great inventor who 'provides jobs', but who, 'withal', remains just an average guy. What has happened is that the very rich are not so visible as they once seemed."² This phenomenon is not disputed by some American authors, although they explain it differently. J. K. Galbraith asserts, for example, that the millionaires have become less visible, because, first, there are more of them and, second, the American people as a whole have become more prosperous.

But it is perfectly clear that it was the financial oligarchy itself and its agents that have exerted no little effort to become less visible. Galbraith himself is forced to admit this, although with certain reservations. "The American well-to-

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¹ "People who meet Nelson Rockefeller are always aware of the dollar sign that floats conspicuously in invisible above his head. It is there but one must not mention it. Having that invisible dollar sign hovering over his head tends to hedge a Very Rich man off from his fellows, as divinity doth hedge a king." (S. Alsop, *Nixon and Rockefeller: A Double Portrait*, New York, 1960, p. 41).

² C. Wright Mills, op. cit., p. 117.

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2. The Old Fortunes

F. Lundberg published a list of America’s 60 wealthiest families with a personal fortune of $30,000,000 and more. This list was compiled on the basis of tax statistics of the mid-1920s.

Lundberg himself did not consider his list complete and used the term “60 families” in a relative sense. For various reasons he did not include in his list more than 30 multimillionaires whom he named, but could not give even an approximate estimate of their wealth.

Our aim is to trace the fate of these fortunes step by step, as much as possible, and to ascertain what happened to them in the 1960s.

The Rockefellers. In the mid-1920s Lundberg estimated their personal fortune at $1,050 million. At that time it was represented chiefly by the personal capital of John D. Rockefeller, Sr. (he died in 1937 at the age of 97). He owned approximately $900 million and other members of the family $180 million. These estimates were made by an author who was rather critical of the financial oligarchy but most likely they were below the actual figure. J. A. Morris who wrote a book extolling the Rockefellers cites a different figure—about $2,000 million. Possibly this figure is closer to the truth. At the beginning of the 20th century, John D. Rockefeller, Sr., himself calculated his fortune with a precision of up to one cent and set it at $815,600,000. A. Nevins, a biographer of Rockefeller, holds that by 1910 his personal capital had exceeded $900 million. From 1910 to 1925, the wealth of the Rockefellers undoubtedly grew substantially and certainly exceeded $1,500 million.

In the mid-1950s, Fortune assessed the wealth of the Rockefellers at a minimum of $1,000 million and a maximum of $2,000 million. In addition, philanthropic foundations, set up on their money and fully controlled by them, owned another $1,000 million. Thus, their total capital, according to Fortune, amounted from $2,000 million to $3,000 million. At the end of 1957, Fortune again published an estimate.

<table>
<thead>
<tr>
<th></th>
<th>Minimum</th>
<th>Maximum</th>
</tr>
</thead>
<tbody>
<tr>
<td>John D. Rockefeller, Jr.</td>
<td>400</td>
<td>700</td>
</tr>
<tr>
<td>Mrs. Jean Mauzé (Abby Rockefeller)</td>
<td>100</td>
<td>200</td>
</tr>
<tr>
<td>David Rockefeller</td>
<td>100</td>
<td>200</td>
</tr>
<tr>
<td>John D. Rockefeller III</td>
<td>100</td>
<td>200</td>
</tr>
<tr>
<td>Laurance Rockefeller</td>
<td>100</td>
<td>200</td>
</tr>
<tr>
<td>Nelson Rockefeller</td>
<td>100</td>
<td>200</td>
</tr>
<tr>
<td>Winthrop Rockefeller</td>
<td>100</td>
<td>200</td>
</tr>
</tbody>
</table>

Total . . . . . . 1,000 1,900

These figures are incomplete because they do not include the capital of the 22 grandchildren of John D. Rockefeller, Jr., to whom he turned over, just as to his children, part of his fortune prior to his death; the heirs of his sister Edith Rockefeller who married Harold McCormick and the brother of his first wife, Winthrop Aldrich, who for a long time was in charge of the Rockefeller family affairs. Together with these additions, the wealth of this family, on the basis of Fortune’s estimate, reaches $2,000–$3,000 million.

The will of John D. Rockefeller, Jr., the main provisions of which were made public after his death in May 1960, seem to confirm this estimate. The will shows that during his lifetime he handed over $473 million to various philanthropies, about $600 million-$1,200 million to his children and a large sum to his grandchildren. Lastly, his estate included securities, real property and works of art for a sum of $150 million, also in the main exempt from taxes. Approximately half of this sum was given to his second wife, exempt from taxes up to her death, on the basis of the 1948 law. The other half was bequeathed to the Rockefeller Brothers Fund, i.e., formally also comes into the category of charity. In addition John D. Rockefeller, Jr. presented $5 million to the Lincoln Center of the Performing Arts in New York and bequeathed a number of other gifts.

1 Fortune, November 1959, p. 177.
Thus, one of the biggest fortunes in America was handed over to the heirs actually without paying taxes. The lawyers and advisers of the Rockefellers displayed truly demoniacial virtuosity in circumventing the tax laws.¹

In our opinion, both the estimate of the wealth of John D. Rockefeller, Jr. made in his will and the figures cited by Fortune are greatly understated. Victor Perlo, who calculated the value of the stocks belonging to the Rockefellers (as of April 1956), names a figure of $3,500 million.² Since stock prices in the United States approximately doubled from 1956 to 1965 this estimate should now be increased at least to $6,000-7,000 million. S. Alsop mentioning the estimate of Fortune writes: “Nelson Rockefeller, and all the other Rockefellers, are a great deal richer than they are generally supposed to be. . . . I have never been made privy to the secret financial archives of the Rockefellers. But I should be prepared to eat my boots in béarnaise if those figures are not low.” Alsop points out that the increase in the wealth of the Rockefellers from $900 million in 1910 only to $2,000 million at the beginning of 1960 could occur only if it were managed very badly. But actually it was administered by first-class experts. “It is reasonable to suppose,” Alsop concludes, “that the total Rockefeller fortune may well amount to several times the accepted figures of between one and two billion dollars. It would not be at all surprising . . . if all the Rockefeller family assets—all the Rockefeller-controlled money as well as the Rockefeller-owned money—came to something like ten billion dollars.”³

Today, the Rockefeller fortune consists, as it were, of three parts. The first part is the assets inherited by the wife, children and grandchildren of John D. Rockefeller, Jr.; these are mostly the stocks of oil companies and the Chase Manhattan Bank. Under the term of the will, this capital is secured to each member of the family in trust for life. They can use the income but not the capital itself. After their death this part will be inherited by their children, and as American authors consider, will be broken up between them. But even if this prediction comes true, it is clear that the size of the Rockefeller assets will increase because of the mechanism for the self-growth of fictitious capital. At least in the next ten years this wealth will be managed jointly as the combined capital of the quite large financial clan. As for the rates of the self-growth of this part of their capital, it can be judged from the fact that between 1946 and 1958 it increased by 140 per cent owing to the stock market boom.

The second part consists of several philanthropic foundations fully controlled by the Rockefeller brothers. Since this family continues to allot large sums to philanthropy there is every ground for assuming that this part of their capital will continue to increase swiftly.

The third, perhaps most interesting, part of the Rockefeller assets is the capital fully owned by the sons of John D. Rockefeller, Jr. Having no right to spend the inherited capital they utilise for enrichment the income they get from it and also the extensive credit they can receive. In the 1960s, the independent new personal fortune of the children of John D. Rockefeller, Jr., not counting the inherited capital, amounted to not less than $200 million and continued to mount swiftly. In 1968, Fortune estimated the total of the capital belonging to the six Rockefeller brothers and one sister at from $1,200 million to $1,800 million. This is a 1.5-2-fold increase as compared to the 1957 estimate.

The Morgans. Lundberg estimated that the combined personal fortune of the Morgan family, their partners and leading members of their companies reached $828 million in the mid-1920s. But the capital of the Morgans themselves was relatively small. After the death of his father in 1913 J. P. Morgan, Jr., inherited about $78 million which were increased to $90 million at the beginning of 1924. After that the fate of this capital is shrouded in mystery. In contrast to the Rockefellers and some other wealthiest families, about whom the American press writes quite readily, information about the Morgans is extremely meagre.

¹ Here are some other details of this will: a huge estate in New Jersey was handed over to the five brothers, a mansion on Mount Desert Island to Nelson and David, a ranch in Wyoming to Launcence and a mansion in Maine, to the widow of the deceased (see The New York Times, May 20, 1960).

J. P. Morgan, Jr., like his father, set up no large philanthropic foundations. When he died in 1943 his will was not made public. Unofficially his estate was estimated at the time only at $60 million, while in 1947 J. P. Morgan and Company assessed his net estate altogether at $4.6 million.\(^1\)

It is beyond doubt that even the figure of $60 million is greatly minimised. J. P. Morgan, Jr., up to his death remained the reigning monarch of his empire which was not beset by any special financial troubles. It is impossible to imagine how his wealth could have declined in 20 years. It is more probable that he passed on most of his capital to his two sons during his lifetime. Even if we assume that his fortune increased little, for example, up to $120-130 million, in that case too, Junius S. Morgan and Henry S. Morgan owned each about $60-65 million in the 1940s.

The stock exchange boom in the 1950s at least doubled their wealth, bringing up the personal fortune of the Morgans to about $250-300 million. In full conformity with the "tax strategy" of the millionaires, the two third-generation Morgans should have taken care to hand over their capital to their children in good time.

The "tax strategy" of the Morgans explains why no member of this family is mentioned in Fortune as the owners of more than $75 million. It also explains the full silence about the estate left by Junius S. Morgan who died in October 1960, as though it was something "unimportant."

Our estimate gives the minimal possible size of the wealth of the Morgans.

**The Fords.** In the mid-1920s their fortune was estimated at $660 million and consisted almost exclusively of the personal capital of Henry Ford invested in the Ford Motor Company. In the 1930s, its stock was divided into two categories: class A, without voting rights, and class B, the voting stock. There were nine times as many A shares as B shares. At that time Henry Ford handed over to his son Edsel 41.5 per cent of the stock of both classes, i.e., more than two-fifths of his wealth. Under the will of Edsel, who suddenly died in 1943, class B stock was distributed in equal shares to his wife and four children and class A stock was bequeathed to the Ford Foundation. The will of Henry Ford himself who died in 1947 had similar terms.

At the beginning of the 1960s the assets of the Fords were distributed as follows: they owned 6.3 million class B shares and the Ford Foundation, 29.2 million class A shares. Since class A stock is quoted on the stock exchange, it is not difficult to ascertain the market value of the part held in the Ford Foundation and fully controlled by this family: it was about $2,600 million. It is more difficult to estimate the capital of the Fords themselves because class B stock is not traded on the exchange. In 1957 Fortune estimated their personal capital at $325-500 million, and in 1968 at $450-600 million. This would be true only if, first, the stocks of both classes were of equal value, and, second, if the Fords had no other property except the stock of their company. Both of these assumptions are wrong, however. At present each class A share quoted on the exchange gives a right to one vote, while one class B share is entitled to 1,744 votes. Therefore it is beyond doubt that their market value, if they were sold, would be much greater than of class A. The personal fortune of the Fords can be estimated at $1,200-1,500 million and together with the assets of the Ford Foundation, at $3,800-4,000 million.

Some details of the "tax strategy" of the Fords are of interest. Since the estates of Henry and Edsel Ford were passed on to the heirs in 1943-48, when the Ford Motor Company was fully in the hands of this family, the value of the company's stock was obviously underestimated. The entire capital bequeathed by them, including the money turned over to the Ford Foundation, was evaluated altogether at $450 million, while the real market value of the company's assets could not be less than $1,500 million at that time. Were the heirs directly to inherit it all, they would have had to pay the Treasury about $320 million even on the greatly undervalued estimate of the company assets ($450 million), to which by the way the Treasury officials did not object. By handing over the bigger part of the estate to the Ford Foundation, the estate tax was reduced to $42 million. But even this money was not paid from the personal capital of the Fords. An American author tells us that the "Ford family's lawyers, finally, saw to it that their clients did not have to pay the inheritance tax on the shares they did inherit. Hen-

ry's and Edsel's wills provided that the bequests to the members of the family be tax free, thereby, in effect, imposing the entire tax burden on what was left to the Ford Foundation. The tax bill came to $42,063,725 which was about equal to the total spent by the Foundation on all its benevolences through 1950. Sweet are the uses of philanthropy."

It might be interesting to add that Mr. Henry Ford II gave most of his fortune in the 1960s to his newly-wed second wife Josephine (Mrs. W. Buhl Ford II).

**The Mellons.** In the mid-1920s, the Mellons owned about $450 millions. This fortune was managed very skillfully because now, judging by all signs, it greatly exceeds that sum. *Fortune* gave the following estimates, as of 1937 (in million dollars):

<table>
<thead>
<tr>
<th></th>
<th>Minimum</th>
<th>Maximum</th>
</tr>
</thead>
<tbody>
<tr>
<td>Richard King Mellon</td>
<td>400</td>
<td>700</td>
</tr>
<tr>
<td>Paul Mellon</td>
<td>400</td>
<td>700</td>
</tr>
<tr>
<td>Ailsa Mellon (Mrs. Bruce)</td>
<td>400</td>
<td>700</td>
</tr>
<tr>
<td>Sarah Mellon (Mrs. Allen M. Scaife)</td>
<td>400</td>
<td>700</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>1,600</td>
<td>2,800</td>
</tr>
</tbody>
</table>

Personal and other changes may be traced by comparing the above figures with another table derived from the *Fortune* 1968 figures, which, however, seem to be rather on the low side:

<table>
<thead>
<tr>
<th></th>
<th>Minimum</th>
<th>Maximum</th>
</tr>
</thead>
<tbody>
<tr>
<td>Richard King Mellon</td>
<td>500</td>
<td>1,000</td>
</tr>
<tr>
<td>Paul Mellon</td>
<td>500</td>
<td>1,000</td>
</tr>
<tr>
<td>Ailsa Mellon Bruce</td>
<td>500</td>
<td>1,000</td>
</tr>
<tr>
<td>Cordelia Scaife May</td>
<td>200</td>
<td>300</td>
</tr>
<tr>
<td>Richard Mellon Scaife</td>
<td>200</td>
<td>300</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>1,900</td>
<td>3,600</td>
</tr>
</tbody>
</table>

The earlier *Fortune* estimate is smaller than the figures cited by Perlo in 1956—$3,755 million. Taking into account the rise in stock quotations from 1956 to 1965, we get a figure of $7,500 million. Since the wealth of the Mellons is invested mainly in aluminum and oil, there is nothing extraordinary in such a growth of their wealth in 40 years.

Although they are not included in Lundberg's list, we should mention here the two main partners of the Mellons in the Aluminum Company of America (ALCOA) which already in the 1920s were millionaires—Arthur V. Davis and Roy A. Hunt. Davis, who headed this company from 1914 to 1948, had 18 per cent of its stock at the end of the 1920s and remained its biggest stockholder up to 1956. In 1948, at the age of 81, Davis moved from Pittsburgh to Florida where he began to buy up real estate. Towards the end of his life his personal capital reached the $500-million mark. The lesser known Roy Hunt firmly settled down in ALCOA and made a fortune of $100-200 million only on the stocks of this company.

**The Du Ponts.** Lundberg stated that 20 members of this family owned altogether $238.5 million in 1924, in other words, the personal capital per member of the family was relatively "modest". The Du Ponts sooner than other millionaires realised that the formal break-up of their wealth yields a huge saving on taxes. This in no way prevented them from multiplying their wealth manifold.

In 1957, *Fortune* listed at least five members of this family who had personal wealth of more than $75 million. Here are the wealthiest Du Ponts (million dollars):

<table>
<thead>
<tr>
<th></th>
<th>Minimum</th>
<th>Maximum</th>
</tr>
</thead>
<tbody>
<tr>
<td>Irene Du Pont</td>
<td>200</td>
<td>400</td>
</tr>
<tr>
<td>William Du Pont</td>
<td>200</td>
<td>400</td>
</tr>
<tr>
<td>Lammot Du Pont Copeland</td>
<td>100</td>
<td>200</td>
</tr>
<tr>
<td>Mrs. Alfred Irene Du Pont</td>
<td>100</td>
<td>200</td>
</tr>
<tr>
<td>Donaldson Brown</td>
<td>75</td>
<td>100</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>675</td>
<td>1,300</td>
</tr>
</tbody>
</table>

The 1968 list compiled by the same magazine, includes only owners of $100 million or more. Since a number of

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deaths occurred during the decade under observation, and since fortunes were passed on to a number of heirs, only three Du Ponts qualified this time (Mrs. Alfred I. Du Pont, Lammot Du Pont Copeland and Henry B. Du Pont) with a total personal worth of $500-700 million.

Both estimates, however, represent only part of the wealth of this family which now consists of more than 70 members. The personal capital of all these millionaires cannot be estimated. In 1960, the assets of Christiana Securities and Delaware Realty and Investment, holding companies which were almost entirely owned by the Du Ponts, were estimated at $3,000 million. But many members of this family have business interests not connected with the family holdings or with Du Pont de Nemours and Company. For example, Alexis F. Du Pont, Jr. has his own investment company and is a stockholder of Vertol Aircraft Corporation. Alfred R. Du Pont and Edmond Du Pont are co-owners of a stock exchange company. Eugene Du Pont III and his brother Nicholas have bought up oil lands in Texas and Wyoming. Their personal capital invested in this business now amounts to about $10-15 million.

Moreover, the data given by Fortune have to be corrected. For example, the wealth of Mrs. Alfred I. Du Pont was estimated by the magazine at $100-200 million. Business Week cited other figures and also interesting facts showing how swiftly the inherited fortunes grow. Alfred I. Du Pont who died in 1935 left his widow a capital of $27 million. The capital was managed by her brother, a skillful businessman named Edward Ball. Systematically investing money in real estate, local railways, pulp and paper mills, telegraph companies and banks, he increased his sister’s fortune to $300 million by 1960.

This estimate is 50 per cent higher than the maximum figure given by Fortune. If we make a similar adjustment for the other data given by the magazine and also add the assets of family holding companies and independent capital of other members of the Du Pont family, their total wealth may be estimated at a minimum of $5,000 million. V. Perlo who calculated the value of the stock which belonged to the Du Ponts in 1956 arrived at a similar figure ($4,660 million). An adjustment for the rise in stock prices from 1956 to 1965 sends up the total to $9,000 million.

The Reynolds. In the mid-1920s, Lundberg assessed their capital at $117 million, pointing out that it was invested chiefly in the Reynolds Tobacco Company. After the death of R. J. Reynolds a considerable part of this capital was handed over to two philanthropic foundations; they are controlled by his heirs, three of whom are directors of the tobacco company. The concentration of the interests of this family in an industry which is not marked by swift growth rates did not appreciably increase their capital which hardly exceeds $200 million.

Considerably bigger financial success was registered by another branch of Reynolds family which took an interest in the aluminum industry. These are the descendants of R. S. Reynolds, Sr., a nephew of the founder of the tobacco company who set out on his own immediately after the end of World War I. However, not one of his four sons (Richard, Louis, David and William) have been included in the list of Fortune. At present this family controls 75 per cent of the stock of the U.S. Foil, which in turn owns 50.7 per cent of the stock of the Reynolds Metals Company. Thus, their personal capital is not less than $300-400 million and, together with the other branch of the same family, it adds up to $500-600 million.

We have traced the fate of a number of fortunes mentioned by Lundberg. In all cases the personal capital of these families has either substantially grown in the last 40 years, or in any case has remained at the old level. The absence of data about the other families does not imply that they have fully lost their significance as top wealth-owners in the United States. Some of them were ruined during the 1929-33 crisis or in subsequent years. The inclusion of others in the list of the wealthiest families was unjustified because data on tax statistics for only one year were taken. What is more important is that many of the old big fortunes which for one
The Old Core of the American Plutocracy

<table>
<thead>
<tr>
<th>Personal wealth, million dollars</th>
<th>In the mid-1920s</th>
<th>In the 1960s</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rockefeller</td>
<td>1,000-1,500</td>
<td>6,000-10,000</td>
</tr>
<tr>
<td>Du Ponts</td>
<td>100-240</td>
<td>4,000-9,000</td>
</tr>
<tr>
<td>Mellons</td>
<td>100-450</td>
<td>3,000-7,500</td>
</tr>
<tr>
<td>Mellon’s partners—A. V. Davis and R. A. Hunt</td>
<td>—</td>
<td>500-700</td>
</tr>
<tr>
<td>Fords</td>
<td>100-660</td>
<td>1,200-4,000</td>
</tr>
<tr>
<td>Dorrances</td>
<td>89-600</td>
<td>100-1,000</td>
</tr>
<tr>
<td>Phipples</td>
<td>80-450</td>
<td>500-750</td>
</tr>
<tr>
<td>Harknesses</td>
<td>117</td>
<td>450-600</td>
</tr>
<tr>
<td>Reynolds</td>
<td>100</td>
<td>500-600</td>
</tr>
<tr>
<td>Milbanks</td>
<td>260</td>
<td>400-500</td>
</tr>
<tr>
<td>McCormick’s Deering</td>
<td>90</td>
<td>350-450</td>
</tr>
<tr>
<td>Morgans</td>
<td>75-322</td>
<td>250-400</td>
</tr>
<tr>
<td>Whitneys</td>
<td>350</td>
<td>400-600</td>
</tr>
<tr>
<td>Houghtons</td>
<td>129</td>
<td>350-500</td>
</tr>
<tr>
<td>Waggoners</td>
<td>30-114</td>
<td>300-400</td>
</tr>
<tr>
<td>Lehman</td>
<td>50-200</td>
<td>250-350</td>
</tr>
<tr>
<td>Dukes</td>
<td>194</td>
<td>250-350</td>
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<tr>
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<td>Goulds</td>
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or another reason were not included in Lundberg’s list, grew very swiftly in the next 40 years.

**John T. Dorrance** who died in 1930 left an estate of $120 million, of which $80 million were invested in stocks of Campbell Soup. Today the personal fortune of John T. Dorrance, Jr., amounts to $200-300 million. But that is not all. Under his father's will, 8.7 million shares of the company were placed in trust and the son appointed as trustee. The market value of this block of stock ranges now within $1,000 million. Here is a splendid illustration of how the real wealth of the American multimillionaires exceeds their so-called personal capital.¹

In May 1959, *Fortune* had to apologise for “overlooking” in the compilation of its list the little-known but very large fortune of the Milbanks. As far back as 1884, Jeremiah Milbank left an estate of $32 million and by the mid-1920s it could not be less than $100 million. At present the stocks of only three companies owned by the family—Commercial Solvents, Borden and Southern Railway—have a value of at least $220 million. Together with other property, the Milbanks own now a capital of not less than $400-500 million.²

Let us sum up certain results. First, in the last 40 years most of the old inherited fortunes of the American plutocracy showed a general tendency to grow swiftly. Notwithstanding the deep crisis in 1929-33 and “stringent” tax legislation, it was in this period that “billionaire” families appeared in the United States, and the number of the inherited fortunes exceeding $100 million rose several-fold.

Second, the natural tendency towards a break-up of the biggest fortunes is resisted by another, undoubtedly stronger tendency to improve the forms and methods of administering the capital of the Very Rich. It has become a general rule to concentrate formally independent personal fortunes into complexes on a family basis through the setting up of special holding companies and the widespread system of trust management of family capital, and so on.

Third, a considerable part of the old large fortunes is consolidated in “philanthropic” foundations. Formally removed

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² Our estimates are based on data given in *Fortune*, May 1959, p. 137.
from the personal ownership of the multimillionaires, this part of the capital actually remains in their possession and at their disposal and promotes their personal enrichment.

All this means that the old core of the U.S. financial oligarchy has preserved its wealth and, moreover, has devised many new ways for accelerating its growth.

### 3. Replenishment of the Plutocracy

The United States has now at least 90 families which own a personal capital of more than $75 million.1 Of them 36 families make up the "old core" of the financial oligarchy in the sense that their fortune, true greatly increased, was inherited from wealth amassed even prior to World War I, or in any case prior to the 1929-33 crisis. But more than half of the wealthiest families, 54 to be precise, makes up a new generation of the American plutocracy: their fortunes were amassed almost exclusively between the 1930s and the 1950s.

Although the new multimillionaires exceed the old ones numerically, they still greatly lag behind them in size of wealth. This is explained by the fact that almost half of these families have a fortune ranging from $50 million to $200 million (maximum estimate) whereas almost three-fourths of the families making up the "old core" own capital of more than $200 million each.

Never in the history of the United States have new multimillion fortunes grown as rapidly as in the last 25 years.

In conditions of the scientific and technological revolution, those who were the first to get into new industries and utilise the monopoly of patent rights made their fortune faster than others. While the old wealth was accumulated at a time when the role of the bourgeois state in the U.S. economy was small, the new fortunes are a natural product of state-monopoly capitalism.

After 1939, economic crises were short-lived and relatively not big. When in the mid-1950s production growth rates were sharply slowed down, the enrichment of new milli-

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1 This is a minimal estimate which includes only families definitely known to have a capital of over $75 million. In our opinion actually the number of such families may be twice as high, but in no case less than the given figure.

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<th>New Multimillionaires</th>
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Note: In addition to the multimillionaires indicated in the table the following persons had in the 1960s an annual income of over $1,000,000 and probably a fortune greater than $50-75 million (the names of the companies they head are given in parentheses): Leon Lewinstein (Lewinstein and Sons—chemicals, textiles); Leverhulme (Leverhulme—chemicals); Chester Buhl (Buhl—textiles); Samson Bronfman (Distillers Corporation—textiles); N. Miller (Mendel—textiles); Norman Harris (Harrisons Trust and Savings Bank—commercial bank); Henry Heinz II (H. J. Heinz Co.—food industry); Peter Grace (W. R. Grace and Co.—chemicals); J. F. Cullman III (Cullman—tobacco industry); J. E. Jasson (Texas Instruments—electronics). The following people are frequently mentioned as newcomers to the more than $50-100 million personal worth category: Leon Hess (Hess Oil and Chemical), William R. Hewlett and David Packard (Hewlett-Packard—machinery), Forrest Mars (Mars candy), Eli Lilly (Eli Lilly and Co.—pharmaceuticals), De Witt Wallace (Reader’s Digest), Peter Kiewit (construction), S. Mark Taper (finance), and E. C. Robbins (drugs).

Multimillionaires continued owing to the stock market boom and the preservation of quite high growth rates in some new industries. The high level of military contracts and also government orders in general made possible the enrichment of capitalists who staked mainly on the government market.

Almost one-third of the new multimillionaires grew up in the oil and gas industry. In the course of the oil rush, which differs little from stock market speculations, hundreds of thousands of small entrepreneurs and speculators who invested their meagre capital into lands that proved to be barren, were ruined. On the other hand, hundreds were "lucky", and a few individuals even succeeded in turning their small speculative business ventures into huge multimillion enterprises (see table on pp. 55-56).

Jean Paul Getty, who opens the list of multimillionaires given by Fortune, was born in 1892 and during World War I, together with his father, engaged in wildcat drilling in California. At the beginning of the 1930s, he was a wealthy man and some 10 years later owned tens of millions of dollars. The Tidewater Oil Company he founded had assets of $1,000 million in 1965 and was among the 100 biggest industrial corporations in the United States (45th place for size of capital and 98th place for sales).

At the beginning of 1961, the stock of this company owned by the Getty family was worth more than $200 million. But Getty's total wealth was estimated at much higher figures. Today the estimates range from $1,000 million to $1,500 million. He handed over management to one of his sons and lives now the life of a typical multimillionaire rentier.1

The combined fortune of Harrison Lafayette Hunt and his son, N. Bunker Hunt, is estimated at $600 million, although some claim it is as high as $2,000 million. It was reported that his weekly income exceeds $1,000,000. Yet in 1921 he was the owner of a small cotton plantation in Arkansas and bought his first oil well. By 1937, he had enough wealth to buy an old estate. Now he controls an entire empire of oil lands in the United States and beyond its bounds.

Sid Richardson of Texas, who died in 1959, left an estate of $600 million, of which $400 million was turned over to a foundation bearing his name and the rest is managed by Texas bankers and lawyers. He began an oil operator in the 1920s and became a multimillionaire during the oil boom in the 1940s and 1950s.2

Jacob Blaustein of Baltimore, together with his father, organised the American Oil Company in 1910 and in time

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1 He spends most of his time in estates in Britain and France and has amassed a large collection of paintings. Getty was married five times (See G. Rees, The Multimillionaires. Six Studies in Wealth, New York, 1961, pp. 1-17).
became a rich man. In the mid-1930s, he gave up his independent enterprises merging his company with a bigger one. At present Blaustein is the leading stockholder in several large corporations and banks. His personal fortune is estimated at $150-200 million.

John Mecom began wildcat drilling in 1936 with a capital of $700. Two years later his property was worth $100,000. He became a millionaire after 1945 when he organised the large-scale resale of oil lots and concessions abroad.1 In 1957, his capital was estimated at $100-200 million.

Clint Murchison of Dallas is one of the better known oil millionaires who became a big financier. Fortune credits him with a personal capital of $100-200 million. But as early as 1953 the same magazine presented data showing that his wealth exceeded $300 million.2 Since then, merely through self-growth, it should have risen to $600 million, but he has energetically extended his empire. The Alleghany Corporation stock which Murchison held in 1960 had a market value of $16-20 million.3 It is possible that Clint Murchison handed over part of his wealth to his sons. In any case, the total capital of this family can be estimated at $700 million.

The methods of enrichment used by Murchison are typical of the new oil millionaires in general. In 1919, he and Richardson, having no money for wildcat drilling, speculated in lease rights to oil lots. Circulating false rumours about the “colossal prospects” of certain lots, they made at times up to $150,000 in one day. By 1927, Murchison had some 5-6 million dollars. He invested this money into his own exploratory drilling. Usually Murchison sold his companies after they began to earn a profit, getting the highest possible price from the buyers. Frequently big companies which spared no money were the buyers. When selling a company, Murchison stipulated that after the company recoups the invested capital and gets a certain profit he was to receive free of charge 50 per cent of the business. Since he sold highly productive lands, the property was “returned” within six to ten years. Murchison then resold his share at a much higher price, once more on the old terms.

After World War II, Murchison extended his speculative transactions far beyond the oil industry, reorganising and selling companies in different industries. By concentrating on these operations, which earned him capital gains taxed at a maximum rate of 25 per cent, he was able to reduce his payments to the Treasury to a minimum.1

Another Dallas oil tycoon is Algur Meadows. In 1929, he left the job of a low-paid clerk in an oil company and swiftly became rich in the 1930s thanks to a clever method of speculation of his own invention: he resold neither oil companies nor oil-bearing lots but “oil payments”, i.e., the expected price of the future oil production on the given lot. An American author writes that he struck a new way of getting rich in the oil business, not prospecting for oil himself but exploiting what others had already found. At the beginning of the 1960s he had a fortune estimated at $100-200 million.2

The oil industry laid the foundation of the fortune of another multimillionaire, Howard Hughes. In 1924 Hughes inherited from his father, an oil speculator, the Hughes Tool Company which held the monopoly of producing drill bits for hard ground. Until recent years this company manufactured more than 75 per cent of the bits used for oil drilling in the capitalist countries. The net profit of the company rose from $1 million in 1924 to $3 million in 1939 and $29 million in 1956. Getting a big tribute from the oil operators Hughes already in the 1920s engaged in other fields: the cinema, aircraft manufacture and in the 1950s in the production of guided missiles and other military equipment.

Forced to sell his controlling stock in Trans-World Airways (in the 1960s) he netted $436 million. This brought his fortune from $500-600 million in the 1950s to around $1,400 million in 1968. Hughes is said to receive as a personal income only $50,000 (his salary as president of Hughes Tool). But any of his bills are immediately paid by his companies; he has at his disposal airplanes and so on. Hughes founded on “philanthropic” lines a medical institute bearing his name, to which he turned over $200 million worth of his stock and leased the equipment of one of his

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1 Fortune, July 1957, p. 169.
3 Business Week, October 1, 1960, p. 131.
companies. Hughes appointed himself the sole trustee and manager of the institute. He fully utilises in his own interests the tax-exempt $1.5 million of dividends received annually by the institute.¹

Recently Hughes has concentrated on buying up hotels and casinos in Las Vegas and has chosen the gambling capital as the seat of his empire. About 20 of the new multimillion fortunes have been amassed in various sectors of the manufacturing, construction and mining industries (not counting the oil and gas industries). These fortunes have been made in different ways. In some cases they are a result of the concentration of relatively small capital in swiftly growing industries and the full use of the mechanism of self-growth based on technical innovations. In other cases the personal fortune reflects the more energetic activity of the new millionaires in building up industrial empires.

The Olin brothers (John and Spencer) own now more than $100 million. The main part of their capital (about $80 million) is invested in stock of the Olin Mathieson Chemical Corporation, which grew from a small firm into one of the leading war chemical monopolies of the United States, chiefly as a result of World War II and the post-war arms race. Franklin Olin founded it at the end of last century. He died in 1951, leaving an estate of $50 million to which millions made by his sons were added. The subsequent stock-market boom doubled this sum.

Thomas J. Watson, Sr. founded a small office equipment company in 1914. Today it is a leading war electronic monopoly of the United States and a producer of automatic equipment. The Watsons became multimillionaires in the 1940s-50s. Two sons (Thomas John, Jr., and Arthur) owned $150 million worth of stock of International Business Machines at the beginning of 1962.

The enrichment of Sherman Fairchild is also partly associated with International Business Machines; his father, together with Thomas Watson, Sr., was one of its founders and big stockholders. The company stock he inherited is now worth more than $90 million. But now his main interests are in a different field. Fairchild has organised several small firms (optics, electronics, aircraft making) which exploit valuable inventions. The market value of the block of stock he holds in one of these companies (Fairchild Camera and Instruments) rose more than tenfold between 1957 and 1960 (from $2.8 million to $34.5 million); in another company (Fairchild Semi-Conductor Corporation) it grew by $20-30 million in two years (1959-60). Fairchild owns a big block of Pan-American Airways stock. His fortune estimated at $80 to $150 million in the late 1950s has grown to $200-300 million by 1968.¹

The Upjohns, Bakalars and Lands joined the ranks of the multimillionaires almost solely by exploiting the fruits of the scientific and technological revolution.

The small Upjohn Company, founded in the 1930s, systematically bought up patents of little known but promising medicines (for example, steroid hormones). In the 1940s and 1950s it became their monopoly producer. Prior to 1959, the company’s entire stock belonged to descendants of the founder, William Upjohn (now the chief representatives of this family are Donald Gilmore and Gifford Upjohn, Ray Parfet and Preston Parish). The Upjohns sold part of the stock retaining about 60 per cent. In mid-1959 this block was worth $380 million and at the beginning of 1962, $464 million.²

The Bakalar brothers (David and Leo) are the chief stockholders of the Transitron Electronic Company, founded in 1952. Prior to that David taught physics at the Massachusetts Institute of Technology and exploited his knowledge to concentrate in the company’s hands a considerable part of the manufacture of transistors. Between 1954 and 1959, the sales of the company increased 42 times and the rate of profit rose to 48 per cent. In 1960, the personal fortune of the Bakalars was estimated at $150 million.³ Even after the 1962 stock market panic, it was worth not less than $70 million.

Edwin Land, an inventor, organised in 1937 the Polaroid Company with the support of a group of New York bankers. In the 1950s, it became the monopoly producer of an exceptionally popular camera with the instant printing of the

¹ Fortune, May 1960, p. 171; May 1968, p. 156.
² Based on data of Fortune, July 1959, p. 107.
³ Fortune, August 1959; September 1960, p. 175.
film. His wealth increased at a truly astronomical rate. In 1950, the Polaroid stock held by the Land family was worth $10 million, at the beginning of 1956, $75 million, at the end of 1961, $160 million, and $500-600 million in 1968.

The conversion of some scientists and inventors into millionaire businessmen is a characteristic feature of the last 10-20 years. This is particularly true of those who capitalised on their knowledge or inventions which are of great military significance.

Fortune frankly calls this category of millionaire scientists a product of the cold war, considering that there is about 100 of them with a fortune of $1 million or more. Of them about 30 are the founders and owners of their own companies which work on military contracts. The main centres of this new business are southern California, New England and other areas of the swiftly growing military missile and electronic industry.

Compared with such instantaneous enrichment the fortunes amassed by a group of millionaires who gradually built up their own empires in heavy industry may seem quite modest. But in most cases they have a broader and probably more solid foundation. The best known of them are Cyrus Eaton and the Kaiser family.

Strictly speaking, Cyrus Eaton is not exactly a newcomer in the U.S. financial world. At the beginning of the 1930s, his personal fortune amounted to about $100 million and he headed a big banking and industrial empire. But during the 1929-33 crisis Eaton lost both his empire and most of his fortune (it shrank to $5 million). Thus, his present wealth estimated at $100-150 million is new because it was amassed mainly in the 1940s and the 1950s (the main sphere—coal, iron ore, steel, and railways).

The foundation of the Kaiser fortune was laid as far back as the 1930s (construction), but it swiftly grew in the war years and the post-war period. Fortune estimates the personal capital of Henry Kaiser at $75-100 million. But these figures are clearly underestimated. Kaiser and his sons own the controlling block of stock in two companies, the market value of which was $576 million at the beginning of 1962.

Even if we deduct the indebtedness of their main holding company, the sum would be reduced only to $300-400 million. Their other property, including real estate on the Hawaiis which belongs to Henry Kaiser personally, adds another $50-100 million. Thus the total personal capital of the Kaisers evidently is not less than $350-500 million.

The group of California tycoons who at one time were Kaiser's partners but broke with him after the end of World War II, is less known. One of them Stephen D. Bechtel, just like Kaiser, began with construction and now owns several family-controlled firms, one of which is among the biggest companies in the world engaged in building heavy industry plants. But his capital and the capital of his family, amounting up to $200 million is invested also in oil, electric power companies, banks, etc.

Daniel Ludwig of New York is the owner of an empire of shipping, shipbuilding and other companies. His capital (estimated at $250-400 million in the late 1950s and $500-1,000 million in 1968) was amassed chiefly by buying up in the 1930s, with the help of New York banks, of ships at very low prices which skyrocketed at the beginning of World War II. The post-war stagnation in shipbuilding in the United States was also of benefit to him because he received from the Government for next to nothing a big number of "superfluous" tankers and dry cargo ships. By renting shipyards in Japan in 1951, he skimmed the cream from the long boom in the shipbuilding industry of that country. To keep down the wages of his seamen he recruited them solely from among inhabitants of an island in the British West Indies.

Henry Crown figures among the biggest millionaires of Chicago. In recent years he has expanded his property far beyond the bounds of that city. In 1931, Crown, a small contractor, was on the verge of bankruptcy. World War II and the post-war building boom livened up his business. In 1956, his capital invested in the family-controlled Materials Service Company, coal mines, real estate and the stocks

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1 Estimate based on data of Fortune, April 1959, p. 124; May 1958, p. 156.
of two big companies reached $50 million. Successful speculations in subsequent years greatly increased this capital. Crown sold his company to General Dynamics, a war industry corporation, getting a block of the latter's stock worth $120 million. The resale of the Empire State Building, the tallest New York skyscraper, brought him another $14 million. His stocks in Hilton Hotels are worth $7 million and in the Chicago, Rock Island and Pacific Railway about $40 million. Thus, the total wealth of Crown is now not less than $180 million.1

Only four of the 50 new multimillion fortunes are based on banking. Two of these families had provincial banks which did not yield great influence. The other two are of interest. These are the Dillon of New York and Ahmanson of Los Angeles.2

Clarence Dillon was a rich man at the beginning of the 1920s when he bought for his son Douglas (who subsequently served as Secretary of the Treasury in the Eisenhower and Kennedy Administrations) a seat on the New York stock exchange for $185,000. But he made the biggest part of his fortune in the 1930s and 1940s. By the 1960s the total wealth of the Dillons (Douglas actively participated in the family's enrichment) had reached $200 million. This includes their share in the capital of the Dillon, Read banking house, big blocks of securities, several estates (including one in France) and other property.3

Howard Ahmanson became rich chiefly because he discerned in time the colossal opportunities of the loan and savings associations. Ahmanson, called the "octopus" in Los Angeles, relates that the beginning of his fortune was laid in the 1930s when he speculated with fire insurance policies and bought for a song real estate and securities. The worse the general situation became, the better it was for his business. The two loan and savings companies he bought in 1945-47 for $224,000 became the cornerstone of a banking empire with assets of $1,000 million. His personal fortune, swelled by successful real estate speculations and the financing of home building, had reached $80-100 million by the beginning of the 1960s and $200-300 million by 1968.1

Concentration on real estate operations produced at least five new multimillionaires. Among them is the Kennedy family, one of the wealthiest in the United States. In 1957 Fortune assessed their wealth at $200-400 million but other sources name a figure of $400-600 million. Joseph Kennedy, who received his schooling in a Boston investment banking house, began to operate on his own, and in the 1920s made his first millions on the stock exchange,2 the resale of film companies and distilleries (during prohibition era). Sensing the approach of the stock market crash, Kennedy sold his securities and since the mid-1930s has engaged in large real estate operations. In New York alone he "made" $100 million. In 1945, Joseph Kennedy bought for $12.5 million one of the biggest Chicago skyscrapers which is now worth $75-100 million. It is held that he owns more urban real estate than any other American millionaire. Joseph Kennedy has handed over part of his wealth to his children and grandchildren. The two trust funds he set up in 1926 and 1936 yield a net income of about 700,000 dollars annually. This is equivalent to at least $1.5 million of a gross profit on a capital of approximately $50 million.3

It is possible that in recent years Joseph Kennedy has turned over much larger sums to his prospective heirs. The fortune of his son, the late U.S. President, was estimated at a minimum of $10 million in 1962.4

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1 Fortune, January 1961, pp. 149, 166; September 1959, p. 67; April 1956, p. 156; Newsweek, September 4, 1961, pp. 55-56.
2 "On Wall Street, Kennedy became a master of the art of managing pools; in partnership with a few other speculators he would take options on, say, fifty thousand shares of a cheap, idle and unnoticed stock and then stir up interest in it on the exchange by the Wall Street practice known as "window dressing"—buying and selling small lots of the stock here and there around the country in order to get its name mentioned frequently on the ticker tape. 'You simply advertised the stock by trading it,' he says. Seeing this deceptive action, suckers would assume that something was up. They would rush to buy the stock, sending its price up a few points. Then the pool operators would sell their shares, pocket the profit, and go whistling on their merry way" (J. McCarthy, The Remarkable Kennedys, Popular Library, New York, 1960, p. 86).
3 Fortune, October 1955, p. 254.
Large fortunes invested in hotel empires and other real estate were made by **W. L. Moody, Jr.**, who died in 1954, **William Blakely, Leo Corrigan** and the **Tisch** brothers (Preston and Laurance). Moody, Jr., left his daughter a philanthropic foundation which she controls. The foundation owns $400 million of stock of 30 hotels, 3 banks, 11 ranches and 1 insurance company. Leo Corrigan of Texas, who in the 1920s began to operate in real estate, built up an empire of 17 hotels, 35 shopping centres, 15 office buildings and 15 apartment houses, totalling in value more than $500 million.1

The relationship between the “old core” of the plutocracy and its replenishment is not a simple problem, but it is exceedingly important because it ultimately determines the comparative economic and political power of these families. It is important to establish: 1) to what extent the new multimillionaires are converted into typical finance-capitalists; 2) do they join the old, existing financial groups or they strive to set up their own independent groups which oppose the old ones and compete with them.

C. Wright Mills, raising the first question, does not furnish a clear-cut answer. According to his calculations, 26 per cent of the multimillionaires are rentiers, 39 per cent occupy high positions in companies controlled by their families, while 35 per cent are newcomers who made their fortune in recent decades.2 We have to challenge these figures. First, the quantitative ratio between the new and the old plutocracy is understated here almost by half (apparently, Mills’s refusal to analyse the family fortunes and the incomplete list of the multimillionaires he examines has affected his figures). Second, it is unclear what high positions he means. It is necessary to differentiate between participation in the management of a company and posts which involve merely supervision and control over management. These are entirely different things. Furthermore, it should be specified whether a finance-capitalist manages the main companies he controls or he is engaged in increasing his wealth in secondary spheres.3 Third, both the old and the new plutocracy should be divided into rentiers and active participants in management.

Let us first examine the “old core” of the financial oligarchy. In the 36 families in this category we counted 135 adults who could engage in useful activity. Of them only 29 held posts connected with the management of their companies, while the overwhelming majority, 106, or about 80 per cent, led a completely idle life or performed functions of general supervision and control over the activity of their managers. Thus, the old plutocracy has been overwhelmingly turned into pure finance-capitalists. In the new plutocracy the picture is as follows. Of its 83 members 36 are still connected with company management, while 47 are divorced from this activity. The degeneration of the recent big and even small capitalists and the acquisition by them of attributes of finance-capitalists are proceeding very swiftly. Some ten years ago entrepreneurs who were the top executives of their companies prevailed among the new plutocracy. Today almost 60 per cent no longer engage in this activity, that is, socially they have become entirely homogeneous with the overwhelming part of the old oligarchy. The remaining 40-odd per cent have to pass a relatively short path. What is interesting is that this conversion proceeds at a very fast pace and is achieved within the lifetime of one generation.

Thus, Mills’s thesis that “idleness” is not a characteristic feature of the multimillionaires could be applied only in part to the new plutocracy, but it is absolutely wrong as regards the “old core”. At the same time there is no serious basis for any fundamental differences in the position of these two strata of the financial oligarchy. As their wealth grows, the newcomers increasingly merge socially with the “old core”.

A distinctive feature of the old plutocracy is that its capitals long ago became fully intertwined with, and integrated into, the main financial groups. Some of the biggest fortunes have served as the basis for forming powerful groups; other groups are a result of an alliance of dozens of the wealthiest families. But what is the situation as regards the new plutocracy? Is it assimilating with the old groups or is it building up its own independent financial empires?4

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2 See C. Wright Mills, op. cit., p. 130.
3 For example, Laurance Rockefeller, who is actively engaged in extending his empire, personally never participated in managing the companies which belong to him, although at times he held directorships and even executive posts in them.
4 For more details about financial groups see Chapter VI.
An analysis of 49 of the new large fortunes shows that only seven have served as a basis for creating new independent financial groups.  

Eighteen have formed groups which already are incorporated in the old financial empires, although they preserve a certain autonomy in them; two new fortunes have fully merged with the old groups; twelve fortunes form a core of isolated family complexes which, not entering the old financial groups, do not come into the category of banking-industrial empires. They most likely will gradually be dissolved in the main groups.

Thus, the prevailing tendency is the readiness of the new plutocracy to join the existing system of the financial oligarchy. Only a minority acts as competitors of Wall Street and the other old empires. This specifically explains the relative “calm” which has enabled the old plutocracy considerably to reinforce its economic and political positions in the last 30-40 years and to repulse the attacks of the few real rivals.

This conclusion of course has its exceptions. There is always a brave minority ready to convert its hidden dissatisfaction with the grip of the old groups into action. This is indicated by the considerable increase in the number of proxy raids into the enemy camp by the new millionaires. While prior to World War II proxy raids were utilised chiefly by the old groups to subdue and force to their knees disobedient nouveaux-riches, in the 1950s this method is increasingly employed by the new plutocracy to expand its incipient empires. In many cases (for example, the raids of Wolfson) these were only partly successful, in other cases (the story of Robert Young) the victory was merely Pyrrhic. In other instances (the growth of the Murchison-Richardson

1 These are the fortunes of Richardson and Murchisons, Cyrus Eaton, Hughes, Wolfson, Eccleses, and Ahmanson. Of them only three groups (Richardson and Murchisons, Eaton and Eccleses) are of prime importance in the financial oligarchic system.
2 These include the families of Getty, Blaustein, Mccon, Bondum, Brown, Meados, Cabot, Kaiser, Olin, Watson, Ludwig, McKnight, Bechtel, Fairchild, Dillon, Corrigan, Crown and Moody.
3 These are the Gareys, Lands, Hirschhorn, Keck, Kieckhefer, the Sloans, Kettridge and Pratts.  
4 This list is headed by the Kennedy family and H. Hunt and also includes the Cullens, Upjohns, O’Neils, Bakalars, McArthur, Sottile, Tisch, Kleberg, Halliburton and Morrison.

group) the expansion was directed in equal measure against the old and some of the new groups. But on the whole in the realm of the U.S. financial oligarchy there has always been a small “restless” group which has kept the “old core” on its toes. Nevertheless, it is a fact that most of the new millionaires follow a less thorny path, preferring, at the first opportunity, to enter the circle of the elite along the lines of an amicable agreement.

4. “Diminishing Social Inequality” and “People’s Capitalism”

In the last 40 years the wealth of the U.S. financial oligarchy has grown substantially. But even bourgeois authors who have to admit this obvious fact assert that the absolute increase in the fortunes of the millionaires is supposedly accompanied by a relative decrease of their share in the country’s entire wealth. The more clever bourgeois theoreticians do not draw the conclusion about the “disappearance” or “diminishing” of social inequality. They merely say that this inequality has become “less noticeable” and hence it is no longer an acute social problem.

Other authors speak of an “incomes revolution”, which supposedly brought about the disappearance of the proletariat and obliterated the main class distinctions of American capitalism. Without denying that social inequality remains, they claim that the proletariat is increasingly converted into a petty-bourgeois “middle class”, while American society is turned into a “homogeneous society”. To reveal the insolvency of these concepts, we have to examine the following questions:

1) What is the gap between the income and personal fortune of the majority of the American people and the small clique of plutocrats?
2) How has the share of the Very Rich in the national wealth changed?
3) Does the least secure part of the Americans become a partner of the monoply bourgeoisie in owning the means of production?

American statistics divides the population into five groups which are equal numerically but differ for the size of income. The highest subgroup, which makes up 5 per cent of
the total population, is also singled out. A comparison of the share of these groups in personal income offers significant conclusions about their relative position.

Unfortunately, the initial point is data for the years 1935-36 which for the general economic situation cannot be considered fully comparable to 1947 or 1959. Official statisticians no doubt deliberately chose this period, and not 1929 as a basis. In 1935-36 the number of totally unemployed was 3-4 times greater than in the post-war years. This greatly minimises the share of the poorest groups and increases the share of the wealthiest groups. Nevertheless, even such a comparison is not in favour of the theoreticians of the “incomes revolution”. In 1962, the share of 40 per cent of Americans with the lowest incomes was practically the same as in 1935-36. The growth in the share of the middle groups, at the expense of the highest group, ended in 1947, after which their relative position no longer changed.

In 1935-36 the average income of a family in the lower group was only 1/26 of a family in the highest subgroup (5 per cent). In 1947, 1959 and 1962 it was 1/17. In other words, the gap, which in 1947 declined as compared with the hard period of the mid-1930s, subsequently remained unchanged.

Official statistics publishes no data about the actual inequality of incomes. Some idea is afforded by the following comparison. In 1961, there were 398 persons with an income of more than $1,000,000, which is at least 200 times greater than the earnings of a skilled worker. Those who think that this gap is not “sufficiently big” should ponder over some additional circumstances. The income of a worker consists solely of his wages, which under capitalism reflects his complete divorce from ownership of the means of production. The huge income received by the wealthiest families, on the contrary, stems from their monopoly ownership of the means of production. An American worker who gets $4,000-5,000 annually has no capital which would bring him an additional income. The wealthy man, however, can get along without a salary if he gets an income of millions from the capital which is his private property. Thus, if the arithmetical gap between the income of the worker and the capitalist is more than 200 times, the social gap between the position of both is infinite.

<table>
<thead>
<tr>
<th>Numerically equal groups of the population</th>
<th>Share of total personal income, per cent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lowest</td>
<td>4.1</td>
</tr>
<tr>
<td>Second</td>
<td>9.2</td>
</tr>
<tr>
<td>Third</td>
<td>14.1</td>
</tr>
<tr>
<td>Fourth</td>
<td>20.9</td>
</tr>
<tr>
<td>Highest</td>
<td>51.7</td>
</tr>
<tr>
<td>Highest 5 per cent</td>
<td>26.5</td>
</tr>
</tbody>
</table>


The share of the capitalist class and its upper crust in the national income of the country has been studied rather poorly by U.S. economists. The available estimates as a rule date back to the first third of the 20th century.1 But in the recent period bourgeois science has begun to pay more attention to this question. The latest work to which we have referred was penned by R. Lampman, professor of the University of Minnesota.

The trend of Lampman’s work is clear from the question posed at the beginning of the book: “We also seek to measure the concentration of wealth-holding and to discover whether this concentration has been increasing or decreasing in recent years. Is it true, as Karl Marx asserted a hundred years ago, that the overriding tendency of capitalism is toward ever-increasing inequality? Or have fiscal policy and institutional change worked to reduce the importance of the relatively rich group in America?”2 Replying to this question, Lampman alleges that between 1922 and 1953 the share of personal wealth of the richest families which comprise one per cent of the entire population decreased from 32 to 25 per cent and that social inequality

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2 R. Lampman, op. cit., p. 1.
diminished. But after examining the book in greater detail we find that this main thesis remains unproved.

In his calculations Lampman used the method of “multiplication of inheritance” which can give only a very approximate idea of the real number of rich people and their share in total wealth. Lampman himself admits that this method suffers from big errors.

Inheritance data do not fully reflect the real size of the fortunes of the Very Rich. The millionaires, as a rule, turn over to their heirs large sums during their lifetime, thus breaking up their fortune between members of their family. A considerable part of their wealth is also concealed in various anonymous trust funds, philanthropic institutions, etc. Their personal capital is likewise concealed in balance-sheets of corporations. All this, according to Lampman’s own admission, has not been taken into consideration in his estimate. But as the methods of concealing wealth have become widespread since the 1930s, it is clear that the statistical results he obtained essentially underestimate the actual scale of social inequality in the United States.

According to Lampman, the share of one per cent of adult Americans in personal wealth changed as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>Per cent</th>
<th>Year</th>
<th>Per cent</th>
</tr>
</thead>
<tbody>
<tr>
<td>1922</td>
<td>32</td>
<td>1949</td>
<td>22</td>
</tr>
<tr>
<td>1929</td>
<td>38</td>
<td>1953</td>
<td>25</td>
</tr>
<tr>
<td>1939</td>
<td>33</td>
<td>1956</td>
<td>28</td>
</tr>
<tr>
<td>1945</td>
<td>26</td>
<td>1961</td>
<td>28</td>
</tr>
</tbody>
</table>

Several conclusions are suggested by these data, even if we disregard for a time all the defects of Lampman’s calculations. First, for more than 30 years no essential change has taken place in the share of the total personal wealth owned by the richest families. For all the fluctuations, explained by various reasons, their share has been maintained at a level of from one-fourth to one-third of the personal wealth. The final result is amazing: it shows a reduction of the share by only four points in the course of almost 40 years. Evidently, had Lampman used more precise methods of calculation, his result would have been different and undoubtedly revealed a growth in the share of the richest families in personal wealth.

Second, the share of these families has been growing in post-war years. The economic laws of monopoly capitalism continue systematically to widen social inequality. This is actually admitted by Lampman himself. He writes that if we take into account only part of the methods used for concealing wealth, the share of the richest families should have been 33 per cent in 1922, 29 per cent (and not 25 per cent) in 1953 and following the same logic, at least 32 per cent (and not 28) in 1956 and 1961. If we abstract ourselves from other non-essential factors, the share of these families increased from 32 per cent in 1922 to 38 per cent in 1953, and not less than to 40–41 per cent in 1956 and 1961.

Lastly, there is a fundamental difference between wealth owned by the top group and the “wealth” of the overwhelming majority of the population. In 1953, the richest families owned 77.5 per cent of all stocks in individual possession, 76 per cent of the bonds of companies and 100 per cent of the bonds of states and municipalities. Fictitious capital, which represents ownership of the means of production and gives a right to participation in the appropriation of surplus value, comprised two-thirds of their total wealth. As for the “wealth” of factory and office workers, more than ninetenths of it consists of articles of personal use (durable consumer goods and houses); moreover, a considerable part of it is their property only formally because it was bought on installment or burdened by mortgages. The rest of their “wealth” is made up of savings, insurance policies and payments into pension funds, etc.

The concentration of private property in means of production in few hands has further increased. While in 1929 one per cent of the U.S. population owned 65.6 per cent of the individually owned corporate capital, in 1953 this share

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1 R. Lampman, op. cit., p. 244.
2 This method was expounded by another American economist, H. Mendershausen, in an article which was included in volume 3 of the work of R. W. Goldsmith, A Study of Saving in the United States, issued in 1956 (see pp. 277–381), but it was employed long before that.
increased to 76 per cent. Here is the reason for the actual growth of social inequality in the United States, concealed by bourgeois authors to please the financial oligarchy.

The concept of “people’s capitalism” has become fashionable in the United States in recent years. Its main thesis is that as time goes on ownership of stocks is extended, owing to which the social position of the working people is radically changed; they turn into owners of the means of production, just as the capitalists are. “People’s capitalism” has been widely advertised in the press, and corporations have been energetically selling shares to their workers. In a word, an increase in the number of shareholders has been set as a practical task by the financial oligarchy.

On the basis of a sample survey made by the Brookings Institute, the total number of shareholders in the United States was estimated at 6,490,000 in 1952. Subsequently, the New York Stock Exchange conducted three “censuses”, according to which there were 8,630,000 shareholders in 1956, 12,490,000 in 1959 and 17,010,000 in 1962. Thus, in ten years the number of Americans who owned stock almost trebled. From this data, the conclusion was drawn that in 1970 the number of American shareholders would increase to 22-26 million.

To assess these data on their merit, several circumstances must be borne in mind. First, the accuracy of the censuses conducted by the New York Stock Exchange cannot be vouched for. This is indicated by the methods of conducting them and the way the obtained data was processed. The main method consisted in questioning more than 5,000 corporations and 225 banks. The corporations submitted to the Stock Exchange information about the total number of their shareholders, giving their names. The banks furnished information about persons, whose stocks they administered. Elimination of double count was made through co-ordination and comparison of data about 150,000 shareholders with the help of electronic computers. What can be said about these methods?

First, there is no certainty that in all or most cases the names of the stockholders were properly given. For various reasons, specifically tax considerations, many stockholders prefer to figure under aliases or anonymously in general. Thus, it is impossible fully to eliminate a double, triple, quadruple, etc., count and the number of real shareowners is undoubtedly overestimated. Furthermore, it is not clear what element of error is possible in the selection of 150,000 stockholders from a total number of 35 million (prior to eliminating the double count), that is, altogether 0.4 per cent. Even if the names of all stockholders were given properly, the result would be very approximate.

Second, the indicated increase in the number of stockholders occurred after 1953, that is, already after a prolonged decline in the share of the working people in stock ownership, according to Lampman’s data. The absolute number of shareowners declined from 1929 to 1953.

Third, the general increase in the number of shareowners conceals an essential difference in the rates of this growth among families with different incomes. Data of two censuses characterise this uneven trend1 (see table on p. 76).

The table shows that the entire increase in the number of shareowners occurred in families with an annual income of more than $5,000 and over 91 per cent, in families with an income of more than $7,500. While the total number of shareowners increased by 180 per cent, the number of shareowners among families with the lowest incomes, comprising two-fifths of the U.S. population, did not rise at all. In families with an income of from $5,000 to $7,500 the number of shareowners rose, but this group covers only 6.3 per cent of the population in this category. Only in the category with incomes above $7,500 does the increase of shareowners by 91.4 per cent cover about 8 per cent of the population or 32 per cent of the families.

Thus, in the period under study the number of shareowners increased substantially among the big and middle and partly, the petty bourgeoisie, but there was practically no increase among shareowners in the working class. The proportion of the least secure sections declined in ten years from 38 to 16 per cent of all shareowners. “People’s capitalism”, far from progressing, made a big step back.

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The censuses of the New York Stock Exchange do not report what part of the stock in circulation belongs to families with different incomes. That this has been done deliberately is shown by the published data of the censuses from which it follows that the Stock Exchange administration had figures not only of the number of shareowners but also the number of shares they own. But they wished neither to process the data nor to make the obtained results public.

A certain idea is afforded by information about the distribution of dividends between families with different incomes. These data (for 1964) were reported in official tax statistics.2

<table>
<thead>
<tr>
<th>Size of income, thousand dollars</th>
<th>Dividends received by this group</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Million dollars</td>
</tr>
<tr>
<td>Up to 5</td>
<td>624</td>
</tr>
<tr>
<td>5-10</td>
<td>1,264</td>
</tr>
<tr>
<td>10-15</td>
<td>1,138</td>
</tr>
<tr>
<td>15-50</td>
<td>3,827</td>
</tr>
<tr>
<td>50-500</td>
<td>3,438</td>
</tr>
<tr>
<td>Over 500</td>
<td>500</td>
</tr>
<tr>
<td>Total</td>
<td>10,791</td>
</tr>
</tbody>
</table>

Shareholders with incomes less than $5,000 made up 16 per cent of the total number and received only 6 per cent of the dividends. Families with an income of over $50,000, whose number was approximately 1 per cent of all stockholders, received 37 per cent of the dividends (and evidently had approximately the same proportion of shares). It is interesting that at the beginning of the 1950s these families also had about 35 per cent of all the shares in circulation.3 Thus, in the ten years which, as claimed by the ideologists of the bourgeoisie, were marked by the swift growth of

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3 See V. Perlo, op. cit., p. 63.
"people’s capitalism", the share of the wealthiest group in the United States in corporate capital did not change.

The research centre of the University of Michigan regularly estimates the blocks of shares belonging to persons with different incomes. One of its latest estimates is for 1964.\(^1\) It shows that families with an income of less than $3,000 in 95 cases and families with an income of $3,000 to $5,000 in 89 out of 100 cases had no shares at all. Correspondingly, 5 per cent and 11 per cent of families in these categories own shares amounting on the average from $1,000 to $5,000. Dividends on these shares do not exceed 0.5-2.5 per cent of the personal income of such a family. This clearly makes the workingman a capitalist to no greater extent than if he were to buy a lottery ticket or keep a small sum in a savings bank.

At the other pole there are more than 150,000 stockholders with an income of over $50,000, for whom dividends together with profits on stock speculation make up more than 40 per cent of their total income. Each member of this narrow group on the average gets from 150 to 170 times more dividends than a shareowner with an income below $5,000.

The increase in the total number of shareowners in the last ten years is the result of the operation mainly of two factors. The first is the desire of the petty and middle bourgeoisie to assure itself against inflation; the second is the intensive sale of stock by the monopolies to their own workers.

While for the millionaires a stock market boom is a means for automatically increasing their wealth manyfold, in a brief period, for the mass of the petty bourgeoisie, bourgeois intellectuals and middle-size capitalists the buying of shares in these conditions is a means of preserving their savings in face of inflation. The traditional method of saving is to put money in the bank or to buy state securities. But it automatically leads to a decrease in the real purchasing power of the savings. The sum of $1,000 deposited in a bank in 1950 could ten years later buy goods which in 1950 were worth only $813. The same $1,000 invested in state bonds had a purchasing power of $840 and in municipal bonds of $780 (in 1950 prices). But if this money were used to buy stocks of industrial corporations, in ten years their market value would rise to $2,660 on the average. In this arithmetic we have the main stimulus which forces the petty bourgeoisie to look upon stock as a shelter from inflation. This is of advantage to the big corporations because it creates a heightened demand for their stock and enables them to increase their capital contributed by new small shareowners.\(^1\) This is also of advantage to the plutocracy because the bigger demand for shares maintains the stock market boom in which they can easily multiply their wealth.

That is why "mutual funds" and other means of enlisting the money of the ordinary American are so widely advertised.

While the Monthly Investment Plan of the New York Stock Exchange, investment clubs and mutual funds lure small stockholders into their nets chiefly through advertising, the placing of shares among workers is frequently done by forcible means.

In 1953, corporations had 170 plans for the sale of shares to their workers. This figure may seem imposing at first glance. But in the same year there were another 250 inoperative plans, that is, plans which were registered but not carried out. By 1961, 248 plans had been registered, of which 114 called for the direct sale of shares to workers and other employees. But only 31 per cent of the eligible employees bought stock.\(^2\)

By imposing shares on the workers, the monopolies seek to kill two birds with one stone: first to tie down the workers to the company, to sever them from the trade unions, to split their ranks and spread petty-bourgeois illusions among them; second, to consolidate the grip on the company by the men who own the controlling block of stock. The shares bought by the workers are scattered and they never attain a sizable proportion of the total. They are not a threat to the owners; on the contrary, they help them consolidate their control. Usually the "workers' shares" are administered by the company itself or, as is the case with pension funds, by banks which serve the given company. Such is the practical aspect of "people's capitalism".

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Chapter III
MANAGERS AT THE TOP

We have shown earlier\(^1\) that the separation of functioning capital from capital as property, which reaches its apex in the age of monopoly capitalism, leads to the emergence of a numerous category of managers.

In all industrially developed and also in many developing capitalist countries this category is increasing in numbers and playing an ever greater part in the economy.

A considerable share of important governmental posts in these countries (especially in the United States) is filled by former executives of big corporations. Their increasing influence in directing the home and foreign policy of these countries is beyond doubt.

We shall now examine in greater detail the social origin and class position of various groups making up this category, ascertain the nature of managerial labour under capitalism, and determine the main features which unite the top managerial elite with the monopoly and non-monopoly bourgeois, as well as other features which place managers in a somewhat specific position within this class.

1. Social Nature of the Managerial Top Echelon

Bourgeois literature, American included, does not give any precise definition of the category of managers. Various authors interpret the term differently and apply it in different meanings. Managers are understood to be a wide category of people who in capitalist corporations are vested with a right to direct people, set aims to their subordinates, take decisions, issue orders, i.e., all who not only carry out the orders of others but also issue orders themselves.\(^1\) This can mean anything, from straw boss, foreman and shop superintendent to the head of a corporation and even a finance-capitalist. Most authors writing on the subject as, for example, Haynes and Massie, limit themselves to a technico-economic description of the activity of an "abstract administrator" outside his concrete class relations with the world around him.

The Harvard Business Review, which devotes most of its articles to various aspects of capitalist management, avoids theoretical definitions of managers as a social group. Instead, it gives a list of corporate positions, whose holders belong to management. These are divided into three groups.\(^2\)

Top management—chairman of the board, board member; owner; partner; president; division or executive vice-president; vice-president; treasurer; secretary-treasurer; controller; secretary (to the corporation); general manager; general superintendent; editor; administrative director; dean; and assistants thereto.

Upper middle management—functional department head (i.e., advertising, sales, promotion, production, purchasing, personnel, engineering, public relations, branch manager, and the like).

Lower middle management—assistant to functional department head; district manager; branch manager; section manager, and the like. All other employees are placed by the journal in the category of non-management personnel.

This, of course, is only a list of offices, not meant to be an economic analysis. It is indicative, however, that the Harvard journal includes company-owners in its managerial "table of ranks". Obviously top managers are considered to be socially equal to capitalists. It is also significant that Harvard Business Review disagrees both with Burnham who extends the status of manager to the supervisor, and with Haynes and Massie who actually follow Burnham but leave a dense smoke screen behind them.

The Harvard Business Review list is marked by a desire

\(^1\) See Chapter I.

to differentiate the various components of the category of managers. But this is done outside of any connection with real class distinctions, merely on the basis of comparing officers. The hazy definitions of bourgeois economists, of course, are not accidental, since they deliberately avoid going into the class position of managers. This is done not because of a lack of thought, but for a definite social reason. It is difficult to assume that such authors do not know the difference between the President of General Motors and the president of a small company which employs some 50 or 60 workers. This feigned naivety can hardly deceive anyone.

The very nature of capitalist management, which is of a dual character, provides the objective basis for such views. On the one hand, the function of managing a capitalist enterprise stems from the social nature of the process of reproduction and those who perform it participate, to one or another extent, in material production. On the other hand, the same function is linked with the exploitation of wage labour and the appropriation of the surplus value it creates.

The dual character of capitalist management was originally disclosed by Marx. "The control exercised by the capitalist is not only a special function, due to the nature of the social labour-process, and peculiar to that process, but it is, at the same time, a function of the exploitation of a social labour-process, and is consequently rooted in the unavoidable antagonism between the exploiter and the living and labouring raw material he exploits... If... the control of the capitalist is in substance twofold by reason of the twofold nature of the process of production itself,—which, on the one hand, is a social process for producing use-values, on the other, a process for creating surplus value—in form that control is despotic." 1

The duality of capitalist management leaves its specific imprint on managerial labour. 2 The latter is an integral component of total labour which creates use-values. At the same time it differs from it because it ensures to the capitalist the surplus value created by the workers, without his direct participation, but with the participation of his manager. In so far as managerial labour participates in creating surplus value appropriated by the capitalist, this labour is also exploited by the capitalist. But what is of utmost importance for the capitalist in managerial labour is not the surplus value it creates, but the surplus value produced by the workers under the supervision and direction of the managers. That is why the manager, while being exploited by the capitalist, performs, on behalf of the capitalist, the function of exploiting the other workers.

The productive nature of managerial labour is most evident in the lower echelons of capitalist management, i.e., where it is directly linked with material production and is determined by the latter. At these levels managerial labour is not identical to the labour of the workers only because they are in a different relationship to the subject of production. As for everything else, there is no essential difference between them. Marx pointed out that the workers who change the material form of the subject of labour with the help of instruments of labour stand closest of all to the subject of production. Ancillary workers do not directly process raw material, but this does not alter the productive nature of their activity. "The workmen who function as overseers of those directly engaged in working up the raw material," Marx pointed out, "are one step further away; the works engineer has yet another relation and in the main works only with his brain, and so on. But the totality of these labourers, who possess labour-power of different value... produce the result, which, considered as the result of the labour process pure and simple, is expressed in a commodity or material product; and all together, as a workshop, they are the living production machine of these products—just as, taking the production process as a whole, they exchange their labour for capital and reproduce the capitalists' money as capital, that is to say, as value producing surplus value, as self-expanding value.... All these persons... directly reproduce, in addition to their wages, a surplus value for the capitalist. Their labour consists of paid labour plus unpaid surplus-labour." 3

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2 The category of persons engaged in managerial labour is broader than the category of managers, since it includes, for example, the lowest echelon of the administrative machine of corporations. This distinction, however, is no obstacle to analysing the work of managers as managerial labour.
This characteristic undoubtedly applies not only to overseers, these sergeants of industry, but also to the sum total of workers by brain who participate in creating the material product, that is, to all participants in capitalist management directly linked with material production—up to the general manager of a factory or industrial complex. Let us remark that this does not prevent the managers—from overseers to general managers—simultaneously to perform for the capitalist the function of exploiting the overwhelming part of the workers, thus making capitalist management despotic at the enterprise itself.

Marx applies this characteristic also to managers of a joint-stock company. Analysing the specific features of the latter, he stresses that capitalist ownership of the means of production stands here in opposition “to every individual actually at work in production, from manager down to the last day-labourer.”¹ He writes that “the salary of the manager is, or should be, simply the wage of a specific type of skilled labour, whose price is regulated in the labour market like that of any other labour.”² Thus, the labour of the manager, according to Marx, is divided into necessary and surplus labour, just as the labour of an ordinary workman.

Does Marx’s characteristic apply to the entire “corporate bureaucracy” brought into being by monopoly capitalism?

The activity of the “corporate bureaucracy” is associated not so much with the real process of production and exchange as with the function of monopoly control over production and exchange. It is clear that this function is necessitated not by the social nature of production and is not indispensable for the normal functioning of the productive forces.

The “corporate bureaucracy”, i.e., the top managers, represents a special category of non-productive workers who are “needed” in the United States not because this is dictated by the requirements of the productive forces, but by the shortcomings of the social structure of monopoly capitalism.

¹ F. Harbison and C. Myers, American authors, regard the capitalist managers as a special “factor of production” alongside “capital, labour or natural resources”. Expounding this idea they assert that “management is the principal factor determining the productivity of labour, if we assume that capital and raw materials inputs are the same.”¹ Thus, the “flower” of capitalist management is pictured as practically the main source of material production. We cannot help recalling here the splendid rebuff Marx gave to the vulgar economist Senior: “...The labour of the productive labourers is not productive because there are so many retainers, but on the contrary—there are so many retainers because the labour of the productive labourers is so productive.”²

It goes without saying that among the top managers, too, there are men who, engaging, for example, in accounting or planning on a social scale, to some extent really perform a useful function and whose labour in some part is similar to managerial labour which participates in material production. But this by far does not solve the problem of their class origin. In the quotation of Marx given earlier, it is said that “the salary of the manager is, or should be, simply the wage of a specific type of skilled labour”. Thus, only if the salary of the manager is paid for his necessary labour does he fall into the same category as the ordinary wage worker.

While the lowest group of managerial personnel—supervisors—is really paid only for their necessary labour, handing over to the capitalists their surplus labour, in the higher echelons of management the situation is different. It may be asserted that in present-day America the middle-link managers (the officers of industry), the managers of factories, as a rule, have a salary which includes payment of both their necessary and surplus labour. This places such managers not only formally (for their living standard), but also in substance in the same rank with the middle bourgeoisie. As for the top managers, their colossal incomes do not fit into any reasonable criteria of “payment” for a

² Ibid., p. 436.
"specific type of skilled labour," and consist overwhelmingly of surplus value created by others (alongside payment for their actual managerial labour).

It follows from this that the category of managers, artificially lumped together by bourgeois economists into a single mass, in reality consists of people belonging to different classes of society or different sections of one and the same class. These differences are caused by the same attributes which make up the basis for a class division in general.

"Classes," Lenin wrote, "are large groups of people differing from each other by the place they occupy in a historically determined system of social production, by their relation... to the means of production, by their role in the social organisation of labour, and, consequently, by the dimensions of the share of social wealth of which they dispose and the mode of acquiring it. Classes are groups of people one of which can appropriate the labour of another owing to the different places they occupy in a definite system of social economy."  

Let us examine these attributes as applied to capitalist managers.

**Place in the System of Social Production.**

**Relation to the Means of Production**

The basic classes of capitalist society, the bourgeoisie and the proletariat, differ above all as exploiters and exploited, as the economically dominating and economically subjugated classes. From this point of view the top managers hold a very definite place. They stand together with the exploiters, with those who dominate economically. They exploit the labour of others and enjoy the fruits of this exploitation. The class antithesis of the workers and top managers in the United States is so obvious that the basic conflict of bourgeois society—between labour and capital—very frequently assumes the form of a conflict between labour and management.

It will be shown subsequently that part of the top managers hold a considerable number of shares, which makes them owners of money capital and, ultimately, private owners of the means of production. Some of them succeed also in becoming functioning capitalists, through ownership of relatively small enterprises on the side. But this factor is not decisive. Even if a top manager has no such property he still exploits the labour of others. In this case he acts in a dual role.

As representative of finance capital he helps the latter appropriate the surplus value created by the workers. This is not simply an improved function of the supervisor, whose role boils down to securing surplus value to the owner of the means of production. A top manager helps finance-capitalists to redistribute surplus value in their favour in such a way as to ensure the latter a profit not only on their own but also on the money capital of other people.

But a top manager also takes care of his own interests. If the finance-capitalists, utilising the manager's services, appropriate surplus value belonging to other owners, the manager, taking advantage of his special function of disposing of other people's capital, also extracts surplus value which could be obtained by the owners of the capital. While the finance-capitalist does not cease to be a capitalist because he steals other people's profit, a top manager becomes a capitalist for the very reason that he succeeds in grabbing other people's profit. Whereas the basis of exploitation for the finance-capitalist is not only his own, but also other people's property, for the top manager this basis consists exclusively of other people's property.

Hence the endless complaints of small American shareholders that the colossal remuneration of the executives of corporations reduces their dividends. By the way, cases when such shareholders venture to raise the question of cutting the salaries of top executives are extremely rare.  

A top manager acts as dictator with regard to the small shareholders, just as a finance-capitalist does. Moreover, as a person vested with dictatorial powers in disposing of the capital of a mammoth corporation a top manager enjoys economic and at times also political power immeasurably greater than any middle or even big, non-monopoly

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capitalist. In this capacity he stands in opposition not only to the mass of small shareholders, who are meek as a rule, but also to the mass of owners of non-monopolised enterprises.

Role in the Social Organisation of Labour

This role is determined by the nature of capitalist management. An executive who manages a large corporation exercises the function of capitalist exploitation, just as it is performed by the capitalist owner. In contrast to the lowest echelon of management which takes a direct part in creating the material product, and the middle echelon of managers who perform a “special type of skilled labour”, capitalist top management is predominantly exploiting for its substance.

A top manager as an exploiter stands in opposition not only to the ordinary workers and other employees, but also to the lower echelons of managers. In form, as Marx pointed out, capitalist management is despotic. The despotism of the top manager is displayed both in relation to the working class and in relation to all the links of management under his subordination. Although workers and other employees are formally hired by the corporation and sell their labour power to it, the top manager regards them as his own workers and the lower- and middle-link managers, as his subordinates. The top manager dictates the regime which is maintained in the shops and offices of a corporation, and determines the duration and intensity of the labour of the workers and other employees and, consequently, also the mass of the surplus value they create.  

In brief, in everything that concerns the working masses the top manager acts with regard to them not as manager but as the boss, i.e., as the ordinary functioning capitalist. The difference between the two is that the former disposes of the capital of other people, not his own.

Method of Obtaining Wealth, Its Size

Since the top manager does not take part in creating surplus value, the only (or practically only) source of his income is the surplus value created by others. But, possessing no capital of his own and not being the owner of borrowed capital, he receives his share of surplus value not in the form of profit (interest or entrepreneur’s income), but in the specific form of a salary. This in no way proves the “blood kinship” of the top manager and the ordinary worker, since the form of income by itself in no way determines its economic nature. The salary of the president of General Motors expresses a different economic relation than the wage of the man who washes his car, the sailor on his yacht, his kitchen staff and, of course, the worker at a G.M. factory.

The qualitative difference is that in the first case the salary includes surplus value created by others as its basic element, while in the case of the workers the wage merely compensates for the necessary labour, leaving the surplus value in the hands of the capitalists.

The remuneration of a top manager includes surplus value because it exceeds many times over not only the value of his specific labour power, but also the value of the material product he could produce. Thus, the maximum salary of the most skilled engineer ranges from $30,000 to $40,000 annually in the United States. Yet top executives of industrial and banking corporations receive from $50,000 to $600,000 and on the average about $125,000. The size of this remuneration places the top manager in one rank with the owners of large fortunes as regards income and standard of living. We might even say that his salary is set at a high level for the definite purpose of enabling him to lead the life of a big capitalist. The transfer of a manager from the middle to the top echelon is accompanied by a steep rise in his income, which signifies a qualitative change in his social status. For example, when Fred Kappel, who had been vice-president of American Telephone and Telegraph, was made president in 1957, his

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1 According to Harbison and Myers, the task of top managers is to ensure the “subordination, loyalty and productivity” of workers and other employees. Such managers head a “system of authority” which establishes order and watches over its observance. In relation to the workers, the system can be “dictatorial or paternalistic, constitutional or democratic”, depending on the strength and organisation of the working class (see F. Harbison and C. Myers, op. cit., pp. 19, 48, 50). But in all cases it is a system of power over the working class.
income jumped from $51,000 to $187,000, i.e., by 270 per cent. Avery Adams, on being appointed president of the Jones and Laughlin Steel Corporation, received a salary of $178,500 instead of $47,500.\(^1\)

The top manager receives so much money that he is unable to spend it all even when leading the luxurious life of a capitalist. In time, the savings and investments of such a manager make him the owner of a large fortune. In other words, he gains the possibility of converting the surplus value he receives into capital.

The list of the Very Rich with a personal fortune of over $75 million in 1957 had only four men who have reached this position because they held for a long time leading posts in a big monopoly, namely, General Motors. But many top managers amass sufficient wealth to become independent capitalists of smaller rank.

Robert S. McNamara who was Secretary of the Defence in the Kennedy and Johnson Administrations, during 14 years of previous service in the Ford Motor Company traversed the path from middle-link manager to president. Holding top managerial posts in the company for only five years he was able to accumulate a block of shares which was sold in December 1960 for $1.5 million. McNamara claimed that his appointment as Secretary of Defence meant a "loss" of $3 million because he had to give up the post of president in Ford Motor, where he was paid $400,000 annually, and also had the option of buying the company's stock for one-third of the price. By the way, when McNamara became Defence Secretary and resigned from the automobile company the latter paid him a bonus of $350,000. He also owned shares of other companies. Thus, in the relatively short period when he held top posts in Ford Motor Company McNamara became the owner of a fortune which probably exceeded $2,000,000. Some managers amass quite considerable wealth in smaller companies too.

All the attributes we have examined enable us to place the top managers in the rank of the monopoly bourgeoisie. Other attributes, however, make this conversion not fully complete. In contrast to finance-capitalists, the top managers are not owners of the corporations they direct. They remain in a subordinate position in relation to the men who hold the controlling block of shares, and even to their representatives who stand closer to the latter and enjoy greater confidence.

However extensive the powers a corporation top manager wields over his subordinates and however big his salary, he remains a hired employee whom the corporation, as represented by the board of directors, can dismiss. Though they are part of the monopoly bourgeoisie, top executives form a special category whose characteristic feature is that they are in a directly subordinate position to the financial oligarchy. The latter utilises the corporate top bureaucracy in its own interests, but keeps it strictly dependent upon itself.

Thus, the capitalist top managers are a special component of the contemporary monopoly bourgeoisie, formed as a result of the separation of functioning capital from capital as property; they are dependent on, and subordinate to, the financial oligarchy, are admitted by the latter to the management of the biggest industrial and bank monopolies and in the interests of this oligarchy they exploit the working class and share in the results of this exploitation. Just as members of the financial oligarchy, the top managers utilise their position for expropriating the non-monopolistic bourgeoisie.

This definition, possibly, is not complete, but it brings out the main characteristic of top managers, the main feature that sets them apart from other managerial personnel.

2. The Formation of the Managerial Élite

The reproduction of each class of capitalist society proceeds according to economic laws specific to every one of them. The wage worker, selling his labour-power, constantly recreates the conditions under which he and his children remain the object of exploitation.

Reproduction of the capitalist class is based on ownership of the means of production and appropriation of all the surplus value created by the workers. As for the petty bourgeoisie, objective conditions systematically eject the bigger part of it into the ranks of the proletarians and a smaller part into the ranks of the capitalists.

Reproduction of capitalist managers, especially top managers, is a more intricate process. The labour of the major-

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\(^1\) O. Elliott, op. cit., p. 22.
ity in this category contains nothing that would inevitably perpetuate the managers as managers. The higher income of managers in the lower and middle links, as compared with the wages of workers, creates conditions enabling them to become petty and even middle bourgeois. But their material condition does not at all imply that they or their children must necessarily continue to be managers. The capabilities and skill required for managerial labour are not heritable, and their relative prosperity makes these people equally suitable for the career of manager, civil servant, small businessman, and so on.

A top manager, so long as he has not accumulated sufficient wealth turning him into a capitalist, ultimately is subordinate to the same laws. His position changes somewhat when his personal capital reaches two or three million dollars. Then he is able to give up his managerial post and become a capitalist entrepreneur in his own right. His heirs can become top managers only if he himself remains a corporation chief executive for a long time and only with the blessing of the finance-capitalists upon whom his personal future depends. As for managers who reach a higher property status, their further life and activity are determined by the laws of reproduction which are general for the capitalist class.

Thus, it is clear that there is no objective basis that would spontaneously reproduce managers in general and top managers in particular, with the same inevitability as the wage workers and capitalists are reproduced and the petty bourgeoisie is eroded. But there is an objective need for "raw material" from which managers of all types could systematically be trained, and as monopoly capitalism develops this need rises. A shortage of managerial personnel adversely affects the profits of the financial oligarchy. In the absence of a spontaneous mechanism that would regularly supply it with managers, just as the process of production provides it with workers, the oligarchy has devised a special system for meeting its needs in managerial personnel.

The financial oligarchy draws its managers from different sections of capitalist society. Since neither the United States nor any other country has official statistics on this point we have to utilise studies of various authors for determining the social origin of the top managers (and managers in general). But many of these authors, though not all of them, seek to embellish capitalism.

C. Wright Mills in his *The Power Elite*, analysing the origin of the top executives of the biggest American corporations (in 1950), arrives at the following conclusion. Fifty seven per cent are sons of businessmen; 14 per cent, of professional men; 15 per cent, of farmers. Only 12 per cent are sons of wage workers or of lower white-collar employees. These data are quite instructive, but Mills erred by lumping in the category of businessmen both the owners of enterprises and top managers. Another shortcoming is that he analysed the origin of executives of corporations without singling out from them the capitalists who, while controlling a corporation, continue to manage it.

In the book of M. Newcomer, which Mills did not utilise, the results of a similar analysis of the origin of presidents or chairmen of the board of directors of the biggest U.S. corporations are presented in the following table (see p. 94).

Although these data suffer from the same shortcomings as the data of Mills (Newcomer compounds the error by placing farmers among businessmen), they allow some comparisons. What is striking is that in 1950 the percentage of corporate executives of bourgeois origin was only slightly smaller than at the beginning of the century, and higher than in 1925. The share of persons of petty-bourgeois origin has been stable throughout the 50 years. There is an increase in top managers


of proletarian origin, but it is still a negligible proportion of the total top leadership of the American business world. Warner and Abegglen in their book, issued in 1955 and also not used by Mills, arrived at the conclusion that a businessman's son had 17 times as good a chance of becoming a member of the American top management as did the son of a blue-collar worker.1

Still later and more detailed data are contained in the poll conducted by Fortune in 1959. The poll covers 1,700 top executives of 834 of the biggest industrial, banking, insurance, transport, trading and other companies. The results of the poll differ from the data of the Mills, Newcomer and others because they cover a much broader range of companies (there are also non-monopolised enterprises with annual sales of $15-20 million). Here are the data of the poll on the social origin of top executives of American business2 (see p. 95).

The table shows that almost one-half of the top executives are of bourgeois origin, one-fourth are from petty-bourgeois families and only one-seventh are of proletarian origin. Of special interest is the fact that only seven per cent of the top executives were big capitalists in the proper sense of the word who received their posts by inheritance, either because of their ownership or control of corporations. This once again proves the point made earlier: the real owners of the means of production increasingly give up managing their enterprises, becoming finance-capitalists in the full sense of the word.

2 Fortune, November 1959, p. 139.

Men who come from families of small businessmen comprise a big share of the top executives. The large corporations absorb small, middle-size and large enterprises, their former owners frequently becoming employees of a huge trust or corporation. More than 20 per cent of the top executives belong to this category.

As for men who come from the ranks of the petty bourgeoisie and the proletariat, their total share (almost 40 per cent) may seem high only to those who do not grasp the dual nature of the capitalist managers or deliberately try to draw from this a conclusion about the "democratisation" of capitalism. Before reaching a leading post in a monopoly corporation a former petty bourgeois or worker undergoes a thorough "re-education" in the spirit of devotion to the financial oligarchy, and this is the only way he can get ahead.

Warner and Abegglen, whose study dates back to the 1940s and the early 1950s, arrive at the conclusion that the big American corporations recruit a minor part of their top managers from small or other big companies. They state that only three per cent of such managers had previously been owners of enterprises, 48 per cent had never served as managers in any other companies and another 40 per cent were employed in one or maximum two other companies in their life. Thus, they stress, the big corporations have the
problem of training and bringing up their own top executives.

These data are correct in the main, but need adjustment. We have analysed the composition of top executives (presidents and chairmen of the board) of 145 of the biggest American corporations in industry, transport, public utilities and trade as of 1960. We classify these top managers by data about the career which directly preceded their appointment to the executive post. We singled out in a special group persons holding such posts because they are members of families controlling the given company. The results can be briefly summed up as follows.

<table>
<thead>
<tr>
<th></th>
<th>Number</th>
<th>Per cent of total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Members of families controlling the given corporation</td>
<td>50</td>
<td>18.3</td>
</tr>
<tr>
<td>Small businessmen</td>
<td>9</td>
<td>3.3</td>
</tr>
<tr>
<td>Owners of banks</td>
<td>2</td>
<td>0.7</td>
</tr>
<tr>
<td>Bank executives</td>
<td>6</td>
<td>2.2</td>
</tr>
<tr>
<td>Professional military men</td>
<td>2</td>
<td>0.7</td>
</tr>
<tr>
<td>Civil servants</td>
<td>3</td>
<td>1.1</td>
</tr>
<tr>
<td>Partners of law firms</td>
<td>20</td>
<td>7.4</td>
</tr>
<tr>
<td>Executives of the given corporation</td>
<td>181</td>
<td>66.3</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>273</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

About two-thirds of the top executives of American corporations are the product of “internal training and education”; one-fifth of the leading posts is held by the direct offspring of the main families comprising the financial oligarchy; they are not hired managers in the strict sense of the word. Of the owners of small firms absorbed by the big monopolies, only a small minority became top executives at once, while most of them joined the ranks of the ordinary managers. The number of bank officials advanced to leading posts in industry is very small. Big lawyers hold a prominent place, but even they are relatively few. Lastly, a small number of professional military men and civil servants came to the leadership of corporations directly, bypassing the “internal training school”.

From this it does not at all follow that external sources of replenishing top executives in general do not play an essential part. After World War II, when the state buureocratic and militarist machine grew substantially in the United States, the influx of former brass hats and government officials into industrial corporations increased notably. Similarly, corporations increasingly replenish their managers with lawyers skilled in state-monopoly legislation and bankers who know all the in-and-outs of government finance. This is a manifestation of the direct coalescence of the monopolies and the bourgeois state.

In present conditions the systematic exchange of top corporate executives and government officials has become the rule. Let us mention some specific features of this process. Leading posts in governmental institutions which to one or another extent are connected with the economy, as a rule, are given to men who have undergone training in the managerial machine of big corporations and banks. The switch-over from private companies to the government service entails certain material losses because salaries of civil servants on the average are much lower. That is why in cases when a top executive has no large personal fortune he seldom stays in government service for more than a few years, returning then to his “Alma Mater” to the same or a higher post. In many cases his losses are compensated by the corporation because the experience he acquired and his connections serve to enrich it. On the other hand, government officials who have received their schooling in government institutions, are systematically lured over to the corporate managerial machine. This is particularly the case in the war industry which replenishes its ranks of top executives with generals, admirals and Pentagon officials. That these men, as a rule, do not head the corporations is natural because they lack the experience given by the corporative school. Even those who because of their “special services” to the monopolies and particularly close ties with Big Business at once receive the post of chairman of the board or president (Lucius D. Clay, Douglas MacArthur, Maxwell Taylor, former Secretary of the Army Frank Pace, Jr., and others) are in a subordinate...
position in relation to the finance-capitalists and their trusted agents. But all this once again shows that in the union of the government with the monopolies, the financial oligarchy preserves decisive positions.

The large corporations also have a much greater need in managerial personnel from among scientists and engineers, without whom capitalist management is unthinkable in conditions of the contemporary scientific and technological revolution. The accelerated ruin and absorption of small and middle-size firms by the monopolies also places at the disposal of the financial oligarchy specialists in management.

Let us examine one more source for the replenishment of managers. It would seem at first glance that the owner of a family company absorbed by a large corporation has the qualities needed for managing the latter. But from the point of view of the financial oligarchy this is not the case at all. A small functioning capitalist has managed production at his own establishments but he may not be familiar with the workings of the corporate bureaucratic machine. If the capitalist, whose enterprise is absorbed, is not ruined and he preserves his fortune, he might not be interested in assuming a managerial post under the control of the corporation's top executives. If a former owner of a small establishment is made department manager in a big company, he loses his former independence and becomes merely a cog in the corporate machine. Thus, the expropriation of the small capitalist does not end with the absorption of his enterprise, but continues in the form of his conversion into an official subordinate to the monopoly top group.

What happens in such cases is well described by T. Quinn, former vice-president of General Electric, who has intimate knowledge of the mechanism of this conversion. "The presidents of the independent smaller companies we purchased," he relates, "usually became department managers, continuing their old activities but as subordinates. Without exception their whole attitudes invariably changed. They were no longer primarily responsible, and began to think in terms of pleasing the big boss.... We took over a consumer-installment-finance company, and its president, Mr. Minor, became a department manager. He was scared stiff in the presence of Gerard Swope [head of General Electric—S.M.] and so worried over his job that he was practically useless.... He got ulcers and died a few years later—died, if it's possible, of an inferiority complex and sheer worry."1

It sounds almost like the Chekhov story about a petty clerk who accidentally sneezed on the bald pate of a superior and died of worry. But Mr. Minor was a former capitalist who had ruled despotsically the workers he exploited.

The conversion of corporations into gigantic octopuses which control most of the output in their industry and hamper the establishment and existence of small companies, makes the petty bourgeoisie a steady supplier of lower-link managers who are anxious to make a career in large corporations.

The corporate school which is the main training ground of top executives for American industry may be likened to a gigantic social pyramid, the building material for which is supplied by different classes of contemporary capitalist society. In the process of ascension the "most suitable" material is "naturally" selected and the top is reached only by a small group of the chosen who break away from their original basis and share with the financial oligarchy the fruits of oppressing the whole society. The "natural selection" here is a special form of capitalist competition, regulated not by the market but by the specific laws of the corporate bureaucracy. These laws are brutal and inexorable—they emasculate all capabilities of man except one—to serve the interests of the financial tycoons. The "strongest", that is, those best adapted to this struggle, survive.2

The objective conditions in which managers find themselves, on the one hand, inevitably convert them into a living embodiment of functioning capital, into a direct instrument of capitalist exploitation and, on the other, imbue them with the corrupt ideology of adaptation, careerism, striving to crush the rivals for power and bigger incomes, a desire to surmount the social barriers which keep them from the top of the pyramid.

The closer to the top of the hierarchic ladder, the fiercer

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the competition between managers who seek to break into the ranks of the field marshals of American industry. Battles fought between the top executives seldom become known to the public. This world with its special “rules of the game” concealed from outsiders is described with inside knowledge in contemporary American literature. Its dense net of intrigues, tripping up of superiors by subordinates and of the more dangerous “young” rivals by the veterans, the forming of alignments, the constant succession of coalitions fighting each other—such is the unseemly life of the “flower” of the American executives, whom bourgeois ideologists call the “intellectual élite”.

The bureaucratic system dominating the capitalist corporations and created by them shows what deep abyss exists between the overwhelming majority of the factory and office workers and the small group of careerists who are eagerly fighting their way to the top for the glory of the financial oligarchy. But this is not the only thing it reveals. Monopolies sow the seeds of stagnation and parasitism wherever they dominate. Bureaucratic degeneration, the implanting of the latest caste system, the moral emasculation of the personality, universal worship of the almighty dollar—such are the inevitable fruits of capitalist management in the age of finance capital.

3. The “Market” of Top Executives

Capitalist managers who reach the apex of the corporate “ladder” become part of the monopoly bourgeoisie, but they, as before, remain hired employees of finance capital. A top executive can be dismissed from his post if he does not really control “his” company.1 His income is determined by the contract with the corporation. The charter of the corporation or the rules drawn up by the board of directors set the maximum term of his stay in the leading post and

the age when he must retire. In contrast to the real owners of the corporation, he can leave “of his own accord” and take another position if offered a higher salary.

The existence of a market of top executives in the United States is a real fact, also admitted by bourgeois authors. One of them cynically called it the “executive flesh market”.1 Here, like at any market, there is a supply and a demand. The supply is a result of different reasons, of which we shall mention the main ones: the difference in salary and the possibility of finding a better place in another company; dismissal of “insufficiently capable managers” or managers guilty of misbehaviour; bankruptcy or absorption of middle-size and big companies, which leaves their top executives jobless for a time; the existence of a group of civil servants and brass hats associated with the business world who are ready to take a well-paid post in big corporations; the large-scale “shake up” of the state machine which occurs periodically after the opposition party comes into office, and so on.

Since the monopolies prefer executives who develop within their own companies, the demand on the top executive market for outsiders is quite narrow, but it always exists within certain bounds. The system of “internal training” at times does not work and the owners look on the outside for more suitable candidates for top managers. At times big companies after landing in difficulties decide to radically reorganise the system of management and look for capable people in other firms.2

Firms working for the government, especially war industry corporations, are on the lookout for government officials, generals and admirals who, when they receive a post

1 O. Elliott, op. cit., p. 96.
2 At times this leads to wholesale “buying up” of executives. At the end of World War II, a group of officers in the U.S. Air Force who had been engaged in the planning of strategic bombings decided to unite and hire out to a firm wanting to renew its managerial personnel. A splendid luxuriant prospectus was printed and sent to 20 different companies. The best terms were offered by Ford Motor Company: the immediate paying of good salaries, the promise to give blocks of shares and high managerial posts in a short time. Of the 10 officers “bought” by Ford, 5 eventually became vice-presidents and one, Robert McNamara, president (L. Tanzer, ed., The Kennedy Circle, Washington, 1961, pp. 176-77).
in a private company, preserve their connections with government institutions, upon which the distribution of contracts depends. Thus, the market for top executives is one of the spheres in which the tendency for the coalescence of the monopolies with the bourgeois state is displayed.

The existence of a market for managers has led to the setting up of special companies engaged in the placing of managers. For a fee they accept orders of companies to lure managers from other firms; they find more lucrative positions for managers who want to change jobs or for those who lost them. Luring away managers is the most profitable business of these firms, which even the bourgeois press has named "man-hunters". According to calculations of the American Association of Managers, about 85 per cent of the big companies are actively "hunting" for specialists employed in other companies, and they are ready to pay big money to the go-betweens.

Like any commodity, a manager has his use value and exchange value. The use value is the ability to perform the functions of capitalist management. Owing to the duality of the latter, a manager must combine qualities needed for guiding the production process as such and also for the exploitation of the working class and the extraction of profit by crushing competitors and exploiting small capitalists and shareholders through various financial manipulations.

The exchange value of a manager is largely an irrational magnitude. Only to the extent to which a manager really participates in the production process (and, as we have seen, this applies only to the lower and middle echelon) the value of his "labour-power", placed at the disposal of the capitalist, is determined by the sum of the socially necessary expenditure for its maintenance in a normal condition and for reproduction. But the remuneration of a top executive includes not only these expenses which by themselves, of course, are much higher than the outlays for the maintenance and reproduction of the labour-power of a worker, but also a certain part of the surplus value appropriated by a top executive.

In this sense the value of the "labour-power" of the top manager is as irrational as, for example, the value of fictitious capital. The top executive gets the share of the profit coming to him, but the proportions in which it is divided between him, the small stockholders and the finance-capitalist is determined neither by the social outlays of labour nor by the rate of interest, nor the rate of profit (since the manager does not invest his own capital in the business), but by the actual relationship of forces between these three groups. If we abstract ourselves from this circumstance, the remuneration of a top executive, all other conditions being equal, is determined by the mass of profit retained with his participation.

Thus, while the lower-link manager, selling his managerial ability, gets a salary covering the socially necessary outlays for the maintenance and reproduction of this ability and the middle-link manager, in addition, gets a small part of surplus value, the top manager, selling the same ability, receives in money something incommensurable with these outlays, namely, the right to receive a definite part of the surplus value created by others.

There are no official statistics of top managerial incomes in the United States. From time to time, more or less general data on this question are published by authors, journals or organisations. The adverse aspect of these data is that they are hardly comparable because different criteria are taken as a basis of the studies. Moreover, as a rule, these data cover only the chief executives of corporations, chairmen of the board and presidents and do not include the highly paid vice-presidents. Lastly, not all the forms of incomes of executives are presented in these data, which greatly reduces their value.

This does not mean, however, that there is no basis for more or less complete and regular publication of relevant figures. On the contrary, there is such a basis. All companies whose shares are listed on stock exchanges must annually submit to the federal Stock Exchange and Securities Commission information on the salaries and additional

\[1\] In 1953, Hopkins, head of General Dynamics, hired as his deputy Frank Pace, Jr. He was guided by the following consideration: Pace "... does not have much business background, but as an ex-Secretary of the Army he knows procurement intimately. ... Pace's background in military procurement and his knowledge of Washington ways are invaluable assets to his company ... he (Hopkins) needed a good administrator on his side and picked the best bureaucrat he could find" (Fortune, February 1959, pp. 87, 174).
compensation of all their top executives. Under the law, they must also report this information in the annual proxy statements. But all these data which are kept in government institutions are not subject to regular publication. Bourgeois authors are using this valuable information in a way that is far from complete.

The first review of executive compensation on a countrywide scale was made by the American Management Association (AMA) on the basis of data for 1950-52. In 1954, the Harvard Business Review published a similar survey made by the McKinsey and Co. In subsequent years the same journal regularly published articles tracing the main changes in executive compensation.

A general regularity revealed by these data is that in the big American corporations the income received by executives is determined in the first place by the mass of profit received by the given corporation.

This conclusion reveals the nature of the manager's compensation: of importance is not simply the size of the firm, i.e., the relative complexity of management, as bourgeois economists assert, but the surplus value the manager extracts from the workers and the part he receives for his "efforts". The salary of a manager, however large it is, must remain within bounds that do not infringe the "sacred rights" of the finance-capitalists and do not place the executive in the position of the actual owner of the company. As for the lower boundary of compensation of corporation executives, we must take into account the relationship between big and small business. A manager who has the ability to administer a large corporation has the intrinsic desire to organise his own business. In present-day conditions such a manager has always a chance of entering into partnership with the owner of relatively small capital and becoming the co-owner of an independent enterprise. The size and profit of such an enterprise in the initial years (even if it is successful) cannot be big. But if such a profit is higher than the compensation of a manager of a large corporation, he will be directly interested in leaving the corporation. Thus, while the higher boundary of executive compensation prevents him from entering the rank of finance-capitalists, the lower boundary prevents him from becoming an independent businessman.

Now let us examine the concrete components of compensation, i.e., the actual forms in which a top executive appropriates surplus value (entrepreneur's incomes). His main compensation is a salary. All top executives receive a salary if they are hired employees, irrespective of the specific distinctions of compensation existing in various companies. In some corporations a definite post commands a definite salary and it does not change if one executive is replaced by another. If there is a difference it is fully determined by the length of service of the given executive in the company.

But in many cases a salary is fixed personally and is changed, depending on who holds the leading post. The salary of a manager, as a rule, does not depend on fluctuations in business activity, the size of profit and the results of a company's operation.

All these and other details of money and other compensation of top executives are determined by a contract. An individual contract has now become a characteristic attribute of hiring top executives.

Salary is not the only form of compensation. In most cases it is supplemented by other forms of which a bonus is the most widespread in the United States. In contrast to a salary, a bonus is not a fixed sum and can widely fluctuate. Outwardly the bonus depends on the financial results of a company's operation, but there are no strict formulas which American corporations follow. Bonuses and the system of paying them are veiled in top secrecy. At times even top executives do not know what bonuses are received by other executives in their own companies. Corporations which have bonus systems are reticent about their size and those which have no bonuses refuse to explain the reason why they do not introduce them. The cause of this secrecy is obvious. This is a mechanism for the redistribution of surplus value which the financial oligarchy does not want to make generally known, fearing dissatisfaction. 1

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1 "The general feeling seems to be that any discussion of bonuses awarded to executives can only arouse ill will and criticism on the part of stockholders, managers, employees and the general public" (Fortune, December 1956, p. 127).
Bourgeois authors stress that the main purpose of bonuses is to make top executives more interested in the results of their company’s operations. This is untrue. Originally, this form of compensation was connected with the possibility of supplementing the relatively modest official salaries with huge sums that did not have to be made generally known and could be lost in the maze of balance-sheets and other accounts. So long as there were no laws making it obligatory to publish the exact amounts of salaries and bonuses, the latter were the most convenient form for the concealed robbing of the stockholders.

Here is a case in point. Grace, who headed the Bethlehem Steel Corporation, received in 1929 a salary of only $12,000, but his bonus ran to $1,623,800: the bonus was 130 times bigger than the salary. From 1918 to 1930, Grace received a total of $10,595,000 in bonuses, an average of $815,000 annually.1

In the 1920s, about 60 per cent of the large U.S. corporations paid bonuses. But in 1929-32 and during the years of the depression, this form of compensation disappeared almost entirely because profits dropped precipitously. After World War II, when profits set new records, both the size of bonuses and the range of managers getting them increased. Fortune calculated that the total sum of bonuses rose to $330 million in 1947 and exceeded $615 million in 1956. In 1955, General Motors paid its executives bonuses exceeding $94 million; Bethlehem Steel gave 15 top executives $4.5 million (an average of $300,000).

In post-war years bonuses acquired a different economic purpose. They have been used as a way of compensating the top executive’s losses, resulting from the payment of income tax. While formerly the bonuses, as a rule, though not always, consisted of a lump sum in money, now they are most often given in the form of shares.

Here is how this system works out in General Motors.2 The corporation annually allots to the bonus reserve 12 per cent of its net profits remaining after deducting 5 per cent on the invested capital. The allotment must not exceed the dividend paid on the common stock. The distribution of the reserve is done by a special committee consisting of five directors1 which, at its discretion, can pay as bonuses only part of the appropriated sums. In 1955, the Bonus and Salary Committee distributed $95 million as follows: 15 per cent were earmarked for rewards to the lower-level managers who received a salary from $7,500 to $9,600. Then the bonuses for the other executives were fixed, including $6.2 million for the 12 top executives. The balance was turned over to a subcommittee of four top executives for distribution among the “middle-level” personnel.

The awarded bonus is paid by General Motors over five years in equal shares. The purpose of the “staggering out” is to reduce the size of the income tax and also to prevent the executives from deserting to other companies. According to the regulations, persons dismissed from General Motors lose the right to receive the outstanding part of the bonus, while those who leave of their own accord may receive it only with the sanction of the committee of five. The latter refuses to pay the outstanding bonus if the retiring executive is hostile towards the corporation or his behaviour in some way runs counter to its interest or if he engages in actions competing with the actions of the corporation, etc. All bonuses above $5,000 are paid both in cash and in General Motors stock. Money is allotted in an amount sufficient to pay the income tax, and the balance is given in stock.

After 1955-56, the total sum of bonuses to American executives began to decline. This can be judged from the following figures. In 1955, bonuses of $250,000 or more were received by 36 people, and in 1960 only by 10 (in 1963, by 14). In 1955, bonuses of this group exceeded their salaries by 220 per cent, and in 1960 by 110 per cent.2 Renunciation of bonuses or their reduction is explained by the fact that in recent years other forms of compensation offering better taxation loopholes have been devised and applied.

One of these is the “dividend unit”. A top executive gets

1 In 1955 the Committee of five was composed of ex-chairman Alfred P. Sloan, Henry C. Alexander, president of J. P. Morgan and Co., two Du Ponts and Earl F. Johnson, a retired vice-president. The size of the bonus was thus determined by direct representatives of the financial oligarchy.
additional compensation neither in cash nor in stock, on which a considerable tax would have to be paid, but in the form of dividend units, which are not taxable in any way. A manager who is awarded, for example, 100 such units gains for life the right to receive an income equivalent to dividends on 100 of the company’s shares.

The following two examples illustrate the change in the form of compensation. In 1959, Arthur Homer, chairman of the Board of Bethlehem Steel, received a salary of $200,000 and a bonus of $208,000. In 1960 the bonus system was abolished, but his salary was raised to $300,000, and he also was given 3,634 dividend units. At the existing level of dividend payments this brought him an additional $8,700 annually. Should he get a similar number of dividend units every year, in 12 years he would have, through dividend units, an annual income of $100,000, not counting other forms of compensation. Moreover, his fortune will not be affected by stock market fluctuations.

W. K. Whiteford, chairman of the Board of Gulf Oil, received in 1960 a salary of $175,000 and a bonus of $150,000. In addition he was also given 4,926 “stock units”. This brought up the total number of the units he held to 30,200. The dividend annually paid on these “units” amounted to $30,200. In addition, Whiteford had an option to receive 30,200 shares or a sum of money equivalent to their market value, that is, another $1.2 million. Thus, his additional compensation over and above his salary and bonus amounted to $207,200 in 1960 and his total income, to $532,000.

More widely developed and now one of the main forms of enriching the top executives is the stock option system.\(^1\) In 1953, 30 per cent of the companies whose securities are listed on the New York stock exchange gave their executives stock options; in 1954, 40 per cent; in 1957, 50 per cent and in 1959, 70 per cent.\(^1\) This system became so widespread that at the beginning of the 1960s a Congressional committee had to investigate this practice.

The option system works as follows. Top executives of a company are given the right to buy a definite number of its shares at a fixed price over a number of years. Since the stock quotations are usually on the rise this means that the executives are able to buy the shares at a much lower price than quoted on the stock market. After several years, a manager who has exercised his option, that is, bought shares at a fixed price and resold them at the market price, receives a big profit. In contrast to the usual income which is progressively taxed up to 70 per cent on incomes over $100,000, the profit made on exercising a stock option is considered a capital gain on which the maximum tax is 25 per cent. Up to 1951, there was a law taxing this income at the usual rate; moreover, the tax had to be paid the moment the stock option was exercised. This law was repealed by the efforts of the monopolies and moreover, the lower tax has to be paid now only after the stock is sold. This opened the door wide to the option system.\(^2\)

A few examples will explain the operation of this system. Whiteford, chairman of the Board of Gulf Oil, in addition to the $532,000 he received from the company also exercised in 1960 his option to buy 7,351 shares at $11.83 a share when the market price was $39.69. His capital gain was $175,394. The same year a vice-president of the Polaroid Corporation bought 3,040 shares at an option price of $17.63 when the market price was $218. His profit exceeded $600,000 (his salary and bonus were $55,700).

A vice-president of the Spiegel Company exercised his stock option, receiving a profit of $204,188, while his salary amounted to $87,500. General Motors had so “improved” the system of enriching its executives that they receive the profits directly without troubling to buy or sell the stock. If officials do not exercise their option in ten years General

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Motors pays them one-third of the value of options based on the market price at the time.\footnote{U.S. News and World Report, May 15, 1961, pp. 66-67.}

Neither the colossal salaries of the managers, nor bonuses, nor stock options have essentially altered the distribution of stock ownership, as was feared by some bourgeois authors. Ownership of stock by managers makes up less than 10 per cent of the total number of shares of the leading corporations. It does not at all follow, however, that the top executives in each large corporation may in the near future come to own sufficiently large blocks of its stock to place them in a position of control. The point is that until now most of the executives have used these shares not for accumulation, but for resale. The economic purpose of the stock option systems is really to make up for the "inadequacy" of other forms of managerial compensation.

There is ample statistical proof of this observation. The United States Stock Exchange and Securities Commission keeps a record of the acquisition and purchase of shares by "insiders", that is, executives, directors and chief stockholders of big corporations. The latter are obligated to submit this information to the Commission under the 1934 Act. This data shows a systematic and considerable excess of sale of shares by insiders over their purchase.

General information on the ownership of shares by American executives is quite hazy. The censuses conducted by the New York Stock Exchange place managers and owners of enterprises into one category. R. W. Goldsmith in a study, based primarily on materials for 1950, arrives at the conclusion that managers own from 5 to 7 per cent of the privately held shares, while the capitalists proper own from 59 to 85 per cent.\footnote{R. W. Goldsmith, op. cit., Table W-51.} According to Lampman's data, the typical owner of a fortune of $120,000 to $150,000 (there are quite many of them among top managers) places only 24.4 per cent of his wealth in stock.\footnote{R. J. Lampman, op. cit., p. 169.}

At the end of 1956, the president of the New York Stock Exchange stated that, according to his estimates, 50 per cent of all company officials own no shares at all. At the beginning of 1957, Fortune made public the results of a poll, from which it followed that the overwhelming majority of executives have no big blocks of shares.

Four and a half years later Fortune, summing up certain results of the stock option system, wrote, referring to top managers, that "a new class of well-heeled, but only vaguely informed investors" had appeared "whose personal financial transactions are carried on rather aimlessly with a very imperfect awareness of investment alternatives".\footnote{Fortune, September 1961, p. 106.} This statement indirectly confirms the fact that although top executives have in the last few years clearly increased their stock ownership, it still does not exert a telling effect on the alignment of forces within the monopolistic bourgeoisie. In 1959, F. Donner, chairman of the Board of General Motors, had only 28,879 shares of his corporation with a market value of $1,000,000. This was less than 0.01 per cent of the total. Fred Kappel, president of American Telephone and Telegraph, owned only 236 shares out of the 70 million, or 0.003 per cent.\footnote{O. Elliott, op. cit., pp. 36-37.}

We have analysed data for over 100 of the biggest U.S. corporations and established that at least in the last ten years there has not been a single case of any of the hired executives advancing to the ranks of their leading stockholders. In smaller companies there were such cases, but even then very rarely. Thus, there are no grounds whatsoever for statements about a radical change in the structure of stock ownership in favour of managers.

In addition to salaries, bonuses, stock options and other legal forms of executive compensation, there is also a semilegal form, namely, the use of company funds for paying the personal expenses of executives. In the case of top executives this form is quite an essential and integral part of their income. Harvard Business Review presents interesting data showing what part of the executives (from among the top and middle level) have their official and other expenses paid by the company.\footnote{Harvard Business Review, March-April 1960, p. 6.}

According to data presented in the journal, 73 per cent of the top executives go on business trips with their wives and in 83 cases out of 100 the company pays for them. In contrast to the middle-level management, they also enjoy...
privileges in covering expenses not associated with their business. The company pays for 87 per cent of trips to professional conferences, 83 per cent of professional journals addressed to the office and 27 per cent addressed to their homes, 82 per cent of the membership dues in professional organisations, 81 per cent of cost of entertaining clients in clubs and restaurants, 43 per cent of the cost of such entertainment at home, 48 per cent of the expenses on a personal car, 42 per cent of presents to business clients, 42 per cent of membership dues to clubs, etc. In Pittsburgh the exclusive Duquesne club admits only such executives for whom their company undertakes to pay the membership dues.

<table>
<thead>
<tr>
<th>Type of travel expense</th>
<th>Per cent of top managers whose company will pay for them</th>
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<tbody>
<tr>
<td>Transportation to destination</td>
<td>99</td>
</tr>
<tr>
<td>Room</td>
<td>98</td>
</tr>
<tr>
<td>Meals</td>
<td>97</td>
</tr>
<tr>
<td>Taxi, public transportation</td>
<td>96</td>
</tr>
<tr>
<td>Tips</td>
<td>95</td>
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<tr>
<td>Business entertainment</td>
<td>91</td>
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<tr>
<td>Car rental or mileage allowance</td>
<td>89</td>
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<tr>
<td>Phone calls home</td>
<td>63</td>
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<tr>
<td>Valet, laundry</td>
<td>53</td>
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<tr>
<td>Personal entertainment, reading, TV</td>
<td>22</td>
</tr>
<tr>
<td>Auto repairs</td>
<td>18</td>
</tr>
<tr>
<td>Theft, loss, or damage to personal effects</td>
<td>18</td>
</tr>
</tbody>
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Unfortunately there are no calculations making it possible to ascertain the total sum of this semi-legal compensation of top executives and the share of this source in the income of persons in this category. Some idea can be gained from individual examples. Robert Ingalls, Jr., the head of Ingalls Industries, received a relatively small salary and had a fortune of $10 million, but thanks to the extensive use of the company’s funds led a life as though he owned at least $50 million. He bought with company funds a yacht, the maintenance of which costs $200,000 annually. Of course, by far not all top executives can dip into the corporation treasury as into their own pocket. But according to very rough estimates, this source, depending on the circumstances, can range from 60 to 300 per cent of the main salary of the top executive.

There are also illegal ways of enrichment by executives, such as the acceptance of bribes from persons and firms interested in doing business with the respective corporations or the secret organisation of their own companies which are given the most lucrative orders.

Highly indicative in this respect is the scandal which broke loose in the Chrysler Corporation, the third biggest automobile company in the U.S.A. An investigation made in 1960 showed that the top executives of this company had systematically enriched themselves by organising their own companies which then received some of the most lucrative Chrysler orders. William C. Newberg, who had been Chrysler’s president, together with Ben Stone, a Detroit businessman, organised on a parity basis the Press Products Company, which sold automobile parts to Chrysler. In 1955, they sold it for a large sum and set up another one, the Bonan Company, along the same lines. Newberg provided it with contracts. In 1958, they repeated this trick, forming the Sango Company which, alongside sales to Chrysler, speculated in securities and oil lots. When all these shady deals came to light Newberg, besides resigning, had to pay Chrysler $450,000 as compensation for losses. These swindles made him a millionaire in a short time.

K. T. Keller, chairman of the board of Chrysler, together with his brother, organised the National Automotive Fibers as far back as 1940. It served as an intermediary in transactions between Chrysler and suppliers, receiving 5 per cent of the price of the parts. This firm became a monopolist in the resale of a wide range of articles needed for the automobile industry. In 1955, Keller’s son who was then a vice-president of Chrysler, bought control of the Therm-rite Co. which had an exclusive contract for the delivery of gas for welding equipment to the automobile company.

1 Fortune, May 1958, pp. 118, 228.
Jack Minor, another Chrysler vice-president, organised the Taxi-Ad Company which engaged in advertising Chrysler automobiles. This small business brought him about $12,500 annually. Rinehard S. Bright, another vice-president, bought in 1957 the G. M. Hall Lamp Company, which became the exclusive supplier of headlights for Chrysler. Paul C. Ackerman, another vice-president, bought a block of shares of a company which supplied automobile bodies for Chrysler; he also systematically accepted bribes from firms which wanted to get profitable contracts. Newberg, Keller and other Chrysler executives are not small fry, but typical representatives of the influential top managers who enjoyed the unlimited trust of the financial oligarchy. Exposition of their swindles in the business press staggered bourgeois America. The press spoke up about the need for earnestly taking up the "ethics" of the executive. As for the fate of the Chrysler executives, it will be described subsequently in a somewhat different context.

The inclination of top executives to swindling inevitably follows from their desire to get rid of their dual position, to discard the fetters of a hired official and become an independent capitalist. That is why such scandals occur at all rungs of the hierarchic ladder, from the lowest to the highest. The story of Carrol Shanks, president of Prudential, one of the biggest companies in life insurance, is instructive. He was closer to the top of the pyramid than the Chrysler executives. A former member of the Root, Clark, Buckner and Ballantine, a big Wall Street law firm, he was director of Morgan Guaranty Trust, National Biscuit and a number of other Morgan companies and a member of the board of trustees of the influential Committee for Economic Develop-

1 Fortune, November 1960, pp. 136-37.
2 Each manager has a desire to secure for himself an independent existence as a capitalist. Osborne Elliott cites the case of Edward Cole, a Chevrolet executive. "Instead of working for a large corporation, Cole's brother operates a sand and gravel business of his own. Is Ed ever envious of him? 'Sometimes I am,' he said. 'I've often had thought of having a business of my own. The one thing I regret about working for a corporation is that I can't leave it to my son or my heirs. [Our italics.—S.M.] My brother has that advantage—and there's a lot of satisfaction of that sort you simply cannot get in a corporate job. There is no compensation for that; the money isn't the thing'" (O. Elliott, op cit., pp. 226-27).

As president of Prudential Insurance he was getting an annual salary of $250,000 and was considered one of the most trusted agents of the Wall Street upper crust.

But he obviously "exceeded" his powers, engaging in a shady deal which brought him a profit of $400,000. Shanks owned a block of shares in the Georgia-Pacific Corporation which was getting big loans from Prudential Insurance. Taking advantage of his position, he bought about 12,500 acres of forest lands and resold them to Georgia Pacific at a huge profit. He borrowed the needed money from the Bank of America and deducted the interest (about $150,000) from his personal income, thus greatly reducing his income tax. The resultant scandal forced Shanks to resign.

When a top executive resigns, he loses the exclusive position he enjoyed when he was handling the affairs of a big corporation. His future is determined by the size of the capital he managed to accumulate and the amount of the pension he is entitled to under his contract. A pension plays a big part in the life of a retired executive, because it is equivalent to the ownership of a sizeable fortune. Thus, a typical top manager who after retirement is paid $20,000 annually for life, is able to live in a way as though he had capital of at least $500,000 invested in securities.

The size of the pension, as a rule, is determined in advance either by the terms of the contract or the general procedure established in the given corporation. In 1960, 84 per cent of the large American corporations had pensions for top executives. The average pension ranged from 17 to 33 per cent of his total money compensation (including salary and bonuses), amounting on the average to 26 per cent.

But in addition to a definite pension, there are also other forms of compensating a retired official. In 1960, 24 per cent of the big companies had a system of "deferred compensation", according to which the company undertook to pay him for a number of years a sum equal to his compensation for the last two or three years of service. If his salary at the moment of retirement, for example, was $240,000 and it was agreed to pay him altogether a two-years salary, he could receive it either in the form of $240,000 for two years
or $160,000 for three years, over and above the pension.\(^1\) Some firms annually credit their top executives with sums payable only after retirement. Ex-general Lucius D. Clay, chairman of the Board of the Continental Can Corporation, was credited in 1960 with $42,000, bringing up the total sum of such credits to $376,000. Clay received this money in 1962 when he retired. Whiteford, chairman of the Board of Gulf Oil, in addition to a large number of stock units, yielding an annual income of $30,000, is also entitled to a fixed pension of $7,800 annually and also to $33,000 under the “deferred compensation” programme.\(^2\)

Some corporations pay their retired executives large sums “for consultation”. Woods, president of Commercial Solvents, in addition to a pension of $20,600 received the sum of $50,000 annually for four years, as consultant.\(^3\)

Thus, even after retirement, top executives remain in the ranks of the capitalist class of the U.S.A.

4. Various Interpretations of the Social Position of Top Management

The separation of functioning capital from capital as property and the special position held by the top executives in the financial oligarchy is differently interpreted in American sociological and economic literature. This difference in views has deep roots: it extends both to the dual position of the top managers themselves and the attitude toward them by different classes and social groups of American society.

Early American works on this subject bear the imprint of petty-bourgeois democratic protest against the growth of the monopolies and the corporate bureaucracy serving them. In the mid-19th century, when the first railway trusts appeared extending their tentacles from the East to the undeveloped West, Henry Varnum Poor (1812-1905) made one of the first analyses of the social place of the executive. Poor clearly saw that the formation of trusts resulted in the separation of property in capital from the management of capital. He was afraid of the growing influence of managers who were usurping the power of the small capitalists, getting rich on other people’s property and craving to make a fortune at someone else’s expense.\(^4\) In his works, Poor did not advance a consistent programme of struggle against the monopolies, proposing only some measures for restricting their arbitrary actions and protecting small shareholders from “unprincipled managers”.

At the beginning of the present century, the views of Poor were taken up by other liberal critics of finance capital. One of them, Louis Brandeis, in a book Other People’s Money and in a number of decisions he pronounced as judge in cases of violations of anti-trust laws, attacked the power of the financial tycoons and their henchmen, branding their behaviour as immoral. However, Brandeis confined himself to demanding the undeviating observance of anti-trust laws and their improvement.

The positive aspect in petty-bourgeois criticism of the monopolies was that their authors, as a rule, regarded the top managers as representatives and spokesmen of the financial oligarchy. Lundberg, in his America’s 60 Families, considers managers a mere appendage to the leading tycoons. Replying to his conservative opponents, he wrote that the main fire should be directed not against managers, but those who stand behind them. He said he knew of no case when “non-ownersh”ip management has wrested any corporation away from the big owners”.\(^5\)

Petty-bourgeois criticism of top executives, which died down in the 1940s, was reanimated in recent years. In a book published in 1956, L. D. Gilbert\(^6\) assumed the role of ideologist of the small stockholder who was fighting against the infringement of his interests by hired officials of monopolistic corporations. Gilbert advocated “corporate democracy” and the transfer of the control over the corporations into the hands of the small stockholders.

Gilbert’s views, notwithstanding their petty-bourgeois

\(^3\) Fortune, May 1959, p. 234.
\(^4\) F. Lundberg, op. cit., p. 505.
\(^5\) L. D. Gilbert, op. cit.
origin, objectively link up with the apologetic concepts of the monopoly bourgeoisie. Whereas the direct apologists claim that "people's capitalism" and "democratisation of capital" do already exist in the United States, Gilbert, denying this, seeks to make his readers believe that such a phase of capitalism is fully possible. Gilbert's views do not present a serious threat to the rule of the financial oligarchy; they are even of advantage to the latter since they spread illusions among the petty bourgeoisie. Paraphrasing Voltaire's aphorism, the monopolists could say: "If there were no Gilbert, he should have been invented."

Gilbert's optimistic criticism offers a contrast to the deep pessimism of T. K. Quinn, another petty bourgeois whose views we have partly expounded before. Quinn holds that the growth of the monopoly corporate bureaucracy inevitably leads to the degeneration and weakening of capitalism, to the infringement of the "freedom of private enterprise" and political freedom. The machine of the giant corporations breaks, cripples and warps the most capable, gifted men from among managers, turning them into obedient officials in the service of the financial upper crust. "Our system of monstrous corporations under the control of non-creative specialists, who move automatically into office in subsequent generations, stands condemned.... Where will the leaders of the future come from? Surely not from the bureaucratic-minded subordinates of the third and fourth generations in giant corporations.... They are not creative towers of strength.... Our industrial society is responsible for this new, dependent generation and its moral failures." Quinn's positive programme boils down to breaking up the monopolies, to returning to "free competition" capitalism which, from his point of view, is the ideal organisation of society.

While the petty bourgeoisie expresses its attitude to top executives in half-hearted criticism and utopian recipes, the position of the monopoly bourgeoisie is displayed in apologetic concepts. The simplest line is to justify outright the existing order as the most rational and meeting the interests of the capitalist system. Authors of this trend claim that the managerial system is good because it corresponds to the "American spirit" and makes it possible to enrol in managing the economy the most capable and gifted people predestined for this activity practically from birth. O. Elliott engages in such embellishment of the corporate bureaucracy.

F. F. Drucker, L. Appley, D. MacGregor and other scientists have been specially active in theoretically justifying the managerial system. Their main postulates are as follows:

1. The work of the manager is a special profession, the art of directing the activity of people, intrinsic in any social system based on developed industry. In principle capitalist management in no way differs from management in socialist society; a bureaucratic hierarchy is a typical and universal form of management of the contemporary productive forces.

2. Managers are the chief and most active driving force of the economy. Modern production is inconceivable without managers. They are not interested in the quest for profit and subordinate their activity to the interests of society.

3. Capital is dissolved in the concept of manager; there is no difference in principle between the capitalists and the top executives, management is a category embracing both capitalist owners and managers. There is no longer a precise division of capitalist society into classes, no antithesis between labour and capital but only a totality of relations between two non-antagonistic groups—management and labour. This is "new capitalism" without classes and without exploitation, differing from the old capitalism.

After a detailed analysis of the social nature of the top executives there is no need for a detailed critique of these assertions. Let us merely note some epistemological roots of the bourgeois apologists of managerialism.

First, representatives of this trend deliberately ignore the dual nature of capitalist management and, moreover, the side which stems from the exploitation of wage labour. This is done to create an image of "new", "transformed" capitalism and picture the capitalist managers as "the servants of society".

Second, the difference between the lower and middle echelons of capitalist management which actually participate in the process of production and the top echelon which as a rule has no direct bearing on it, is ignored. From this follows denial of the decisive role of the working class in producing

\[1 \text{ T. K. Quinn, op. cit., pp. 108, 278.}\]
material wealth and the vesting of the manager with truly superhuman capabilities.

Third, they ignore the differences between the hired executive and the finance-capitalist and also the subordinate position of the former in relation to the latter. Yet it is this difference that contains the basis for an exact scientific definition of the social nature of the top managers and the place they hold in the capitalist system of social production. Managerialism is only one of the varieties of bourgeois apologetics of the role of the top executives. The concept of the “managerial revolution” is a more developed and more refined form of such apologetics. Usually its birth is associated with the name of Thorstein Veblen (1857-1929). This is not exactly correct. In his works Veblen quaintly combined petty-bourgeois criticism of the parasitic nature of monopoly with the idea of capitalism’s inevitable conversion into a technocracy, i.e., a society led by an élite of the technical intelligentsia. Veblen did not differentiate between the capitalist managers and scientists and engineers, combining both in the concept of “technocrats”. For this reason his concept, despite a number of ideas that are akin to Burnham’s, cannot be regarded as a direct forerunner of the “managerial revolution” theory.

Relapses of the technocratic theory, but without attacks on the “idle class” of capitalists, are also found in present-day American literature. B. M. Selckman, one of the exponents of this trend, proceeding from the colossal develop-

1 D. M. Gvishiani, a Soviet sociologist, made a detailed study of “managerialism” from a philosophical aspect. “It would be wrong,” Gvishiani writes, “to consider the rise of managerialism as a pure product of the apologetic thought of bourgeois theoreticians. Being a strictly apologetic bourgeois theory, managerialism at the same time is a reflection, in a distorted mirror, of the objective processes in the organization and management of modern production. . . . Having arisen in connection with the development of concrete studies in the organization and management of production, American managerialism theoretically is a variety of contemporary social psychologism which replaces a harmonious view of society by eclectic, voluntarist concepts. In practice, managerialism turns out to be the ideological banner of contemporary big capital which unites the reactionary forces for struggle against socialism and democracy” (D. M. Gvishiani, “Managerialism As the American Sociology of Business”, Upravlenie, No. 5, 1961, pp. 54, 92; see also D. M. Gvishiani, Sotsialologiya biznesa. Kriticheskiy ocherk amerikanskoi teorii menedzhmenta [Sociology of Business. Critical Essay of the American Management Theory], Moscow, 1962).

ment of technology during the contemporary scientific and technological revolution, asserts that a technocratic system is coming to take the place of capitalism.1

The “managerial revolution” theory originated in the 1930s, in conditions of capitalism’s general crisis and the tremendous sharpening of the class struggle when the monopoly bourgeoisie needed a comparatively plausible and more or less attractive concept for justifying the domination of the financial oligarchy as a whole. It appeared soon after a period of an especially swift growth of the corporate bureaucracy, i.e., after material on which it could rely had been accumulated.

The Modern Corporation and Private Property, a book written by A. A. Berle, Jr. and G. C. Means, was published in 1932. The authors did not yet speak of the “managerial revolution”. But, analysing changes in the distribution of stock of the large corporations and the legal mechanism of control over corporations, they arrived at the conclusion that this control had passed from the hands of large shareholders into the hands of top managers who are not the owners. This conclusion was the thing bourgeois authors needed to defend the financial oligarchy in the 1930s when public indignation ran high against the misuse of the monopolies which brought the country to its greatest economic catastrophe. The thesis of Berle and Means was taken up by commentators of the reactionary press (for example, Lewis Gannet of the New York Herald Tribune and R. Klepper of the Scripps-Howard newspapers) and utilised as “proof” that the financial oligarchy supposedly had been relegated to the background, was not playing a decisive role in the leadership of corporations and, therefore, was not responsible for the country’s economic troubles.

Thus arose the theory of the “managerial revolution”. In the 1930s it was not especially popular even in the bourgeois press, since it was as yet little elaborated and did not carry a snappy name. The heading “revolution” appeared later. Moreover, petty-bourgeois critics of the monopolies who became very active during the Roosevelt Administration furnished much more authentic material about the leading

monopolies. It was at that time that a fundamental collective work was completed—a series of monographs under the title *Investigation of Concentration of Economic Power*. An official publication, it convincingly disclosed the real scale of control over the country's economy by the Morgans, Rockefellers, Mellons, Du Ponts and the other wealthiest families.

But the ideas of Berle and Means were not forgotten. *The Managerial Revolution*, a book by J. Burnham, a former Trotskyite, was issued in 1941. Burnham's main conclusion is that the capitalist class is gradually losing its position as the dominating force of bourgeois society yielding it to another class, the managers. Burnham writes: "In simplest terms, the theory of the managerial revolution asserts merely the following: Modern society has been organised through a certain set of major economic, social, and political institutions which we call capitalist... Within this social structure we find that a particular group or class of persons—the capitalists or bourgeoisie—is the dominant or ruling class in the sense which has been defined. At the present time, these institutions and beliefs are undergoing a process of rapid transformation. The conclusion of this period of transformation, to be expected in the comparatively near future, will find society organised through a quite different set of major economic, social, and political institutions... Within the new social structure a different social group or class—the managers—will be the dominant or ruling class."

Burnham claimed that this was not a forecast for the distant future but a "revolution" which was under way, had traversed most of its path, and was even nearing completion. He speculated on the correct thesis that society could be controlled only by the class which controls the means (or to use Burnham's expression, "instruments") of production. If, he reasoned, in recent decades the means of production were actually falling under increasing control of the managers, how could the capitalists maintain their position as a ruling class?

In post-war years the "managerial revolution" idea struck root in American bourgeois literature and even became one of the main concepts for explaining contemporary capitalism. It was also exported to other capitalist countries. But Burnham's theory contained propositions which did not suit the monopoly bourgeoisie. He, for example, held that, together with the victory of "managerialism", capitalism, too, would perish sooner or later and private ownership of the main means of production would be abolished. A need arose to "rectify" Burnham, to delete from the "managerial revolution" the ideas that were frightening the bourgeoisie.

This task was undertaken by Berle. In the post-war period he published two books developing this concept: *The 20th Century Capitalist Revolution* and *Power Without Property*. Berle's main propositions resolve to the following (the quotations are taken from *Power Without Property* and the pages are indicated in the text).

Berle claims that a practically unnoticed "social revolution" has occurred and is still under way in the United States. The rule of the financial oligarchy has been abolished and its place has been taken by an "economic democracy", i.e., an "economic republic" where the multimillionaires remain, but their power is restricted by "democratic forces". How is this "new" system to be named? In Berle's opinion the terms "collectivism", "people's capitalism" and "non-statist socialism" are equally suitable. Businessmen, without suspecting it, are the main driving force of this "revolution". "The businessman will find that he is a politician and a commissar, perhaps even a revolutionary one" (page 3).

Berle considers the following three theses of utmost importance. First, private property has disappeared in the United States and the very concept of property has undergone a decisive change. Second, the owners of the biggest fortunes have lost control over the corporations which they had owned. Third, profit has ceased to be the main stimulus to the activities of corporations. These are far-reaching assertions. The only trouble is that none of them corresponds to the facts. Let us take Berle's arguments and see their true worth.

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He makes short shrift of private property. "We assume that our economic system is based on 'private property'. Yet most industrial property is no more private than a seat in a subway train, and indeed it is questionable whether much of it can be called 'property'" (p. 27).

Only a person who not only has the title to property but actually possesses it can be called an owner in the full sense of the word, according to Berle. When enterprises were small and they were owned by individual capitalists, these concepts coincided. But as enterprises grew in size and the individual capitalist was replaced by the corporation, only the "title" remained of the private property of the capitalists. Actual "possession", Berle asserts, at first went over to the managers and then supposedly also to the workers and other employees of the corporation.

Berle is right only in one sense. As the production of the material goods became social, the private owner of the means of production increasingly moved away not only from the production process but also from the management of his enterprise. But this merely proves that private property (and not property in general) has become obsolete in our age and must be replaced by social property. Epistemologically, Berle's mistake is rooted in the attempt to pass off the petty-bourgeois notion of property as an absolute truth. Thus, in an attempt to prove the "fictitious" nature of the private ownership of the stockholder in the means of production of a large corporation, he writes: "Ownership of a share of stock in the American Telephone and Telegraph Company gives the holder no right whatever to go off with a telephone pole" (p. 63). There is little weight in this argument. No one can prevent the shareholder from selling his shares and buying with the money he gets, if it is enough, a telephone pole. But that is not the main thing. Stockholders differ. The property of a small stockholder actually gives him only the right to receive dividends. But the big stockholder who singly or in alliance with others controls 5, 10, 20 or 30 per cent of a corporation's stock actually disposes of 100 per cent of its property.

Here we come up to the Berle's second main thesis—his assertion that the American multimillionaires, with few exceptions, have lost control over the affairs of corporations. The present-day manager, Berle claims, does not encroach on the sacred rights of the millionaire-owner. He merely ignores his will. The author naturally does not cite any examples for the simple reason that there are none in real life. In the rare cases when the manager clashes with one of the owners he does it because another owner is supporting him or he himself wants to become the owner. In all such cases the outcome of the struggle is decided by force measured in terms of dollars and cents. In such a struggle a manager who has taken the side of the weaker owners and in general has no financial support is foredoomed.

Berle's last argument is that a manager can run a corporation without having property because the passive mass of small stockholders blindly follows him. First, this is not a new development. In the 19th century financial tycoons, having captured control of a company, frequently sold their stock to mobilise resources for further seizures. It is clear that he could continue to rule the roost without having property only in the absence of opposition and taking advantage of the passivity of the main mass of the stockholders. Berle himself writes that as the number of small stockholders grows, disposal of their property is increasingly concentrated in the hands of insurance companies, pension and mutual funds, and other financial institutions.

One of the weaknesses of Berle's book is that it is unable to explain the reasons for the actions of an independent manager. Inasmuch as he is not the owner, according to the theory of Berle and others like him, consequently, the quest for profit is not the stimulus of his activity. According to Berle, the managers are moved not by the craving for money, but for power. Let us assume that this is so. But in capitalist society power without money means nothing. If a manager who owns no property is prompted by careerist considerations, the money which this abstract manager extracts accrues not to him but to the owner. Who of them will enjoy greater power—here is a question, the answer to which blasts to smithereens the entire concept of managerialism. Berle's arguments about profit and power are as groundless as all his arguments about property.

Berle's efforts to find a decent substitute to take the place of the "quest for profit" and even the "quest for power" make his ideas akin to managerialism. We can discern in his attempts not only a desire to embellish capitalism, but also
the feeling that the quest for profit is its weakest point, one of the main reasons of its instability. Profit obviously does not fit into the picture of "transformed capitalism" and Berle himself wants fully to delete it or in any case to change it.

Although the "managerial revolution" concept, specifically as it is developed by Berle and others of the same school, has been welcomed with open arms by the bourgeois press, serious criticism of it has been voiced, reflecting the views of the monopoly upper crust. This "criticism from the right", levelled at the apologetic writings of Burnham-Berlebrand, is quite instructive. Let us examine it in greater detail.

Fortune in an article entitled "Have Corporations a Higher Duty than Profits?" voices the obvious dissatisfaction of the financial oligarchy with the attempts to renounce private property and profit and ban them from the works of bourgeois sociologists. "A manager can say," Fortune writes, "he is putting 'fairness' or 'the good of society' ahead of profits, but the suspicion arises that he is merely escaping from accountability into a realm where there are no checks upon his power." (Our italics—S.M.)

These words reveal a great dissatisfaction with the attempts to picture a hired manager as being independent from his real masters and a fear lest the managers actually escape from the control of the latter. "The old way of describing the manager's responsibility," Fortune continues, "had at least the advantage of clarity: the manager's power came from a property right delegated to him for a specific purpose—profits; his scope was limited by this delegation and his performance could be tested in the market. In the new theory the manager is part of a self-perpetuating class, which appears in many lights to be superior to the group it replaced; but neither the legitimacy of its power, nor the limits, nor the tests of performance are clear." (Our italics—S.M.)

And so, again the real master, the finance-capitalist asks: is the power of the manager legitimate, has he the right to put himself in opposition to the owner and will he not try to rise above the owner, to usurp his power, to take away control from him?

The calls to give profit and private property back their

worthy place can mean only one thing: the manager is not a high priest of social justice, he cannot serve simultaneously all strata of society, he can and must follow only one rule—to ensure the profits of the finance-capitalists.

Thus, the "managerial revolution" concept is not fully suitable, in the opinion of the mouthpiece of Big Business. What is needed, according to Fortune, is "a theory that covers the actual contemporary behaviour of corporate management and is at the same time compatible with our economic and political principles".1

It is highly significant that when Galbraith in The New Industrial State, a decade after Berle, came to a similar conclusion of power vested in the "technostructure", Fortune repeated its critique of Galbraith in nearly the same language it used against Berle.

The "managerial revolution" has also been criticised by Ernest Dale. The clearest account of his views is to be found in an article entitled "Management Must Be Made Accountable" published in Harvard Business Review.2 He asserts that the "separation of ownership from management constitutes a serious threat to free enterprise". The danger is that such separation "may mean more rather than less freedom for managers—freedom from the influence of the owners whom they are supposed to represent". In his opinion, this is bad because "those who risk their capital" are deprived of control over the affairs of corporations. It is bad because the "self-perpetuating" group of managers cannot be an objective judge of its own activity. It is bad because managers not accountable to anyone will not voluntarily agree to limit their power and will become a scourge of society.

Dale proposes a system which would place the managers under control even in the absence of a controlling block of shares. Such a system, in his words, should include methods of group leadership, the extension of the rights of small stockholders and the presence on the board of directors of men who are not hired managers. The main thing is to increase the power of bank monopolies over industrial corporations. "The only workable alternative," Dale writes, "ap-

1 Fortune, August 1960, p. 108.
2 Ibid., p. 106.
pears to many students to be the replacement of the vanishing partial proprietors by a new and important group of owners: the institutional investors. These investors—mutual funds, life insurance companies, savings banks and pension funds, as well as the individual trusts managed by bankers—have always been an important potential influence. Today they are often grasped at as the shareholders' last straw." Dale thus carries his critique of the "managerial revolution" to the extreme. The demand to perpetuate the domination of finance capital over the top executives, utilising the power of the bank monopolies for this purpose, is crystal clear and its class meaning is stripped of any camouflage.

Some authors have voiced the opinion that the manager-owner "conflict" has been inordinately exaggerated or that it is entirely absent. They hold that the two "poles" of the monopoly top echelon—the finance-capitalist and his hired manager can and must coexist peacefully. This trend of bourgeois thought is represented specifically in the works of F. Harbison and C. Myers who, in contrast to the theoreticians of the "managerial revolution", deny that the managers have the opportunity to become the leading force of the capitalist system.¹

The difference of opinion in American bourgeois science in assessing the role of the top executives reflects the difference which actually exists between the ruling financial oligarchy and the hired managers of the monopoly corporations. The latter, as we have seen, are loyal servants of the financial oligarchy but it fears lest the servants rise up against their masters.

Do the top managers really control the leading industrial corporations in America? A full answer to this question can be given only after an analysis of the financial groups, given in Chapter 6. But here we can adduce a number of arguments.

First, it is clear that when a manager or a group of managers leave a corporation their influence on its affairs drops to a minimum or is even reduced to naught. A study made by Arch Patton shows that in a relatively brief period (1954-59) 47 per cent of the top executives were changed in the leading U.S. corporations. In 60 per cent of the cases at least two or three top executives were replaced. Moreover, numerous other cases of the wholesale change of leadership of managerial personnel were registered. "In other words," Patton writes, "a major shift has occurred in the top management of 55 per cent of this very large sample of companies listed on the New York Stock Exchange during the last six years."¹ Thus, it may be considered as established that the top management of the U.S. biggest corporations are fully replaced in 10 years on the average and in most cases more frequently.

Second, to demonstrate the control of managers over corporations use is frequently made of data on the composition of the boards of directors which exercise supreme authority in corporations. What are the facts and figures on this score?

In a study published in 1945, R. A. Gordon presented 1935 data on more than 100 of the biggest industrial companies.² Of the total number of their directors 43 per cent were hired officials of the given corporation. In 30 out of 84 of the biggest companies (about 36 per cent) hired managers had an absolute majority on the board of directors and in another 15 almost an absolute majority. But notwithstanding such a large number of executives on the boards of directors most of the biggest corporations were actually under the control of several leading financial groups.

Not relying on data of bourgeois authors, we made our own analysis of the composition of the boards of 110 biggest industrial corporations in the U.S.A. (data for 1960-61). The results of the analysis are presented in the following table (see p. 130).

The data reveal approximately the same picture of participation by executives in the boards of directors at different levels of the corporate top groups. Companies where executives have an absolute majority (50 per cent or more) prevail in no group. Of the 1,639 directors of 110 corporations only 634 or less than 39 per cent are hired officials of

¹ F. Harbison and C. Myers, Management in the Industrial World, pp. 81, 83, 85, 120. The same ideas were repeated in another book by these economists with C. Kann and J. T. Dunlop as co-authors (F. Harbison, C. Myers, C. Kann, J. T. Dunlop, Industrialism and Industrial Man, Cambridge, Mass., 1960).


<table>
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<th>Groups of corporations in descending order of annual sales</th>
<th>Number of corporations—share of hired managers on the boards of directors</th>
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<td></td>
<td>Over 50 per cent</td>
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<td>1-10</td>
<td>3</td>
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<td>11-20</td>
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<td>21-30</td>
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<td>31-40</td>
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<td>91-100</td>
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<td>101-110</td>
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<td><strong>Total</strong></td>
<td><strong>23</strong></td>
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The “managerial revolution” has made the biggest progress in companies where undisputed control belongs to one family. Of the 29 companies in which hired managers predominate on the board of directors, at least 12 are in this category. In another 14 companies the ownership of big blocks of shares by one or several families and also the strong representation of Wall Street bankers preclude any possibility of control by the hired executives. Information about two companies is lacking and only one, Bethlehem Steel, evidently is controlled by the top executives. But this control is of long standing and is not a product of recent decades. Moreover, control of this group has been based for a long time not only on its managerial position but also on the ownership of substantial blocks of stock.

Thus, we can draw a very definite conclusion: in so far as more than 100 of the biggest U.S. industrial corporations are concerned, they are not controlled by their hired executives and there are no signs of such a tendency.

* * *

The works of C. Wright Mills hold a special place in American non-Marxist literature.1 Criticising and exposing the domination of monopoly capital, Mills provided in his studies valuable material on this score.

Rejecting the “managerial revolution”, Mills regarded as wrong the views of those who assumed that, as before, the wealthiest families, the financial oligarchy proper, held dominating positions in the U.S. economy. What happened, in his opinion, was “the managerial reorganisation of the propertied classes into the more or less unified stratum of the corporate rich. As families and as individuals, the very rich are still very much a part of the higher economic life of America; so are the chief executives of the major corporations. What has happened, I believe, is the reorganisation of the propertied class, along with those of higher salary, into a new corporate world of privilege and prerogative.”2

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2 C. Wright Mills, The Power Elite, p. 147.
Mills considers that this reorganisation signified the coalescence of the chief executives with the richest families and the formation of a new and broader ruling group. "The chief executives and the very rich are not two distinct and clearly segregated groups. They are both very much mixed up in the corporate world of property and privilege."¹

Here, only one side of the matter is taken, while the other, no less important side, is ignored. The first is that the chief executives systematically replenish the ranks of the monopoly bourgeoisie and for their position perform the role of the former. In this sense we can agree that the advance of the chief executives signifies to a certain extent a "reorganisation" of the ruling class in the United States. But the second side of the matter, which we have emphasised throughout this chapter and deem it necessary to emphasise once again, is that the advance of the top executives does not signify their coalescence with the finance-capitalists, in relation to which they remain in a subordinate position. Whatever corporate "privilege and prerogative" this top group enjoys, however broad its power over the working masses and also the small and middle businessmen, it is not the owner and it is not the one which in the final count wields power. Managers come and go, but the power of the finance-capitalists, based on their wealth and ramified control system, remains so far.

The illusion of the supremacy of the managers and their equality and merger with the multimillionaires stems from the very nature of the separation of functioning capital from capital as property. A top executive is appointed by finance-capitalists not in order that he should constantly meddle in their affairs. Such a manager is called upon to replace the proprietor in everything except getting the lion's share of surplus value. A manager cannot discharge his functions successfully unless he is given broad powers and the opportunity to appropriate a definite part of the profit, in other words, unless he can live like a capitalist. Such are the rules of the game and, so long as the manager follows them, he looks like the actual proprietor of the corporation. But this situation remains in force only as long as he "suits" the finance-capitalists and enjoys their confidence.


So long as the boss or a group of bosses have a sufficient block of stock, they always retain control; the fate of a manager who becomes disobedient or does not cope with his job is always in the hands of this really top group. This social abyss between the manager and the finance-capitalist remains part of American life. M. Eccles, multimillionaire and head of a monopoly group in the Rocky states, expressed this attitude of the financial tycoon towards the manager as his subordinate and servant in the following laconic formula: "I don't care what the management is so long as it is successful."¹

No case has been recorded in the United States when top managers, acting on their own, have succeeded in wresting control of corporations from financial tycoons. But there have been many instances of tycoons making short shrift of undesirable top managers.

Colbert and other top executives of the Chrysler Corporation who were dismissed from their posts by New York and Pittsburgh bankers, offered no resistance: they lost the battle even before it began.

John J. Hopkins, a Wall Street lawyer, was the organiser and head of General Dynamics. Though he had no big block of shares, Hopkins acted as the company's sole dictator and the New York bankers put no obstacles in his way as long as his management brought them and their clients substantial profits. But as soon as business deteriorated the bankers deposed the "dictator" and put ex-Secretary of the Army pace in his stead. But the company's business further declined under Pace. When in 1961, Crown, a Chicago tycoon, captured control of General Dynamics, he hesitatingly removed Pace, notwithstanding the latter's extensive political and business connections. Crown had only one, but decisive advantage over Pace. He was the owner, while the latter was the executive. And Crown did not stand on ceremony when it was a matter of assuring his profits.

Jeremiah Milbank, a multimillionaire, owned 30 per cent of the stock of Commercial Solvents, of which J. Albert Woods was the chief executive. The Milbanks were not represented on the board of directors and no one, except themselves, knew about their potential control. They were

¹ *Fortune*, January 1961, p. 89.
interested only in dividends which began to drop disastrously in 1958 and 1959. The outraged millionaires decided to intervene. Acting through Harold H. Helm, chairman of the board of the Chemical Corn Exchange Bank, they demanded that the board of directors of Commercial Solvents dismiss Woods at once. "There were no public denunciations or taunts exchanged by the opposing parties," Fortune reported in an article aptly entitled "How Well-Bred Investors Overtake Management". "They confronted one another behind the closed doors of brokers' and lawyers' offices in downtown Manhattan, and in Commercial Solvents' headquarters on Madison Avenue. Here the sounds of struggle were completely muffled, and the contest was confined to the level of the board of directors... The battle was not prolonged. The decision [to dismiss Woods—S.M.] came after five days of hectic negotiation." And this notwithstanding the fact that of the 13 directors 8 were on the side of Woods. The Milbanks clearly showed their managers who was the boss and who was really in charge.2

The power of the top executives is quite real, but only so long as they remain obedient tools of the financial oligarchy.

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1 Fortune, May 1959, p. 135.
2 How little the situation has changed in the last four decades is demonstrated by the fact that the action of the Milbanks in 1950 was similar to a lesson they administered to the leadership of another company as far back as 1924. At that time the top executives of the Southern Railway had decided, by agreement with the Morgans, not to pay dividends on the stock. The same Jeremiah Milbank did not turn to the executives, considering them to be too small fry. He came to J. P. Morgan, Jr., and his partner Thomas Lamont and asked that the payments of the dividends be continued. Lamont quite coolly replied that they could not satisfy Mr. Milbank's request.

"Milbank, the story goes, said quietly: 'I'm afraid you, gentlemen, misunderstand me. I'm not asking you to pay a dividend. I'm telling you, I own control of the Southern.'

"Lamont and Morgan jumped to their feet. How many shares did Milbanks represent?"

"'Five hundred thousand shares,' was the reply.

"'Mr. Milbank, dividends will be paid on the Southern common,' said Mr. Lamont." (Fortune, May 1959, p. 135.)

Chapter IV
DEVELOPMENT OF BANK MONOPOLIES AND BANK GROUPS

In the previous chapters we analysed the laws governing the development and structure of the financial oligarchy primarily as they operate in the sphere of production. In other words, the subject was chiefly the large corporations in industry. But this analysis has now to go beyond the bounds of production as such. This is only natural. Management of modern capitalist industry, although separated from property in the means of production, is nevertheless subordinate to the latter. Capitalist property in the means of production receives its second, independent form of existence, which is a purely money form, of which the finance-capitalist becomes the personification. Thus, an analysis of the dynamics of industrial capital in the period of monopoly capitalism logically brings us to the analysis of money capital, the forms of its concentration and of the bank monopolies.

1. Further Evolution of Capitalist Property

The separation of capital as property from functioning capital has been engendered, as we have established, specifically by the evolution of the forms of capitalist property. This is one of the two initial points in our study. At the same time the separation of management from property leads to a deep-going transformation of the latter, not only of its form but also of its very substance.

Private property of a capitalist differs from the private property of a small commodity producer in that the element of expropriation is inherent in its nature. Private property
of the small commodity producer enables him to realise in the price of his commodity both the value of the means of production he utilised and also the value he added by his own labour. Private capitalist property, on the contrary, inevitably leads to the appropriation by the owner of the means of production of the results of someone else's unpaid labour.

Under monopoly capitalism, private property of a capitalist fully preserves this main attribute. At the same time the property of the finance-capitalist, in contrast to simple private capitalist property, has also a new attribute. It increasingly expropriates not only the proletariats deprived of the means of production and the mass of small commodity producers who subsist on the fruits of their own labour, but also the private capitalist property of a large group of people who are not finance-capitalists. In other words, the property of the finance-capitalists is the basis for appropriating both other people's unpaid labour and other people's private property in the means of production.

Finance-capitalists concentrate in their hands colossal property both in the form of productive capital and to a growing extent in the form of money capital. The latter is large in actual amounts but is relatively small. However huge the wealth of the plutocracy, it remains a small part of the total means of production owned by the entire capitalist class and of the free money capital which takes its source in the money savings of all sections of the population.

The total wealth of persons in the United States who own more than $50 million reached (according to our maximum estimate) $48,000 million at the beginning of the 1960s. This was no more than 10 per cent of the property of the entire capitalist class (persons with a fortune above $60,000) and less than 5 per cent of the value of all the liquid money capital owned privately. If the power of the finance-capitalists were determined only by these figures, the financial oligarchy would have been only a secondary stratum of American society subordinate to the much larger number of small and middle capitalists and in the sphere of money capital also to the petty bourgeoisie and the prospering top stratum of the proletariat.

But the whole point is that the private property of the finance-capitalists is capable of attracting and subordinating an enormous amount of other people's capitals and free money. In form these capitals and money remain the property of many million people but, in fact, they are adminstered by a numerically small upper crust, the plutocracy. The forces attracting other people's capital have been partly analysed in the preceding chapters.

The corporate form prevailing in American industry enables the finance-capitalists to dispose of the greater part of the productive capacity in industry by holding controlling blocks of shares. These, as a rule, comprise a small part of the total capital of corporations. Thus, the corporate form as such suggests the possibility of the conversion of the finance-capitalist into the omnipotent manager and administrator of the nation's productive forces.

The more functioning capital is separated from capital as property, the greater the ability of the plutocracy's capital to attract other people's capitals and the smaller the minimum block of stock needed for purposes of control. The growth of the corporate bureaucracy adds to the power of the finance-capitalist which stems from the possession of a controlling block; it also raises the efficiency of control, making it possible to reduce the block to a minimum. The dictatorship of the top executives over the mass of shareholders is merely a form of exercising the highly developed dictatorship of the finance-capitalists. By strengthening and developing the dictatorship of managers, the finance-capitalists extend to an unprecedented degree the ability of their private property to expropriate other people's private property and dominate it.

"Power without property", proclaimed by Berle and others, is in reality power to dispose of other people's property, by using as a base the private capitalist property of the plutocracy itself, reinforced by the corporate bureaucracy system. To gain a fuller picture of this new kind of power we have to turn to the banking sphere.

Whereas the owner of an industrial enterprise does not necessarily dispose of other people's capital (although the laws of capitalism make him do so in time)—the owner of a bank administers the money of others by virtue of the very character of banking. This applies both to small 19th-century banks and, especially, to contemporary big bank corporations. While the owned capital of industrial corporations is only at times smaller than the capital borrowed, in
the case of banks the considerable excess of loan capital over their own capital is the rule. At the end of 1965, the owned capital of 50 of the largest commercial banks in the United States amounted to $10,300 million, while their loan capital (i.e., deposits) totalled $132,200 million, that is 12.3 times greater. This shows that the ability of capital invested in banking to attract other people’s capital and utilise it as its own is at least several times greater than the similar ability of capital invested in industry. Actually, the difference is even greater if we consider not only bank deposits, but also other means of accumulating free money capital, i.e., consider not only commercial banks but also other spheres of banking.

For the industrial capitalist the appearance of the corporate form was the first stage of his conversion into the manager of other people’s capital. For the banker the conversion of his individual enterprise into a joint-stock company was merely his further development as the manager he had been earlier.

Dominating an industrial enterprise, the finance-capitalist disposes of its capital which always exists in three forms: productive, commodity and money. Control of the finance-capitalist over a banking institution places at his disposal capital existing almost exclusively in the money form. This difference as such is very important. So far we have assumed that control over an industrial company, ensured above all by a “controlling block” of shares, is based on money capital which is the property of the finance-capitalist himself. But this is not an indispensable requisite; to be more exact, it is only the first stage in subordinating industrial companies. In reality it is quite sufficient that the money for buying the controlling stock should be at the disposal of the finance-capitalist, but must not necessarily be owned by him. Such disposal of money capital stems from his control of credit.

The monopoly of banking greatly extends the boundaries of the plutocracy’s domination over free money capital and greatly increases its economic power. The growth of bank monopolies is the next stage in the transformation of private capitalist property and the conversion of the upper crust of the capitalist class into a financial oligarchy.

The transformation of the biggest banks from simple middlemen in making payments into omnipotent monopolists of banking occurred at the dawn of the monopoly stage of capitalism. Lenin gave the following description of this process: “The principal and primary function of banks is to serve as middlemen in the making of payments. In so doing they transform inactive money capital into active, that is, into capital yielding a profit. They collect all kinds of money revenues and place them at the disposal of the capitalist class.

“As banking develops and becomes concentrated in a small number of establishments, the banks grow from modest middlemen into powerful monopolies having at their command almost the whole of the money capital of all the capitalists and small businessmen and also the larger part of the means of production and sources of raw materials in any one country and in a number of countries. This transformation of numerous modest middlemen into a handful of monopolists is one of the fundamental processes in the growth of capitalism into capitalist imperialism.”

This process has gone on unabated in the monopoly stage. Developments in the 20th century show that, on the one hand, the power of the existing banks is systematically rising, and, on the other, ever new “modest middlemen” are steadily converted into monopolists of banking.

Nowhere in the capitalist world has this process been as intense and rapid as in the United States. At the same time this principal country of contemporary capitalism has displayed a great diversity of both methods of concentration and centralisation of bank capital and the forms in which the bank monopolies exist and operate. These forms are so numerous that at times they conceal from outside observers the true scale of the power wielded by the bank monopolies and the key positions they firmly hold in the U.S. economy.

2. The Bank Monopoly System

The term “financial institution” is accepted in bourgeois literature in general and American in particular for designating various institutions operating in the credit sphere. This

1 Fortune, July 15, 1965, p. 252.

term is also applied in official U.S. statistics which divides all capitalist enterprises and corporations into "financial" and "non-financial". Financial institutions are also subdivided into banking and non-banking.

In our opinion, the use of this terminology is permissible only if it is exactly stipulated that all such institutions are only different forms of bank capital (in the sense used in political economy), while the biggest of them are forms of bank monopolies. The differences in the methods of accumulating money capital existing between them must not overshadow their chief intrinsic common feature—fulfilment of the function of a loan capitalist, that is, of a banker.

Bank monopolies grow out of bank capital. What is the nature of the latter? It is capital invested in establishments which engage mainly in giving loans in the money form. That operations of such establishments are by far not confined to money loans does not change the substance of the matter because their main operation consists in selling money capital and the main source of their profit is the interest charged for loans in the money form. Nor does the nature of bank capital change in any way by the diversity of its sources and components. "... The actual component parts of the banker's capital (money, bills of exchange, deposit currency) remain unaffected whether the various elements represent the banker's own capital or deposits, i.e., the capital of other people. The same division would remain, whether he were to carry on his business with only his own capital or only with deposited capital."

Commercial banks and banks of issue absolutely predominated among establishments of bank capital in the epoch of pre-monopoly capitalism. This division reflected the functional specialisation of bank capital, and in most capitalist countries was completed already in conditions of free competition. In the United States for a number of reasons this process, which started in 1863, was completed only on the eve of World War I when the Federal Reserve System was set up.

Simultaneously bank establishments were further specialised. Commercial banks gave less loans on real estate, leaving this function to special mortgage banks. Savings banks, whose main passive operation was the attraction of small deposits of the poorest sections of the population. Commercial banks had hitherto engaged in the placing of securities but presently investment banks were set up which specialised in these operations. In a word, bank capital entered the monopoly stage possessing already various organisational forms which were a consequence of the separation of its various component parts.

The conversion of banks from modest middlemen into omnipotent monopolists is connected with their development into institutions of a universal nature. This is one of the chief manifestations of the monopoly nature of the biggest banks. Universalisation is expressed in the growing range of operations of banks which, alongside their old functions, engage in systematic supervision and control of the affairs of industrial and other enterprises, controlling the expenditure of their funds, etc.

But the universalisation of banks did not at all prevent their further specialisation. The division of labour between departments performing different functions was stepped up within banks. At the same time the division of labour was further extended between formally independent banking institutions which are interconnected by thousands of visible and invisible threads and in their totality express the intrinsic universality of banks.

The organisational separation of commercial and investment banks in the United States under the 1934 Glass-Steagall Act was a natural result of the further specialisation of banking and ultimately met the interests of monopoly capital, which needed a certain normalisation and strengthening of the banking system brought to the verge of bankruptcy by the deep economic crisis.

The legal divorce of these institutions became complete. Actually, as we shall see subsequently, they operate within the bounds of the selfsame monopoly groups and represent different branches of one and the same bank monopoly in which specialisation and division of labour are merely a different form of universality. In the new conditions special-

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5 It is interesting that the bill which served as the basis for the 1934 Act was drafted already at the end of the 1920s.
isation of banking is organically intertwined with the growth and expansion of the power of the bank monopolies.

Commercial banks compensated the loss of their investment branches by the further expansion of their trust departments which manage the capitals of other people. Since the end of the 1930s and especially after World War II, they took over the management of a considerable part of the pension funds. Trust departments have grown extensively and now are a major component of commercial banking. As a result, commercial banks have become even more universal institutions.

Investment companies of the “open-end” (and partly “closed-end”) type swiftly spread at the same time. Several functions of commercial and investment banking are intertwined in these institutions. Investment companies of both types are a special form of managing other people’s money capital on a trust basis and in this sense do not differ in principle from trust departments of commercial banks. Moreover, “open-end” companies, in so far as their passive operations are concerned, are an original type of a savings bank, which, on the one hand, secures to the investors (shareholders) payment of their money on demand and, on the other, utilises their resources for playing the stock market long. Lastly, both types of investment companies in most cases arose as branches of investment banks, as a machine for the wholesale buying and retail sale of securities. It is interesting that corresponding American legislation has preserved the right of “open-end” investment companies to participate in the primary placing of stock exchange securities, that is, vests them also with the main function of an investment bank.

At the end of the 1930s, another independent branch of investment banking arose, a company which manages and supervises the investment of other people’s capital in securities and advises on these matters. At present the sphere of activity of these firms (investment counsellors) encompasses personal capital running into thousands of millions of dollars.

The growing monopolisation in banking has been expressed not only in the further division of bank operations among the various institutions but also in the enlistment in credit functions of establishments which historically arose outside the sphere of bank capital. We refer above all to insurance companies.

At the very beginning of the monopoly stage more than two-thirds of the active operations of American insurance companies consisted of money loans to industry, transport, agriculture and urban construction. By that time the conversion of the insurance capitalists into bankers had been completed to a large extent. This tendency was fully consummated in conditions of monopoly capitalism. At the end of 1964, the assets of 49 of the largest life insurance companies were distributed as follows: long-term loans to industrial and transport companies, 40.3 per cent; mortgage loans, 36.7 per cent; loans to the government and government institutions, 6.7 per cent. Thus, the issue of money loans, which is the main distinctive function of bank capital, accounted for 83.7 per cent of all the active operations of U.S. insurance companies.

The insurance companies appear as a form of bank capital not only in their active but also in their passive operations. Insurance capital exercises a function similar to credit—it accumulates the free money resources of society and converts them into loan capital.

Originally insurance companies accumulated part of the surplus value created at capitalist enterprises. At a later period, chiefly at the monopoly stage, the development of life and property insurance enabled them to concentrate a considerable part of the money savings of various classes of society, including the modest savings of the working people, turning them into capital utilised in the interests of the financial oligarchy.

In this sense, insurance companies perform the same functions in capitalist society as other types of bank monopolies.

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1 “Large Investment Banking Houses were [at the end of the 1930s —S.M.] constantly scanning the financial horizon for new offerings. In the idea of investment companies they saw an almost unlimited supply of salable goods” (John A. Straley, What About Mutual Funds?, New York, 1938, pp. 72-73).

2 “The professional counsellor and his staff of analysts . . . were often ex-investment bankers, whose training and experience were readily adaptable to this specialised approach to investment problems” (Merwin H. Waterman, Investment Banking Functions, Ann Arbor, 1958, p. 88).

For nearly 40 years the share of insurance companies in attracting personal savings has remained at a level of 28-32 per cent, while the share of commercial banks sharply declined, from 38-40 per cent to 21-24 per cent.¹

Insurance companies have taken first place among bank institutions as a pump which draws the free personal money of Americans into the sphere of finance capital.

The general growth of bank capital in the United States is seen from the following data.

<table>
<thead>
<tr>
<th></th>
<th>1900</th>
<th>1929</th>
<th>1960</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commercial banks</td>
<td>10,000</td>
<td>66,000</td>
<td>258,000</td>
</tr>
<tr>
<td>(assets of loan</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>departments)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Commercial banks</td>
<td>3,000</td>
<td>30,000</td>
<td>105,000</td>
</tr>
<tr>
<td>(capital administered</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>by trust departments)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investment banks</td>
<td>600</td>
<td>10,000</td>
<td>8,000</td>
</tr>
<tr>
<td>and brokerage houses</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Life insurance</td>
<td>1,700</td>
<td>18,000</td>
<td>120,000</td>
</tr>
<tr>
<td>companies</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Property and casualty</td>
<td>500</td>
<td>5,000</td>
<td>30,000</td>
</tr>
<tr>
<td>insurance companies</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Savings banks</td>
<td>2,400</td>
<td>10,000</td>
<td>41,000</td>
</tr>
<tr>
<td>Loan and savings</td>
<td>500</td>
<td>7,000</td>
<td>22,000</td>
</tr>
<tr>
<td>associations</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investment companies</td>
<td></td>
<td>3,000</td>
<td>19,000</td>
</tr>
<tr>
<td>Private pension funds</td>
<td></td>
<td>500</td>
<td>29,000</td>
</tr>
<tr>
<td></td>
<td>18,700</td>
<td>149,500</td>
<td>682,000</td>
</tr>
</tbody>
</table>

The growth rates in the last 30 years were only half of those in the first 30 years (64 and 356 per cent respectively), but the actual increase from 1929 to 1960 was four times as large as from 1900 to 1929.

The figures in the table also reveal the systematically progressing tendency toward specialisation of bank institutions, with an increase in the universality of the monetary and credit system as a whole. While at the beginning of the century 70 per cent of the bank capital was concentrated in commercial banks, in 1960 their share declined to 55 per cent. This process has been growing in intensity. From 1929 to 1960, the increase in the share of other banking institutions has been almost twice as intensive as in the period from 1900 to 1929.

The structure of U.S. bank capital is not unique in the contemporary capitalist world. The tendency has been similar in the development of bank monopolies of Western Europe, Japan, etc.

Concentration and centralisation of bank capital is a general trend inherent in all types of banking institutions. But the degree of concentration differs both for the various capitalist countries and the various types of such institutions. The latter operate both in the sphere of bank credit and the capital market in general and in their specific branches. That is why concentration in the given case reflects not only the processes general for capitalist credit but also the special processes of the given subdivision.

All banking institutions attract the free money capital and money savings of the population. In this sense there is competition between them for a share of the total sum of such capital and savings and their concentration in the top institutions irrespective of their type. But not all banking institutions attract these funds in the same way and from the same sources. Commercial banks and property insurance companies mainly attract the free money available in the course of reproduction and circulation of capital. Life insurance companies, savings banks, loan and savings associations and investment companies accumulate chiefly personal savings.

Insurance companies attract capital by selling policies; investment companies by the sale of shares; and other banking institutions through deposits. Savings banks and loan and savings associations give chiefly mortgage loans and life

insurance companies, in addition to mortgage loans, provide long-term loans by buying bonds. Commercial banks offer loans for short and medium terms to operating capitalists. Each of these spheres has specific forms and conditions of competition, distinctions of historical development and special laws. All this affects the degree of capital concentration (see p. 146).

About 43 per cent of all bank capital in the United States is concentrated at 102 of the biggest bank companies (about 0.4 per cent of the total number of institutions in this sphere). Most of them are mammoth commercial banks and life insurance companies which constitute the main core of the banking segment of American finance capital. So far there are few multimillionaire companies among other banking institutions. Half of all the assets are held by 300 of the biggest institutions, comprising 1.3 per cent of the total.

The highest concentration is among life insurance companies where ten (0.6 per cent of the total number) account for almost two-thirds of the assets. Second place is held by investment companies; third by property insurance companies; fourth by savings banks and fifth place by commercial banks. The lowest level of concentration is among the loan and savings associations where 50 of the biggest companies have only 18 per cent of the assets.¹

Competition between various types of "financial institutions" can be viewed from two aspects: the relative importance of different spheres of bank capital and also the role these spheres play in the coalescence of the industrial and bank monopolies. Here we shall examine solely the first aspect.

As pointed out earlier, competition develops not only between various subdivisions of bank capital, but also within them. As regards both passive and active operations, there is no difference in principle between these two fields of competition. Hence it is basically wrong to reduce the whole

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¹ We disregard some specific forms of centralisation of savings banks (for example, the institutionalised union of most of these banks in New York) and loan and savings associations. One of the latest studies of concentration in California shows that if the holding companies in this field are also considered, three of the biggest (loan and savings) groups control 40 per cent of the assets of all the associations registered in this state (E. S. Shaw, *Savings and Loan Market Structures and Market Performance*, pp. 14–16).
matter to relations between various types of institutions, as is done by some authors.

Furthermore, there also exists no evident community of interests of all institutions in a given subdivision of bank capital. For example, a property insurance company buying the shares of industrial corporations does it in direct competition with other insurance companies, and, moreover, can pool forces with investment companies. As large buyers of industrial bonds top life insurance companies enlist the help of investment bankers to reinforce their monopoly position with regard to the smaller life insurance companies. And the investment banker seeks the support of a definite group of commercial banks and investment companies in competing against his rivals. Commercial banks unite with insurance companies and savings banks in an effort to combat opposite monopoly groups.

Analysing these processes during the "youth" of monopoly capitalism Lenin wrote: "In the matter of socialising the capitalist economy the savings-banks and post-offices are beginning to compete with the banks; they are more 'decentralised', i.e., their influence extends to a greater number of localities, to more remote places, to wider sections of the population. ... The savings-banks must seek 'profitable' investments for their capital, they must deal in bills, mortgages, etc. The boundaries between the banks and the savings-banks become more and more obliterated. The Chambers of Commerce of Bochum and Erfurt, for example, demand that savings-banks be 'prohibited' from engaging in 'purely' banking business. ... It goes without saying, however, that this fear is no more than an expression of the rivalry, so to speak, between two department managers in the same office, for ... the millions entrusted to the savings-banks are in the final analysis actually controlled by these very same bank capital magnates."

Since the time Lenin wrote these lines the merging of various types of banking establishments into monopoly bank groups has developed on a colossal scale. As the "boundaries were obliterated" between various subdivisions of bank capital and the establishments in these subdivisions were increasingly subjugated by the very same bank capital magnates, the centre of the struggle shifted from competition between the various subdivisions into conflicts between bank groups, each of which consists of establishments of various types.

"The big enterprises, and the banks in particular," Lenin wrote, "not only completely absorb the small ones, but also 'annex' them, subordinate them, bring them into their 'own' group or 'concern' (to use the technical term) by acquiring 'holdings' in their capital, by purchasing or exchanging shares, by a system of credits, etc., etc."\(^1\)

Unrestricted competition between independent establishments within one or several banking subdivisions was typical of the period of pre-monopoly capitalism. For imperialism, competition between bank groups is typical. Let us see in what forms bank groups arise and develop in the United States.

**SUBORDINATION OF BANKING COMPANIES**

Various forms of organisation prevail in subdivisions of bank capital, reflecting specific varieties of capitalist private property. In this respect the American banking sphere sharply differs from the top group of industrial and commercial monopolies where corporations dominate. In a general way, the various forms of property in the banking sphere at the level of the biggest monopoly enterprises are as follows:

<table>
<thead>
<tr>
<th>Sphere of banking</th>
<th>Prevailing form of property</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commercial Banks</td>
<td>Corporate</td>
</tr>
<tr>
<td>Investment Banks</td>
<td>Partnership</td>
</tr>
<tr>
<td>Life Insurance</td>
<td>Mutual society</td>
</tr>
<tr>
<td>Property Insurance</td>
<td>Corporate</td>
</tr>
<tr>
<td>Savings Banks</td>
<td>Mutual society</td>
</tr>
<tr>
<td>Loan and Savings Associations</td>
<td>Corporate with a limited number of shareholders, mutual societies</td>
</tr>
<tr>
<td>Investment Companies</td>
<td>Corporate, close to mutual society</td>
</tr>
</tbody>
</table>

\(^1\) Ibid., p. 211.
This diversity in the forms of property and also some legislative rules determine the specific features of subordination and control between establishments in various spheres of banking.

How in these conditions is the merger, coalescence and unification of banking establishments into bank groups achieved? We can single out three of the most important forms of this process: (1) the interlocking of corporate capital; (2) traditional ties; (3) interlocking directorates.

The interlocking of corporate capital, as it follows from the previous exposition, is not of general significance. But what is exceedingly important is that it concerns above all the very core of the bank groups, i.e., the commercial banks.

Data on share ownership of the biggest banks is quite meagre and indefinite. Up to recent times, commercial banks did not, as a rule, quote their shares on the stock market, preferring the more quiet sphere of sales “over the counter” (that is, through dealers) where price fluctuations are much smaller and there is greater possibility for control by the banks themselves. New issues of bank shares are timed either for the exchange of shares of absorbed institutions or they are placed by subscription (or quotas) among a strictly limited range of persons and institutions or are handed over to the bank shareholders as dividends. All this offers the advantage of making it unnecessary for the banks to publish information about their biggest stockholders.¹

But who are these biggest stockholders?

The answer is supplied by annual reports of some banks, research done by certain authors and, lastly, by Congressional Committee reports, among which a very prominent one is the Patman Report published at the beginning of 1963 in the teeth of resistance by the big bankers. This report named 20 of the largest stockholders in each of the 200 biggest commercial banks of the U.S.A.

Our analysis of the annual reports of all the biggest New York banks showed, first, that banking firms of various types hold from 45 to 55 per cent of their own stock and, second, that in the last 20 years this share rose sharply chiefly through the increase in assets administered by trust departments.

The study by D. Durand dating back to 1951 shows that at that time institutional ownership of stocks of 15 New York commercial banks combined amounted to 56.8 per cent and of 20 banks in other cities to 35.1 per cent.¹ A poll of a number of executives of New York and provincial banks, made by myself at the end of 1962 and early in 1963, confirmed the preservation of this difference.

The Patman Report shows that in most cases the leading shareholders of the biggest U.S. banks are commercial and savings banks, insurance and investment companies. A considerable part of the shares of banks are held in their own trust departments or trust departments of other banks.²

Thus, control over the leading commercial banks (at least in New York, Boston, Los Angeles and other centres) is in the hands of these banks themselves and is based on the disposal of the colossal capital of others and also on alliance with insurance, investment and stock exchange companies. For this reason, the leading commercial banks which dispose of the biggest part of the assets of the banking system are logically the centres around which the monopoly bank groups or concerns are formed.

The traditional ties, which are the second prevailing form of the coalescence of the banking monopolies, are best of all traced in the relations between commercial and investment banks. Their formal division in the 1980s was accompanied by the prohibition mutually to own shares and to have interlocking directorships. Although these demands are not always observed, ties which rest on traditional and, partly, family unions have become the main method of preserving their unity.

In the 1950s, owners of the Morgan, Stanley Investment Bank were the former partners of the banking houses of J. P. Morgan and Drexler and Co. and their successors. The firm Harriman, Ripley and Co. was owned by the former partners or officials of the Brown Bros., Harriman (a com-

¹ Among the typical recommendations of bankers to government agencies is the proposal to narrow down further the names of persons allowed to examine the list of shareowners of commercial banks (National Banks and the Future. Report of the Advisory Committee on Banking to the Controller of the Currency, Washington, 1962, p. 105).

² Chain Banking, Stockholder and Loan Links of the 200 Largest Member Banks, Washington, 1963.
mercial bank) and several leading executives of the former National City Bank (now the First National City Bank of New York). Some former executives of Guaranty Trust (now a component part of the Morgan Guaranty Trust) were co-owners of the Smith, Barney Investment Bank. Harris, Hall and Co. of Chicago was owned by former executives of the Harris Trust and Savings Bank, a commercial bank which continues to operate.¹

Most of the biggest investment banks are organised as partnerships. This gives the bank monopolies a number of advantages. First, it offers maximum secrecy necessary for concealing ties with other banking institutions; second, control of a definite group of banks is ensured for a long period.²

There is a strict, legally formalised agreement between partners concerning the procedure for handing over their share of capital to heirs or other persons. For this reason in most cases control of an investment bank is preserved by the same group of bankers for decades. This helps consolidate the traditional ties of investment and commercial banks. In a number of cases, particularly when an investment bank is organised along the usual corporate principles, the traditional ties are supplemented by the interlocking of capital.

Such traditional ties naturally do not always exist. For example, the Lehman Bros., Goldman, Sachs and Company and Lazard Frères investment banks are not successors to any commercial banks and are themselves at the head of bank groups which include a number of investment and other companies. In these cases the partnership protects them from absorption by bigger groups headed by commercial banks.

It should be borne in mind, of course, that practically the entire sphere of investment banking is constantly credited by commercial banks. Investment banks keep deposits in the latter and receive from them loans for placing securities, organising syndicates, etc. Commercial bank loans issued for the purchase and keeping of securities amounted to $2,100 million at the end of 1947, $5,100 million at the end of 1960 and $8,500 million at the end of 1965.³ Moreover, commercial banks act as trustees, recorders and transfer agents of securities underwritten by investment banks and they pay dividends and interest on them. This community of interests of the commercial and investment banks supplements their traditional and corporate ties.

The third form of coalescence of banking institutions, interlocking directorships, is used most widely. While in corporations personal union is merely a supplementary method of control (alongside the intertwining of property), in "mutual societies" (most of the life insurance companies, savings banks and part of the loan and savings associations) it is the main and often the only means of coalescence and subordination.

Formally, mutual societies belong to their depositors (savings banks and loan and savings associations) or the policy holders (life insurance companies) who elect the board of trustees (which corresponds to the board of directors of corporations). Practically, this signifies extreme "decentralisation" of property and votes which enables one and the same board of trustees to rule the roost unhindered for many years without fearing an attack from any quarter. To capture a mutual society and to oust the existing management is practically impossible because no group of capitalists is able to buy up most of the insurance policies. Thus, the possibility of perpetuating the power of a clique of bank tycoons in mutual societies is even greater than in corporations and, moreover, there is almost a 100-per cent guarantee against encroachments on control by competing groups.²

This partly explains why most of the biggest life insurance companies, though originally organised as joint-stock companies, were later on turned into mutual societies.³

² According to R. Mehr and R. Osler, insurance companies are often controlled by two or three executives (or their relatives and friends) who hold a working majority of the stock. Mutual societies are often controlled by several executives who have a working majority of the votes, holding policies themselves and having proxies of other policyholders. Apparently between the two types of insurance companies there is practically no difference in methods of control (see R. Mehr, R. Osler, Modern Life Insurance, p. 586).
³ See also V. Perlo, op. cit., pp. 81-82.
Metropolitan Life Insurance completed this metamorphosis as far back as 1915; Equitable Life of New York in 1915-25, and Prudential Life of America in 1943. But renunciation of the corporate form entails a number of inconveniences for the big owners. First, they lose the dividends which under the high profitability of insurance companies are quite large.\(^1\) Second, it is difficult for a mutual society to absorb other companies. That is why the mainsprings which impel a joint-stock company to turn into a mutual society can be revealed only if this problem is considered in the light of the coalescence of banking institutions. Mutual societies which bring no profit are an absurdity only from the viewpoint of “free competition” capitalism. For monopoly capitalism it is a tangible form of subordinating specialised banking institutions (which enjoy special advantages in accumulating the personal savings of the masses and converting them into loan capital) to the real centres of the bank groups, i.e., primarily commercial and investment banks.

Thus, “the absence of profit” in mutual societies is only an outward attribute. Insurance companies, savings banks and similar institutions become additional reservoirs of loan capital for the bank monopolies. They enable the financial tycoons to trap much bigger profits than they “cede” when giving up the corporate form.

But let us get back to the interlocking directorates and see how they tie the mutual societies to the centres of the bank groups.

**LEADING LIFE INSURANCE COMPANIES**

1. Metropolitan Life Insurance Company. Of the 28 persons who held directorships in it in 1958-60, 23 sat on the boards of 18 other banking institutions. Particularly in-

\(^1\) Thanks to the exceptional intricacy and entangled nature of accounting, joint-stock insurance companies successfully underestimate their profits. In 1960, Connecticut General Life reported “earnings” of about $18.2 million, equal to $3.49 on the 2.4 million shares. But the well-informed investment bank of Kidder, Peabody and Co. held that the “true” earnings were $9.27 per share. “Financial Information about life insurance companies—particularly on a life company’s earnings—is hard to come by,” Business Week wrote. “... Annual reports of the life insurance industry are the poorest of any major industry in the U.S.” (Business Week, July 29, 1961, p. 62).

2. Prudential Insurance Company of America. Of the 29 men who served as directors of this company in 1959-60, 18 were simultaneously on the board of other banking institutions, including two in the Morgan Guaranty Trust and six in the Fidelity Union Trust of Newark.

3. Equitable Life Assurance Society of the United States. Of the 40 directors (in 1960), 19 sat on the board of other banking companies, including four in the Chase Manhattan Bank and three in the Chemical Bank New York Trust. In other words, almost one-fourth of the Equitable directorate interlocks with the boards of these two powerful monopolies of the New York financial world. It is indicative that the chairman of the board of Equitable has invariably been a director of the Chase Manhattan Bank, while the President of the latter D. Rockefeller sits on the board of Equitable. The personal union of these two institutions is highly developed. By the way, the Chase Manhattan Bank does not rule here single-handed but relies on allies, among whom Chicago bankers stand out. In 1954, James Oates, a director of the First National Bank of Chicago and a number of other big Chicago corporations, became president and chairman of the board of Equitable. Shortly afterwards he was also elected director of the Chase Manhattan Bank.

4. New York Life Insurance Company. In 1960, 12 of its 23 directors were also represented on the board of other banking institutions. Morgan Guaranty Trust enjoys the biggest influence in this company. There is a reciprocal personal union between the two (in accordance with a long-standing tradition, each chief executive is a director in the other company). But the control of this bank is not absolute because other leading New York banks, usually rivals of Morgan Guaranty Trust, also hold quite strong positions in the insurance company.

5. John Hancock Mutual Life Insurance Company. Seventeen of the 24 directors of this largest Boston insurance company hold posts in 28 other banking institutions of that

\(^1\) We have obtained all data on the personal union of these and other companies by processing the information published in stock exchange and biographical handbooks.
city. We have here a single Boston bank group, which includes institutions in the various divisions of bank capital.

Personal union as one of the main methods of creating bank groups is not limited to mutual societies. It also exists in insurance companies organised along corporate lines, supplementing the interlocking of capital characteristic of these forms. This is demonstrated by a study of the coalescence of banking institutions of Hartford, Connecticut, as revealed by the ties of three life insurance companies which have total assets of $12,600 million (third place in the United States after Metropolitan and Prudential).\(^1\)

The central place in the ties of these companies is held by two Hartford banks—Hartford National Bank and Trust (10 interlocking directorships) and the Connecticut Bank and Trust (4 interlocks). Both banks are represented in all the three companies. Two firms (Connecticut General Life Insurance and Travellers Insurance) are additionally interlinked through the Society for Savings and Riverside Trust. Aetna Life has special ties with Connecticut General Life Insurance through the Cooly and Co. investment firm. Thus we have a fully crystallised concern which unites, through a personal union, some 20 financial institutions of various type.

It is interesting to note that the leading New York commercial banks are represented in each of the biggest Hartford insurance companies. This reveals a certain dependence of this group on the Wall Street tycoons.

Of no less significance is the personal union of bankers in controlling property insurance companies, where the interlocking of directorates in most cases reflects an interlocking of capital and financial ties. Of the 20 directors of the Continental Insurance Company (the former American for Loyalty Insurance Group) 12 served on the board of other banking institutions. Manufacturers Hanover Trust enjoys prevalent influence here. The Insurance Company of North America (Philadelphia), the second largest among property insurance companies, is connected by interlocking directorships with 21 banking institutions. The influence of Morgan Guaranty Trust prevails here.

Investment companies have attained a high degree of capital centralisation thanks to the so-called management firms which control several companies.

Management firms, with rare exceptions (Lehman Bros., Dillon, Read and Company and some others), are not centres of banking concerns. This is explained, first, by the fact that the securities which comprise the assets of investment companies are most frequently kept in trust departments of commercial banks and, second, by personal union with more powerful bank monopolies.

Let us take, for example, the Vance, Sanders group. The stocks and bonds of one of its investment companies are kept with Brown Bros., Harriman, and of three others in the State Street Bank and Trust Company (Boston). The ties with these banks are not accidental. Two of the present chief executives of Vance, Sanders were partners of Brown Bros., Harriman up to the mid-1930s; one of the present partners of Brown Bros. (Louis Curtis) is special adviser of the Century Shares Trust which belongs to the Vance, Sanders group. The biggest of its companies, Massachusetts Investors Trust, has one interlock with the State Street Bank. But the personal union is not limited to these ties. The shares of Vance, Sanders itself are sold by Paine, Webber, Jackson and Curtis, a company close to the Boston bankers. The directors of the companies belonging to this group are represented in other Boston banking institutions.

Thus, the Vance, Sanders group is only a component of the broader group of Boston bankers which includes John Hancock Mutual, a company we discussed earlier.

The group of investment companies clustered around the Wellington Management Company, on the contrary, has no developed directorship links. But the fact that the securities it owns are kept in the First Pennsylvania Banking and Trust Company is decisive.

It is not our purpose to describe all the principal bank groups of the United States. The examples we offered were intended to substantiate the thesis that it is fundamentally wrong to analyse separately different subdivisions of bank capital, of banking and non-banking institutions and also to demonstrate the coalescence of these institutions into monopolistic bank groups.

\(^1\) *Fortune*, July 15, 1966, p. 254.
Chapter V
FINANCE CAPITAL.
ITS FORMS AND COMPONENTS

Lenin defined finance capital as “the bank capital of a few very big monopolist banks, merged with the capital of the monopolist associations of industrialists.... The concentration of production; the monopolies arising therefrom; the merging or coalescence of the banks with industry—such is the history of the rise of finance capital and such is the content of that concept.”¹

The concept of finance capital thus includes two basic elements: first, the existence of industrial and bank monopolies brought into being by the high degree of concentration of production and of capital, and second, the merger or coalescence of these monopolies and their capitals.

The merger of monopolist banks with industrial corporations requires their organisational unification in one monopoly. This is achieved, for example, either in the form of a concern wherein one holding company simultaneously owns industrial enterprises, commercial banks, insurance companies, etc., or in the form of the purchase of an industrial enterprise by a bank or vice versa.

The coalescence of a bank monopoly with an industrial one is attained without their unification in one monopoly, but through a close union sealed by financial ties, common big stockholders, personal union of the leadership, and so on. This is the more flexible and prevalent (at least in the U.S.A.) form of finance capital.

It is clear that neither the actual capital invested in industry nor the real capital invested in banking can be mutually absorbed and dissolved. Merging of this kind may take place only in the sphere of fictitious capital which reflecting the movement of actual capital indirectly also exists independently. The stocks of a bank do not essentially differ from those of an industrial enterprise. In securities the differences between the forms of real capital are obliterated.

Fictitious capital creates merely the opportunity for merging of bank and industrial capital but it is not identical with finance capital. The latter represents (at least in large part) monopolised fictitious capital, i.e., a high degree of its concentration in the hands of a small number of tycoons, which enables them to control simultaneously both banks and industrial corporations. A high degree of the concentration of fictitious capital reflects high concentration of production and banking. On the other hand, owning only a part of society’s fictitious capital, monopolists manage to command most of the real capital.

From the viewpoint of the individual owner of fictitious capital, bank and industrial capital merge insomuch as he does not care where his money is invested as long as it brings in a big profit. But the merger also takes place because monopolised fictitious capital almost always consists of the kind of securities which pass through the banker’s hands before they reach their owners and are administered by the banker even after they found their owner.

Furthermore, a considerable part of the fictitious capital of industrial corporations is directly owned or controlled by banks and thus becomes a part of their real capital.

Admittedly, not all fictitious capital is a part of finance capital. It does not include, for example, stock owned by a small shareholder. But the money he pays for the stock and also his bank deposit or life insurance premium, falling into the hands of the monopolies, become an integral part of their real capital.

From the viewpoint of individual owners of monopolised fictitious capital, bank and industrial capital are merged completely, but when it comes to the reproduction and circulation of the entire real national capital, bank and industrial capital preserve their independent existence. The circulation of each takes place according to its own pattern which is not altered by the fact that both belong to the same owner. That is why although the merger of bank and

¹ V.I. Lenin, Collected Works, Vol. 22, pp. 226, 266.
industrial capital may be observed in the movement of fictitious capital; they only coalesce in the movement of real capital. The one supplements the other.

This is the true meaning of the terms “merger” and “coalescence” in their application to the category of finance capital. An examination of this problem leads one to the conclusion that Hilferding’s definition of finance capital is extremely narrow. To cite this definition: “This bank capital, i.e., capital in money form, which is thus actually transformed into industrial capital, I call ‘finance capital’.”

We now turn to the actual forms of merger and coalescence of banks and industrial corporations and the capital invested in them as they take place in the United States. In consecutive order we shall deal with such major forms of this process as intertwining of capital (“participation system”), personal union and long-standing financial ties; problems relating to self-financing of the monopolies, the market in government bonds, etc., will also be considered.

1. Intertwining of Capital or the “Participation System”

In relations between banks and industrial corporations three variations of the “participation system” are possible: 1) banks own (or administer) stock of industrial companies; 2) industrial corporations own stock of banking institutions; 3) stock of both are simultaneously owned by third persons or institutions. All three variants are found in the United States, though their relative prevalence differs.

According to Fortune’s estimate dating back to the end of 1952, about $20,000 million (or 11 per cent) out of a total of $190,000 million of all American corporate stock capital was owned by “financial institutions”; the latter, in addition to banks, included non-profit religious, educational and similar establishments. Another $26,000 million in stock (or 13.5 per cent) represented personal capital administered by trust departments of commercial banks or similar institutions. Thus, the banking link of U.S. finance capital owned or administered 24.5 per cent of the country’s corporate capital.¹

These figures include all types of stock both of industrial and bank companies. Fortune noted that in the case of stock traded at regular exchanges (where securities of bank firms are not, as a rule, listed), these institutions owned and administered up to 30 per cent of such stock.² This figure also related to 1952.³

During the following years the shareholdings of banking institutions rose systematically (see table on p. 162).

In the opinion of Harvard Business Review, if personal capital administered by trust departments were included the share of the institutions cited in the table would rise to 30 per cent.⁴

These data, in our opinion, are underestimated. Exact information on the market value of fictitious capital administered by trust departments of banks is not available. The divergence between existing estimates at times reaches $20,000 million or more. V. Perlo, accepting the maximum estimate of the Trusts and Estates journal, concluded that 33-35 per cent of the stock in circulation could be ascribed to banking institutions (if he had taken the minimum estimate the share would have been approximately 25-26 per cent).⁵ We consider V. Perlo’s method to be the more justified. His conclusions, apart from their other merits, are confirmed by censuses conducted by the New York Stock Exchange.

In recent decades banking institutions have been buying most of the new stock issued in the U.S. and have been steadily increasing the purchase of stock in circulation. As a result their part in the ownership and administration of industrial corporate stocks has risen sharply and now represents 47.4 per cent of the value of all shares in circulation.

This percentage is high enough to ensure complete control over industry by the combined bank capital of the country.

² Ibid.
New York Stock Exchange Listed Stock Owned by Banking Institutions

(market value in '000 million dollars, year-end)\(^1\)

<table>
<thead>
<tr>
<th></th>
<th>1949</th>
<th>1955</th>
<th>1963</th>
<th>1965</th>
</tr>
</thead>
<tbody>
<tr>
<td>Insurance Companies</td>
<td>2.8</td>
<td>6.8</td>
<td>12.8</td>
<td>16.5</td>
</tr>
<tr>
<td>Including:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Life</td>
<td>1.1</td>
<td>2.3</td>
<td>4.6</td>
<td>6.2</td>
</tr>
<tr>
<td>Non-Life</td>
<td>1.7</td>
<td>4.5</td>
<td>8.2</td>
<td>10.3</td>
</tr>
<tr>
<td>Investment Companies</td>
<td>3.0</td>
<td>11.1</td>
<td>24.3</td>
<td>31.0</td>
</tr>
<tr>
<td>Including:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Open-End</td>
<td>1.4</td>
<td>7.1</td>
<td>18.6</td>
<td>25.5</td>
</tr>
<tr>
<td>Closed-End</td>
<td>1.6</td>
<td>4.0</td>
<td>5.7</td>
<td>5.5</td>
</tr>
<tr>
<td>Non-Insured Pension Funds</td>
<td>0.5</td>
<td>5.9</td>
<td>25.0</td>
<td>35.4</td>
</tr>
<tr>
<td>Common Trust Funds of Banks</td>
<td>0.2</td>
<td>1.0</td>
<td>2.2</td>
<td>2.9</td>
</tr>
<tr>
<td>Mutual Savings Banks</td>
<td>—</td>
<td>0.2</td>
<td>0.4</td>
<td>0.5</td>
</tr>
<tr>
<td><strong>Sub Total</strong></td>
<td>6.5</td>
<td>25.0</td>
<td>64.7</td>
<td>86.3</td>
</tr>
<tr>
<td>Per Cent of Market Value of All NYSE-Listed Stock</td>
<td>8.5</td>
<td>11.4</td>
<td>15.7</td>
<td>16.1</td>
</tr>
<tr>
<td>Philanthropic, Educational and Other Non-Profit Institutions</td>
<td>3.2</td>
<td>9.6</td>
<td>18.2</td>
<td>23.4</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>9.7</td>
<td>34.6</td>
<td>82.9</td>
<td>109.7</td>
</tr>
<tr>
<td>Per Cent of All Stock Quoted on the Exchange</td>
<td>12.7</td>
<td>15.8</td>
<td>20.2</td>
<td>20.4</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Total in U. S.</th>
<th>1956</th>
<th>1965</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number (mill.)</td>
<td>7,913</td>
<td>17,997</td>
</tr>
<tr>
<td>Per cent of total</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Including:</th>
<th>1956</th>
<th>1965</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fiduciary Institutions</td>
<td>263</td>
<td>608</td>
</tr>
<tr>
<td>Brokers and Dealers</td>
<td>708</td>
<td>1,352</td>
</tr>
<tr>
<td>Nominees</td>
<td>772</td>
<td>2,724</td>
</tr>
<tr>
<td>Institutions and Others</td>
<td>1,241</td>
<td>2,705</td>
</tr>
<tr>
<td><strong>Total of Listed Institutions</strong></td>
<td>2,984</td>
<td>7,389</td>
</tr>
<tr>
<td><strong>Per cent of Total</strong></td>
<td>37.7</td>
<td>41.1</td>
</tr>
</tbody>
</table>

Whether it represents real control or not depends, in every single case, on the circumstances. It is obvious that the degree of cohesion of the bank monopolies represented in a company and the size of their shareholdings, which may be quite different in each instance, is important. But 40 per cent seems to be characteristic of a number of the largest industrial corporations with the biggest capital and greatest number of shareholders.

The Annual Report of U.S. Steel, the largest trust in this industry, points out that banks also administer considerable stock registered as belonging to other owners. Thus, the share of banking institutions in the administration of this corporation's stock represents a minimum of 40 per cent but may be as high as 50 per cent.\(^2\)

Commercial banks and insurance companies are allowed to invest only a small part of their assets in stock. This restriction is a logical result of their "divorce" from investment banks but, as we have seen, commercial banks are the ones that administer most of the stock passing through banking institutions.

As for life insurance companies, the situation is different. Following the scandalous exposures at the turn of the century, the New York state law of 1906 (later also passed in other cities) completely prohibited stock investment. After World War II (in New York it was in 1951, for example) small stock investments were allowed.

In the 1950s the purchase of common stock by these companies rose considerably. But even if further relaxation of the law takes place, common stock will hardly become a principal asset of life insurance companies.\(^3\)

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\(^3\) In Britain where there are no such restrictions in 1955 common stock constituted 15.5 per cent of life insurance companies' assets, in Japan—35.4 per cent (World Insurance Trends, pp. 31, 48).
### Market Value of Stock Owned by 49 Largest Life Insurance Companies

*(million dollars, year-end)*

<table>
<thead>
<tr>
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<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Common stock</td>
<td>113.1</td>
<td>88.3</td>
<td>152.6</td>
<td>398.1</td>
<td>1,647.6</td>
<td>2,810.9</td>
</tr>
<tr>
<td>Preferred stock</td>
<td>17.5</td>
<td>232.8</td>
<td>588.9</td>
<td>1,272.9</td>
<td>1,595.8</td>
<td>1,990.9</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>130.6</td>
<td>321.2</td>
<td>741.5</td>
<td>1,671.0</td>
<td>3,243.4</td>
<td>4,801.8</td>
</tr>
<tr>
<td>Per cent of all the assets of these companies</td>
<td>4.6</td>
<td>2.0</td>
<td>1.8</td>
<td>2.9</td>
<td>3.2</td>
<td>3.9</td>
</tr>
</tbody>
</table>

Market long is of no special interest to life insurance companies since they are chiefly concerned with the reliability and profitability of the securities they own. In this sense one may say that the restrictions of the law are merely a reflection of the life insurance companies' economic role within a more or less orderly credit system.\(^1\)

In contrast, non-life insurance companies must see to the self-growth of their assets in order to counter the inflationary rise in the insured property's value. In the United States the size of the insurance premiums depends on the cost of restoring the lost or damaged property. Since the latter's cost continuously rises, as does that of repair and other services, insurance companies seek to compensate themselves by playing the market long. Their interest in stock is recognised by the law which, as distinct from the case of life insurance companies, imposes no restrictions on them in this respect.

In 1952, non-life insurance companies owned $4,200 million of stock (26 per cent of all their assets), in 1960—$8,500 million or 30 per cent.\(^2\) This percentage was considerably larger among the biggest companies—65 per cent for the America for Loyalty group and 56 per cent for the Insurance of North America group. These two groups held 15 per cent of the stock owned by all the non-life insurance companies in the U.S.A.\(^1\)

There are equally no legal restrictions on the purchase of stock by corporate pension funds.

Most of the large funds started buying common stock at the end of the 1940s. In 1950, only 10 per cent of their capital was invested in stock; in 1961-63 the share rose to 46-51 per cent. For the pension fund of the General Electric the figure was 32 per cent, and for the Bethlehem Steel fund, 70 per cent.

### Assets of Private Pension Funds

* (market value, year-end)

<table>
<thead>
<tr>
<th></th>
<th>1958</th>
<th></th>
<th>1964</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Mill. doll.</td>
<td>Per cent of total</td>
<td>Mill. doll.</td>
<td>Per cent of total</td>
</tr>
<tr>
<td>Total assets</td>
<td>28,167</td>
<td>100</td>
<td>63,352</td>
<td>100</td>
</tr>
<tr>
<td>Including:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Common stock</td>
<td>10,841</td>
<td>38.5</td>
<td>32,859</td>
<td>51.9</td>
</tr>
<tr>
<td>Corporate securities</td>
<td>11,883</td>
<td>42.2</td>
<td>20,536</td>
<td>32.4</td>
</tr>
</tbody>
</table>

As a rule, the money of a fund is invested in stock of various firms, but in some cases it is so concentrated as to turn the pension fund into a holding company. For example, at the end of 1965, the pension fund of Sears, Roebuck and Company had 88.1 per cent of its $2,700 million invested in stock of the same company (23.23 per cent of the company's stock, i.e., the controlling block).\(^3\) With the rapid growth of their assets pension funds may in future become one of the most important forms of the concentration of monopolised fictitious capital.

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Stock is the principal form of capital investment for investment companies (exceeding 90 per cent). But their stock holdings as a rule are diversified. This allows investment companies not to register as holding companies and in this way avoid paying the usual capital gain tax. Actually this means that investment companies may play an independent role only when controlling small firms; in large corporations they are merely satellites of other, bigger bank monopolies.

The share of investment companies in the stock capital of the country’s largest industrial corporations is small. But in corporations of smaller size their share increases, reaching quite noticeable proportions even in such firms as United Aircraft or Martin Marietta with assets of $400-700 million. Investment in Amerada Petroleum stock by investment companies in 1957 reached 75-80 per cent of the total value of its assets.

In recent years contacts between investment companies, on the one hand, and industrial corporations on the other have become closer. Industrial corporations keep the largest investment firms regularly informed on developments in their business. In a number of cases these corporations follow the “advice” provided by mutual funds.

While U.S. banking institutions as a rule own or administer stock of industrial companies, the latter rarely purchase securities of banking institutions. Such a purchase for purely investment purposes (receiving dividends or playing the market long) is hardly sound economically. Not that the owners of corporations fight shy of profiteering and speculation—quite the contrary. But stock of bank, insurance or investment firms is not a suitable field for this kind of activity. Fictitious capital of other industrial firms, real estate, etc., is of much greater interest. Therefore, if an industrial (or commercial) corporation buys stock of a banking institution it does so with the aim of gaining control over it; and control is required when such an institution is able to render services which are useful from the corporation’s point of view.

A curious amalgamation of bank and industrial capital is presented by Sears, Roebuck, a commercial and industrial corporation. We have already noted that the controlling block of its stock is owned by its own pension fund. On the other hand, as can be seen from the diagram below (see p. 168), directly or indirectly it owns all the stock of six banking firms, of which one specialises in the field of consumer credit, and the rest in life and non-life insurance. What distinguishes the latter is that in addition to their usual functions they hold the stock of a number of large industrial companies. The Sears, Roebuck pension fund and also two non-profit foundations created and controlled by it act in the same capacity. The concern’s total assets amount to about $10,000 million, of which almost half ($4,500 million) are in banking institutions.

It goes without saying that industrial corporations need not necessarily have banking institutions under their control to give loans. On the basis of a study of 276 industrial companies, Fortune concluded that many of them made short-term loans to other industrial firms and also to banking institutions. Twenty companies accounted for 32 per cent of all loans issued to dealers. Some big corporations, for

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1 According to the 1940 Act, investment companies are considered diversified if at least 75 per cent of their assets consist of either government bonds, cash, stock of other investment companies, or stock of other firms and if they do not exceed 40 per cent of the total common stock of such firms and represent less than 5 per cent of all the assets of the given investment company. However this does not apply to so-called venture capital companies if their stock capital and earned surplus is less than $100 million (W. Motley, The Investment Company Act of 1940 as It Affects Open-End Investment Companies, Boston, 1955, pp. 7, 18).

2 "Investors Diversified Services of Minneapolis [which heads the largest group of investment companies—S.M.] is visited almost daily by senior executives of companies whose securities they own. More often than not these executives bring with them their own economists to discuss with the I.D.S. management their viewpoints pertaining to their own companies and industries" (John A. Straley, What About Mutual Funds?, New York, 1958, p. 129).

3 "One analyst recently asked the officer of one big Connecticut firm why it continued pouring money into a division that was a steady money-loser. Apparently, the question was being asked by analysts from other groups having a position in the company's stock-mutual funds, investment companies, and insurance firms. Before long that company got rid of that division" (Business Week, January 31, 1959, p. 99).
Ownership of stock of both industrial and bank companies was partly examined when we dealt with trust departments of commercial banks. Their leading part in the formation and growth of finance capital is explained primarily by the fact that they are the centres concentrating huge masses of fictitious capital chiefly owned by the richest families of America.

Though in recent years even large banks have been administering small fortunes, they mostly serve the rich. As a rule, trust departments of large banks do not undertake to administer personal capital of less than $100,000. This means that less than 1 per cent of the U.S. population employ the services of trust departments. In the Morgan Guaranty Trust and United States Trust the client must have a minimum of $200,000; in the Bankers Trust, at least $300,000. Investment consulting firms in the same business usually set a minimum of not less than $250,000.

This system is officially justified by the unprofitability of administering fortunes below a certain minimum and also by the fact that trust departments must now have electronic computers for regular analysis of the ebb and flow of fictitious capital. But the bank’s principal interest lies not in the accruing profit, which is, generally speaking, much smaller than in loan-making. Administration of considerable capital gives banks something more—a chance to control client firms or at least to have a say in their business. Diversification of the administered personal fortunes (in the interest of the rich) does not in the least hinder the attainment of this aim as the sum of personal capitals adds up to impressive blocks of stock of many companies.

Not all of the millionaires entrust their fortunes to banks. Family holding companies, which simultaneously secure control over banks and industrial firms, are widespread in the United States. Most such firms have a limited number of stockholders and, therefore, data concerning them is withheld.

Some idea of the character of such companies may be derived from the report of Christiana Securities Company, a Du Pont family holding company, which had so expanded as to issue stock in the market (over the counter). But the directors of the firm are the Du Ponts themselves.

Christiana Securities assets (at the end of 1965) were distributed as follows:

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<table>
<thead>
<tr>
<th>Number of shares</th>
<th>Value of shares, million dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>thousand</td>
</tr>
<tr>
<td>E. I. Du Pont de Nemours stock</td>
<td>13,433.4</td>
</tr>
<tr>
<td>Wilmington Trust Co. stock</td>
<td>34.7</td>
</tr>
<tr>
<td>News Journal Co. stock</td>
<td>7.5</td>
</tr>
<tr>
<td>Hercules Powder stock</td>
<td>600.0</td>
</tr>
<tr>
<td>Other assets</td>
<td>—</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>—</td>
</tr>
</tbody>
</table>

The most striking thing here is that a seemingly modest holding company whose assets hardly exceed $120 million actually serves as the centre for concentrating fictitious capital of $3,300 million and the vehicle for controlling an industrial-banking complex with assets of at least $3,500 million (counting only E. I. Du Pont de Nemours and Wilmington Trust where the predominant position of the Du Pont family is indisputable). At times family or personal holding companies are concealed behind the signboards of closed-end investment companies.

For many millionaires the function of family or personal holding companies is performed by philanthropic organisations to which they hand over a part of their fortunes. At the end of 1965, these organisations owned NYSE-quoted stock with a value of $10,500 million. But the fictitious capital concentrated therein was considerably larger as much of the stock turned over to non-profit institutions was not quoted on any exchanges. For example, Ford Foundation’s assets exceeding $2,400 million consisted mostly of stock not traded on the open market.

Philanthropic foundations are exempt from payment of taxes, but they must either invest or give away all their current dividends. The biggest sums are passed on to universities, colleges, research institutions, and so on which, in their turn, invest them in securities. As a result such organisations themselves become, as it were, holding companies in which an impressive mass of fictitious capital is concentrated (apparently, not less than $8,000-9,000 million).

A study of the holdings of universities and colleges showed that an average of about 60 per cent of their assets were invested in stocks and about 30 per cent in bonds. The Harvard Endowment Fund was the largest at the time with assets of $500 million, 58.7 per cent of which consisted of stock. The breakdown of the stock portfolio, in turn, was as follows:

<table>
<thead>
<tr>
<th>Per cent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Industry</td>
</tr>
<tr>
<td>Railroads</td>
</tr>
<tr>
<td>Banks and insurance companies</td>
</tr>
</tbody>
</table>

For more than ten years this fund’s treasurer was Paul Cabot, head of the large State Street Investment Corporation and director of Morgan Guaranty Trust.

Besides family holding companies, philanthropic and education funds, the bank-industrial holding company as such is not widespread in the U.S.A. This was a result of the crisis in the 1930s when most of the public holding companies failed and the idea of such companies was discredited. Nevertheless they may be found here and there even now. Two such holding companies, Alexander and Baldwin, Inc. and Castle and Coon, control companies with assets of $1,200 million in the Hawaiis, of which $700 million are in banking institutions.

## 2. Long-Standing Financial Ties

The idea that ownership of bonds, making of loans, placement of securities and other “services” the banks render industry do not entail control over its affairs, should be

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1 The California Institute of Technology had 70 per cent of its funds in stock (Fortune, September 1959, p. 178).
2 All data on the Harvard fund are from J. A. Straley, What About Mutual Funds?, pp. 2, 54, 55, 57.
3 Including $19 million in Standard Oil of New Jersey stock.

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firmed rejected. Even though in most cases only owners of common stock enjoy the formal privilege of voting on company affairs, other forms of long-standing financial ties often play no lesser a role in the coalescence of bank and industrial firms.

**Bonds.** After World War II the financing of industry through the sale of bonds grew considerably. The value of new bonds sold by industrial and transport companies in certain years was as follows:¹

<table>
<thead>
<tr>
<th>Year</th>
<th>Million dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>1940</td>
<td>2,416</td>
</tr>
<tr>
<td>1945</td>
<td>4,855</td>
</tr>
<tr>
<td>1950</td>
<td>4,920</td>
</tr>
<tr>
<td>1955</td>
<td>7,420</td>
</tr>
<tr>
<td>1960</td>
<td>8,081</td>
</tr>
<tr>
<td>1965</td>
<td>13,720</td>
</tr>
</tbody>
</table>

The sale of bonds in the second half of the 1950s was 2-2.5 times greater than the pre-war peak registered in 1927. During the first ten years after the war, the value of bonds sold by U.S. corporations was 2.2 times greater² than their receipts from the sale of stock; in 1957-60, 3.7 times and in 1961-65, 4.4 times.³

Financial institutions are the principal owners and administrators of the stock of industrial corporations and they, too, are practically almost the only buyers and owners of their bonds. In the 1950s, over 95 per cent of the private bonds in the U.S.A. were purchased by insurance companies, pension funds and other financial institutions.⁴ At the end of 1960, the total corporate bond indebtedness amounted to $95,000 million, with life insurance companies owning such bonds for $47,000 million; property insurance companies, $1,700 million; pension funds, $14,000 million and commercial and savings banks, $7,000 million. In all, these institutions held three-fourths of the bonds issued by private companies.¹

Special mention should be made of the role of life insurance companies; their share rose from 17 per cent in 1938 to 48 per cent in 1960. The value of bonds of private firms owned by 49 of the largest of these companies rose from $4,400 million in 1929 to $42,600 million in 1960 and $49,400 million in 1964.²

Bonds play a big part in establishing long-standing financial ties between industrial corporations and financial institutions. This is due to several reasons. In the first place bond loans are made for a long period—more than 10-15 years as a rule. Insurance companies show special interest in lengthening the periods. In 1956, for example, Prudential Insurance and Metropolitan Life purchased $300 million of Union Carbide bonds with 3 ¾ per cent annual interest for a term of 100 years. Second, even large corporations which sell bonds sign agreements stipulating their dependence upon the creditors. A case in point is the agreement on the issue of United States Steel bonds in July 1958 (placed by a syndicate headed by Morgan, Stanley: payment and redemption through Morgan Guaranty Trust, trustee—the First National City Bank of New York; face value of the issue $300 million for 25 years at an annual interest of 4 per cent). It was stipulated that the corporation and its branches would not be allowed to sell their production buildings and plant if the net income from such sale were smaller, in the trustee's view, than the "fair" price of the property; the receipts from the sale of the plant could be used only to redeem the bonds. Some other additional terms were also included. All these terms could be changed only with the consent of the holders of two-thirds of the bonds.³

It should be borne in mind that all this pertains to the

largest U.S. steel trust and its relations with creditors of long standing. Even so these measures were taken to secure the latters' right to supervise the financial affairs of the trust and intervene if necessary.

In other cases when the financial position of an industrial company is shaky and it is badly in need of credit, much harsher terms may be imposed upon it. Thus, in 1950-60 Kaiser Steel Corporation, having sold $200 million of its bonds to insurance companies, agreed not to pay dividends on its stock and not to buy any new stock if this expenditure, together with private investments of the firm and its branches, exceeds 70 per cent of its net profit. Kaiser Steel undertook to keep its current assets at a level of at least $35 million. In 1957 and 1960, the same company sold bonds which, in addition to the terms mentioned above, could be exchanged for common stock at a fixed price after May 1, 1962. In this way insurance companies could convert their bonds into 9 per cent of the company's common voting stock.1

In 1952, the National Steel Corporation received a bond loan of $55 million, offering as security its plants in Weirton and Steubenville and enterprises of its branches and also 100 per cent of the stock of five of its affiliated companies. The right of the company to pay dividends was limited. In case of a three-month delay in the payment of interest the trustee (the First National City Bank of New York) had the right to demand immediate redemption of the whole debt and if the company were insolvent could claim the security which had been offered.2

Companies which are not so large and not a part of such groups are handled much more roughly. In 1953, the McLouth Steel Corporation of Detroit received a $78-million bond loan from insurance companies. Besides all other provisions, it was forced to hand over its preferred stock to General Motors (which participated in the consortium). Failure to pay dividends on this stock within a year would give General Motors the right to appoint most of the directors (i.e., gain full control over it).3

The examples cited are typical of bond issues in the U.S.A.


at present. In many cases they bind bank and industrial companies together no less firmly than the interlocking of stock capital. It should be stressed that there is no impervious boundary between stocks and bonds as means of control. Bonds may often be converted into stock, at times even with special privileges. As a credit document a bond is in all cases of higher standing than a stock (limitation of dividends, first mortgage rights, etc.). Ownership of the majority of a company's stock guarantees control only if its debt is small. If the debt is big, the large block of stock owned by a single capitalist loses its control function, and the creditor, i.e., the banker, becomes the almighty boss.

Term Loans have become a regular element in the activities of commercial banks and to a lesser extent of life insurance companies. These loans for medium and long terms (as a rule, up to ten years) do not imply the turning over of bonds to the creditor and, in contrast to credit, do not require pledges in the form of securities, real property, etc.

Statistical information on term loans is incomplete. According to an estimate by economists of the Federal Reserve Board, term-loan debts rose from $2,200 million at the end of 1939 to $10,400 million at the end of 1955.4 At the end of 1957, term loans totalled $15,400 million,2 or 38 per cent of all the credits given by U.S. commercial banks to industrial and commercial firms. Had this proportion been maintained term loans would have totalled about $27,000 million in 1965.

Commercial banks often make big loans jointly with insurance companies. The organisation of such syndicates, in which a number of banks and insurance companies participate, pursues several practical aims. The law sets a ceiling to the amount a bank may lend to one client (10 per cent of its own capital). Hence it is eager to receive the aid of other financial institutions in order to preserve its role as the head banker of a company. A syndicate prevents an industrial corporation from exploiting competition between cred-

tors in order to obtain more favourable conditions. In this way term-loan syndicates increase the financial dependence of industrial companies on the largest bank groups.\(^1\)

Of New York banks Morgan Guaranty Trust, whose money resources are much smaller than the requirements of the large corporations connected with it, is quite active in organising such syndicates. When a corporation needs, say, $100 million Morgan Guaranty Trust gives only $6-10 million, while the rest is offered by the syndicate participants it chooses.\(^2\)

Agreements on term loans made by banks usually include restrictions on payment of dividends, the requirement to retain a minimum of capital in liquid form, not to sell or mortgage property without the creditor's consent, etc., in other words, they hardly differ from the terms of bond issues. Almost all major term-loan agreements carry an extremely important manager clause. It makes the following provisions: should any changes in management which do not suit the bankers be made after the signing of the agreement, the latter have the right to demand either the appointment of executives at their discretion or the placing of the firm's controlling block of stock under bank trusteeship.\(^3\) As a rule, there is no need to resort to such measures because important changes in the firm's management are agreed upon in advance with the leading bank.

In making term loans, insurance companies increasingly demand so-called equity incentives. In addition to paying interest on the loan, the borrower is required to transfer to the creditors a part of his stock, to give them a share in his net profit, and so on.\(^4\)

Bank monopolies are aware of the wide control possibilities offered by this kind of loans and, therefore, they strive to turn their clients' short-term into long-term debts at the opportune moment (even if it results in a change of creditors, say, the transfer of a firm from a commercial bank to an associated insurance company or pension fund).\(^2\) Business Week states that when banks see that a borrower is unable to meet his current indebtedness, they try to induce the company to sell its stock or to obtain a long-term loan to restore its capital.\(^3\)

Long-term credit creates prolonged and firm ties of a different character between banks and industrialists. The First National City Bank of New York points out in its annual report that it engages not only in meeting the ordinary bank and credit needs of companies, but also handles their most diverse problems like evaluation of capital in preparation for a merger, analysis of needs in financing on the open money market, recommendations as regards the desirability and trend of diversification, and so on.\(^4\)

Thus, banks are increasingly playing the role of industrial corporations, just as the latter are increasingly playing the part of banks.

What happens to a big company when it becomes enmeshed in credit dependence is illustrated by the fate of the Underwood Corporation. This well-known manufacturer of office

\(^1\) "The smart corporate treasurer seeking to negotiate a term loan doesn't go just to one bank, but all his banks. In this way, the borrower is in a position to play off one bank against another, in order to get concessions in terms and on the rate that is charged. The banks, in turn, put together a syndicate among themselves to make a loan. When a corporation has one principal bank, it goes to it first, and that bank is most often the manager of the lending syndicate" (Business Week, July 30, 1960, p. 116).

\(^2\) "There aren't any better bankers than Alexander, Davison, and Dickey," commented the treasurer of one of the ten biggest US corporations, for which Morgan had handled a $30-million deal, though able to take only a $2-million to $3-million piece itself. "You just can't pay for the kind of service they give" (Fortune, April 1959, p. 221).

\(^3\) This method of company seizure was used by New York banks against Howard Hughes (see p. 319).

\(^4\) "It is true that the typical provisions of a term-loan agreement do give insurance companies considerable potential influence over the borrowers' affairs—greater influence than the lender would have as a holder of a block of common stock... The insurance companies are likely to intervene in the affairs of the borrower only to the extent that their loans appear to be in present or potential jeopardy" (Harvard Business Review, March-April 1960, p. 133).

\(^2\) Pension funds make loans to industrialists guaranteed by blue-chip securities. Clint Murchison, Jr., and his brother John (sons of the famous Texas millionaire) headed a group of businessmen negotiating a $4 million loan from the teamster union's pension fund. The group needed money to build luxury villas for sale in the vicinity of Los Angeles. Representatives of the fund stated they would accept a blue-chip security deposit of $6 million (Fortune, March 1961, p. 61).

\(^2\) Business Week, July 1960, p. 114.

equipment ran into financial difficulties in 1957-60 (caused by the competition of other firms). It was unable to repay a term loan of $16.5 million to Chase Manhattan Bank. "Wall Street wags were predicting that if things kept going as they were, Chase would wind up in the Typewriter business." Since Underwood was losing money, the bank was not interested in getting control over it; it wanted some other firm, willing to pay the debt, to buy it. Two investment banks—Merrill Lynch and Lehman Bros. undertook the job of finding a buyer, hoping to profit from the transaction. After a long struggle Merrill Lynch gained the upper hand and, with the consent of Chase Manhattan, sold two-thirds of Underwood stock to the Italian firm Olivetti. The change in ownership did not prevent two representatives of the bank from retaining their seats on the Underwood board of directors pending repayment of the debt and possibly considerably longer.  

One can often read in the literature on this subject that in post-war years not only small but even very large industrial corporations have begun to keep deposits in small banks and to draw on their credit. This is supposed to demonstrate the "decline" in the role of leading monopoly banking giants and the end of their omnipotence, terrorism, etc. However, such facts merely serve to prove the point that a growing number of small banks has been actually made to serve the big monopolies. For example, General Electric now does business with more than 500 commercial banks. A few years ago as many as 104 banks participated in giving the company a loan of $200 million. The need to resort to their services stems partly from the same cause which, as we noted above, leads to the creation of bank syndicates for term loans. Clearly, this particular case demonstrates not the lessening role of the large banks, but on the contrary, their increasing influence owing to a newly-discovered ingenious method of monopolising credit.

Relations between large industrial corporations and small local banks should be examined on a broad plane as an integral part and specific form of the formation of finance capital. It is obvious that local bankers inevitably become dependent on industrial monopolies which "do them the honour" of keeping a small part of their money there and accepting their loans. The local bank is, of course, in no position to refuse a corporation credit or to control it in a purely financial way. On the contrary, having gained some previous knowledge of the state of the local bank's affairs the industrial company from the very outset keeps a firm hand on the reins.

Directors of local banks actually become the industrial company's henchmen. But things go even further: it is now possible for the big banks represented in these corporations to gain considerably closer knowledge of, or even control, the affairs of local banks. The latter, often quite unsuspectingly, fall under the supervision of monopolised bank capital and, as a result of their dependence upon an industrial corporation, become junior partners of powerful bank (and financial) groups. This is one of the new developments in U.S. finance capital.

UNDERWRITING OF SECURITIES AND THE SPECIAL ROLE OF INVESTMENT BANKS

The special function of investment banks in the system of finance capital consists in the placement of stocks and bonds of industrial corporations, i.e., they are in the very midst of the processes leading to the concentration and monopolisation of fictitious capital. Their usual operations promote the further coalescence and merger of bank capital with industrial capital and promote the further growth of finance capital as such.

Robert Lehman, an investment banker, has stated that today there is hardly a phase of industrial activity in which an investment banker does not take an active part. Discharging his usual functions, he maintains a large and smoothly operating organisation through which investors can buy and sell securities. But this is only a small and the better known part of what he has to do. As a financial adviser of corporations he often also plays a leading part in mergers and

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1 Fortune, September 1960, p. 141.
2 Moody's Industrial Manual, 1961, pp. 1274-76. The presence of a member of Lazard Frères (of New York) on the board of Underwood explains the case with which control over the corporation passed to a foreign company.
3 Fortune, April 1959, p. 120.
absorptions of companies and usually personally takes part in the relevant negotiations. In recent years he increasingly invests his own capital in interesting opportunities and thus promotes the rise of new corporations. His interests are boundless. He participates as the principal moving force in all key sectors of modern industry—from automobiles, retail trade and aviation, oil and chemistry to electronics, atomic energy, polymers and many other things. In brief, he is or should be an expert who knows business in its entire breadth and depth as only a few people know it. He must be, as Robert Lehman put it, the grandmaster of industrial chess in our age.

The syndicate form of the centralization of investment banking is at the same time a powerful instrument for the coalescence of banks with industry. Several main forms of this coalescence were described in the indictment of 17 investment banks drawn up by the U.S. Department of Justice (during the trial of 1947-54).

The leading investment banks recognize each other’s claim to be the main or traditional banker of a definite group of corporations. A banker will not begin to negotiate a loan with an industrial corporation if it is known to be the client of another banker without the latter’s consent. Attempts to break this rule led to joint disciplinary measures against the transgressor.

The “traditional” banker’s position is camouflaged by the fact that he participates in the underwriting syndicate for his “own” companies, together with other investment banks. For example, the syndicate headed by Morgan, Stanley which placed United States Steel bonds in 1958, included 19 large banking houses, each of which regularly administers its own syndicate. Of the $300-million bond issue Morgan, Stanley, United States Steel’s traditional banker, undertook to buy only $20 million, and his 19 partners were allotted $6-7 million each. All in all, the 20 largest underwriters received 46 per cent; the 65 biggest firms, 75 per cent, and the rest went to 215 minor firms.

But, first, 100 per cent of the bonds were actually placed (at the wholesale stage) by Morgan, Stanley itself, while the other syndicate partners received a commission only on the resale.

Second, part of the profit is ceded to other firms on a reciprocal basis. In return each of the largest banks allots the Morgan bank a share when it organises a syndicate. Thus, Dillon, Read received about 2 per cent of the total commission fees on the placement of the United States Steel bonds. In its turn, Morgan, Stanley was also allotted 2 per cent in the syndicate headed by Dillon, Read which placed Texas Eastern Transmission bonds.

Judge Medina’s verdict of not guilty at that trial allowed the investment banks to preserve the “traditional” banker system without change as compared with the pre-war period.

An analysis of how securities of the 70 largest industrial corporations have been placed in post-war years shows that except in 5 cases out of 129 (4 per cent), the corporations dealt with one and the same leading banker or two or three leading bankers. From this follow other methods of coalescence of investment banks with industrial companies enumerated in the indictment of the same trial:

(1) conversion of the leading banker into a permanent financial adviser of “his” company;
(2) appointment of the banking houses partners to directorship in these companies;
(3) appointment of directors “friendly” to the bank;
(4) appointment of managers preferred by the bank;
(5) establishment of permanent ties between the company and a commercial bank which is close to the investment bank;
(6) supervision of the reorganisation of companies on the verge of bankruptcy;
(7) bribing of company officials;
(8) servicing the largest stockholders of a company;
(9) concentration of control over the biggest blocks of stock when necessary;
(10) guidance of mergers and absorptions, etc.

Has the role of investment banks in the underwriting of

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securities declined in recent decades? Many American authors assert that securities of industrial companies are with increasing frequency directly sold to insurance companies and pension funds, bypassing investment banks. On these grounds it is claimed that the latter are being ousted as creditors of industry. Let us consider the facts.

In the placement of stock the position of investment banks remains dominant. According to M. Waterman, in 1953-55, 93 per cent of the stock bought by insurance companies were acquired either on the regular securities exchange or over the counter, i.e., on secondary exchanges, about 6.4 per cent from investment banks and only 0.6 per cent direct from issuers. Pension funds, not to mention other institutions, were in a similar position.¹

From 1946 to 1955, there were 497 public issues of common stock (exceeding $1 million each); 449 of them were placed by investment banks in the usual manner, in 41 cases investment banks served as agents for the sale and only in 7 cases were their services dispensed with. Even closed stock issues (subscription exclusively or chiefly for shareowners of the company) in 345 out of 544 cases (two-thirds) were placed by one and the same bank.²

In post-war years private or direct placement has become widespread on the industrial bond markets, i.e., sale of securities directly to insurance companies or pension funds without public notice and open subscription, without their purchase in advance by investment banks, syndicates, and so on. In 1951, 58.4 per cent of the new bonds (in value) were sold in this way as compared with 21 per cent in 1945 and approximately 25-40 per cent in the 1930s. In 1962, the share of direct placements fell to 50.2 per cent, but in 1965 rose again reaching 59.4 per cent.³ The principal buyers were life insurance companies, whose share amounted to 80 per cent of their total value. Direct placement accounted for over 70 per cent in the purchase of private bonds by 28 leading insurance companies.⁴

The increase of direct placement is explained mostly by the industrial companies’ desire to avoid the expenditure involved in the complex process of a public issue as well as the publicity demanded in each case by law. The expenditure is important for small corporations; secrecy is of greater importance for the large ones. Nevertheless, in most cases direct placement is practised by small firms which see no other way of receiving loans. Direct placement is also used by many large corporations but by no means always. They turn either to one method or to the other, depending on circumstances. The idea of the predominance of direct placement to the exclusion of public issues is completely misleading.

What is of greater importance is that with the growth of direct placements and even in those periods when they were on the decrease the investment banks’ participation in such deals rose continuously, from 33 per cent (of the total value of direct placements) in 1935-37 to 52 per cent in 1947-49 and 57 per cent in 1955.⁴ According to other sources, investment banks participated in over 60 per cent of the direct placements. Moreover their role is by far not passive. As a rule, an industrial company agrees to such a deal on the advice of its own investment banker. According to Robert Lehman, himself an investment banker, he works in close contact with a company, suggesting the type of financing it should prefer. He might organise a “private placement” with an insurance company or pension fund or, if it is more advantageous, a public sale of securities and arrange it accordingly.²

Investment bankers often serve as “solicitors” for insurance firms drawing new debtors into their nets. Even when it is a case of term loans with equity incentives the object is sought out by the investment banker. "In such cases," Harvard Business Review relates, "the bankers have analysed the situation and determined that the company shall offer the incentive at the outset in order to arouse the interest of the lender... [i.e., the insurance company—S.M.]. It is not surprising that a great many borrowers who are inexperienced in the conduct of major long-term financing projects enlist the expertise and market know-how of investment bankers

¹ M. Waterman, Investment Banking Function, pp. 103-04.
⁴ M. Waterman, Investment Banking Functions, pp. 72, 119-21.

⁵ Wall Street: 20th Century, p. 75.
in shaping up financing alternatives, locating the best lender for their needs, and negotiating the terms of the financing.”

Nonetheless, far from every borrower is “lured” by a banker into the web of powerful creditors. When the banker deals with his “own” company and, moreover, with one whose owner is also the owner of the investment bank, the latter takes quite a different attitude. In 1954, when the Mellon-controlled Aluminum Company of America decided to borrow money, it did not want direct placement and delegated the First Boston Corporation to distribute its bonds as widely as possible. First Boston worked hard, enrolling in the syndicate 365 firms with branches all over the country. The result was quite gratifying. Most of the bonds were sold in small lots of from $6,000 to $10,000 in 44 out of the 48 states and only 15 per cent went to insurance companies.

3. Personal Union

Personal union, i.e., the personal representation of bankers in industrial corporations and vice versa, is a result of the intertwining of the capital of banks and industries and also of their long-standing financial ties.

Do personal ties correctly reflect financial interconnections and interdependences? The opinion is current in bourgeois literature that in many cases directors of big companies are present “just so”, either out of respect for their “authority” or the desire to raise the weight of the given company by their “prestige”. It is also claimed that many directors are simply dummies, senile old men or puppets who obediently vote for what the president or the chairman of the board propose.

What is the real situation? Let us begin by marking out the bounds of the problem. We are interested in directorates not as an assemblage of individuals, but as a special phenomenon in the general system of financial ties. We are interested in generalised data concerning personal union as such. One man may hold the post of director owing to an accidental combination of circumstances, but all directors of the biggest corporations and banks taken together are not an “accidental” group of persons and the interlocking of their posts in its entirety also speaks about certain rules and laws which personal union follows in our days.

The fact that a nonentity, to put it mildly, is appointed director of some company, does not mean that a directorship is worthless. The very opposite is true. This means that the importance attached to a directorship is so great that in the given case it is not desirable to appoint an independent person, and so the post is given to a man who is not capable of exercising the rights attached to this office.1

Let us take a few more steps along this logical path. If leaders of industrial corporations (and banks) have, as some authors assert, such wide and almost unlimited opportunities to appoint pawns as directors why, as shown by statistics, does the flower of the financial oligarchy—leading industrialists, bankers, lawyers, and so on—hold these posts in most cases? The answer is obvious: they attach much more importance to directorship than some Big Business boosters. This can be demonstrated by numerous examples.

Let us take American legislation, the decisions and orders of governmental agencies, special government materials on this score, judicial practice, etc. Under the Securities Act of 1934, legally the term director signifies “any director of a corporation or any person performing similar functions with respect to any organisation, whether incorporated or unincorporated.”2 The law demands that the proxy statement of the board of directors to stockholders inviting them to attend the annual meeting should contain specifically the following information: 1) the names of all nominated directors; 2) the number of shares of the given company owned by each one;

4 In England they have been called ‘guinea-pig directors’ because of the traditional fee of one guinea per meeting accompanied by a free lunch. At company meetings the medieval glamour still shines bright and the average shareholder dearly loves a lord. The financial decay also of the old nobility must inevitably tend to increase the supply of titled gentry prepared to lend the use of their names for adequate annual emolments” (Louis Loss, Securities Regulation, Boston, 1951, p. 14). In the United States retired generals, former prominent politicians, and so on often serve as “guinea-pig directors”: “The big interests have developed a class of dummy directors, often former officers who appear entirely independent but know full well where and how their bread is buttered” (T. K. Quinn, Giant Business, p. 270).

1 L. Loss, Securities Regulation, p. 583.
the business career of each director in the last five years; 4) his main occupation at the moment; 5) a list of corporations or other organisations in which each one is either an executive or a partner or has a minimum of ten per cent of the stock; 6) a list of the property of which they are trustees or members of the board of trustees; 7) similar data concerning relatives and the wife living in the same house with a director; 8) the salary received by the director from the given company if it exceeds $25,000 annually; 9) a list of all the transactions between the company and the director, including the number of shares and other property received from the company, his indebtedness to the company, etc.

Similar demands are made as regards prospectuses advertising public issue of securities.

The U.S. Stock and Securities Commission regards the fact that a partner or an officer of an investment bank or brokerage house holds only one directorship in another firm as sufficient for assuming the existence of control over that firm.

The Clayton Act, adopted in 1914, forbids one person to hold simultaneously directorships in two or more competing corporations if each one has assets of more than $1,000,000. In 1940, the Temporary National Economic Committee, composed of Congressmen and government representatives, published two monographs analysing the interlocking directorates of the biggest U.S. corporations as of 1938. In 1951, the Federal Trade Commission published a report about interlocking directorates as of 1947. Its conclusion was that existing legislation ought to be changed and that it was necessary to forbid any person from simultaneously serving as director in companies with a capital exceeding a definite minimum.

Early in the 1950s Senator Hubert Humphrey introduced a bill that would prohibit any person from being an officer, director, or employee of more than one profit corpora-

2. It goes without saying that the tycoons cannot be interested merely in the fee paid to directors for attending meetings. The size of fees ranges from $50 to $500 in the 100 largest industrial corporations. Some companies set annual salaries for their directors running up to $20,000. Sidney Weinberg, who has been director of 10-11 large corporations, gets a salary of $50,000. But all authors stress that for most directors of large corporations such amounts are merely "pocket money" (New York Times, October 13, 1960; O. Elliott, Men at the Top, pp. 176, 182).
one banking institution. In each case these connections were not accidental but revealed a deep-going financial interdependence between the given corporation and bank.

As for top executives of banks, it is apparently their direct duty to serve as directors in several industrial corporations. Of the 50 biggest commercial banks in the United States only three (including the Bank of America) are the exception to the rule.

The presence of the head or director of a bank on the board of an industrial corporation is a sign that the bank is interested in the latter. The individual directors may change but the representation of the given bank remains as long as it plays an essential part in the affairs of the corporation. A director who has lost the confidence of the bank he represents, as a rule, loses his post and is replaced by another person.

Personal union is a derivative of long-standing financial ties and the interlocking of corporate capital. That is why it can and should serve, together with other forms of ties, as the basis for analysing finance capital groups.

How strong is the personal union developed between the largest US industrial and banking monopolies?

<table>
<thead>
<tr>
<th>Number of Directorships in Bank Firms Held by Directors of the Largest U. S. Industrial Corporations (1960)*</th>
<th>Total number of companies</th>
<th>Number of companies which have interlocking directors with 135 banking institutions</th>
<th>Per cent of total number of companies</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>112 corporations in the manufacturing and extractive industries</strong></td>
<td><strong>900</strong></td>
<td><strong>445</strong></td>
<td><strong>49</strong></td>
</tr>
<tr>
<td><strong>56</strong></td>
<td><strong>70</strong></td>
<td><strong>127</strong></td>
<td><strong>583</strong></td>
</tr>
<tr>
<td><strong>56</strong></td>
<td><strong>1</strong></td>
<td><strong>23</strong></td>
<td><strong>80</strong></td>
</tr>
<tr>
<td><strong>60</strong></td>
<td><strong>9</strong></td>
<td><strong>27</strong></td>
<td><strong>96</strong></td>
</tr>
<tr>
<td><strong>Total 140 industrial and transport corporations</strong></td>
<td><strong>502</strong></td>
<td><strong>80</strong></td>
<td><strong>177</strong></td>
</tr>
<tr>
<td><strong>40 commercial banks</strong></td>
<td><strong>20 investment banks</strong></td>
<td><strong>30 insurance companies</strong></td>
<td><strong>Total: 90 bank companies</strong></td>
</tr>
</tbody>
</table>

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1 As of early 1960. Calculated on the basis of stock exchange and biographical handbooks.

2 Our calculations based on Moody's Industrial, Moody's Transportation; Moody's Bank and Finance; Moody's Public Utilities; Who's Who in America.

The 135 banking institutions include 35 commercial, 20 savings and 20 investment banks, 20 life insurance companies, 20 property insurance companies and 20 investment companies.

In recent decades the personal union of banks and industry has progressed considerably despite the unfavourable conditions (anti-bank public sentiment, investigation of inter-
locking directorates by government agencies, Congress, etc.). For example, in 1941, J. P. Morgan and Co. had its directors on the board of 34 industrial companies and in 1959, before the merger with Guaranty Trust, on 42 companies; in 1941, the Chase National Bank had 33 interlocking directors with industrial corporations (without branches) and 43 in 1955 (prior to the merger with the Bank of Manhattan); in 1941, the National City Bank of New York had 25 interlocking directors and in 1955, prior to the absorption of the First National Bank, 44 interlocks.

We have deliberately disregarded interlocks resulting from mergers and absorptions in order to demonstrate the growth of personal union in its “pure form”, so to say. Naturally, the creation of new bank giants in the 1950s and early 1960s resulted in a greater, truly unprecedented extension of personal union.

### Personal Union of New York’s Four Largest Banks (1960)

<table>
<thead>
<tr>
<th>Number of companies with which the banks have interlocking directors</th>
<th>of which industrial companies</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Chemical Bank New York Trust . . . . . . . . . . . .</td>
<td>180</td>
</tr>
<tr>
<td>2. Morgan Guaranty Trust . . . . . . . . . . . . . . . .</td>
<td>150</td>
</tr>
<tr>
<td>3. First National City Bank . . . . . . . . . . . . . .</td>
<td>123</td>
</tr>
<tr>
<td>4. Chase Manhattan Bank . . . . . . . . . . . . . . . .</td>
<td>106</td>
</tr>
</tbody>
</table>

The coalescence of bank and industrial monopolies inevitably results in the conversion of the leading commercial banks into centres of banking-industrial groups encompassing dozens of corporations. The same is true of insurance and investment companies.

Law firms play a special part in creating a personal union of banks and industry and in the coalescence of bank and industrial monopolies. Large law firms become attached to industrial and bank monopolies as firmly as an investment bank to an industrial corporation. They remain the lawyers of one and the same corporations and banks for decades.

### 4. Self-Financing of Industrial Corporations and Their Interconnection with Banking Institutions

The growth in self-financing of industry has been used by some authors as the main argument in denying the coalescence of bank and industrial capital. They assert, first, that in recent decades, especially after the Second World War, the share of “external sources”, that is, capital attracted from the outside for current investment in industry, has been steadily and radically declining. Second, from this the conclusion is drawn that the days of the “hegemony of the banks over industry” had passed or are passing and that the coalescence of their capitals is receding to the background and gradually losing its significance.

To analyse the situation we must, first, establish to what extent the claim about the growth of “self-financing” corresponds to the facts, that is, to trace the real ratio between external and internal sources of financing and, second, what bearing has the share of loan capital on the coalescence of monopolised banking and industrial capital.

As regards the first point, we shall confine ourselves to data cited by different American authors and official statistics. Calculations based on publications of the U.S. Department of Commerce show that on the average the share of long-term external sources of financing (stocks, bonds, bank credits) amounted to 25 per cent on the average in 1949-54 and to 22 per cent in 1955-60. After a decline in 1961-65 to 19 per cent, their share again rose to 24 per cent in 1966. If we take all external sources (including commercial loans, money accumulated for the payment of taxes, but temporarily not spent), their share was 40 per cent in 1955-60, 32 per cent in 1961-65 and 40 per cent in 1966.¹

W. F. Payne, who studied the operations of companies on the money market from 1921 to 1956, presents data which enable us to determine the relationship between long-term operations on this market (long-term debt and stocks), on the one hand, and investments, on the other.

In the case of the biggest industrial corporations this ratio was:¹

<table>
<thead>
<tr>
<th>Year</th>
<th>Per cent</th>
</tr>
</thead>
<tbody>
<tr>
<td>1921-29</td>
<td>23.7</td>
</tr>
<tr>
<td>1930-39</td>
<td>7.3</td>
</tr>
<tr>
<td>1946-50</td>
<td>13.8</td>
</tr>
<tr>
<td>1951-56</td>
<td>19.3</td>
</tr>
</tbody>
</table>

Lastly, let us turn to the study of S. Kuznets which sums up a series of monographs devoted to different aspects of the credit connections of industry and the money market.

According to Kuznets, the share of external sources in financing large corporations of the manufacturing industry was 33 per cent in 1946-53 as compared with 40 per cent in 1913-19 and 30 per cent in 1900-10. The share of internal sources in the total expenditure of all corporations changed as follows: 56 per cent in 1900-09, 60 per cent in 1910-19, 55 per cent in 1920-29, and 61 per cent in 1946-56.² As shown earlier, in subsequent years the share of self-financing did not exceed 70 per cent and most often was about 60 per cent.

Despite the difference in individual estimates, one thing is characteristic of all of them: the absence of any radical change in the share of self-financing. In most cases there was only a small increase of several per cent, while, according to Kuznets, there was no difference at all between the first half of the 1950s and the second half of the 1920s (previous maximum). Evidently, the only serious grounds for talk about a growth in self-financing was the slump of the money market in the 1930s and its incomplete recovery in the 1940s. But at the beginning of the 1950s the situation did not radically differ from that in the first third of the century (we ignore in this case the specific features of separate sectors). Thus, the thesis about the wane of "external financing" does not correspond to the facts.

Let us now examine not the quantitative aspect of the matter, but its substance. The proportion in which current profits are assigned for accumulation depends on many factors, specifically what share is spent as the income of the capitalist. In companies, especially huge corporations, this depends on the extent to which the top group is able to moderate the claims of the mass of the stockholders for dividends. But dividends are a prime source of the income of the wealthiest families and also of banking institutions, and all of them must be reckoned with. A cut in dividends or temporary suspension of their payment is extremely dangerous for the reputation of a company in the banking world and stock market circles and such measures are resorted to only in extreme cases (on the other hand, it is dangerous not to

¹ Calculated after W. F. Payne, Industrial Demands Upon the Money Market, 1919-1957, New York, 1961, pp. 140-39. Data for pre-war years cover 84 of the biggest corporations in the manufacturing industry and 198 such corporations after the war.

² S. Kuznets, Capital in the American Economy. Its Formation and Financing, Princeton, 1961, pp. 264, 268. Two rows are combined but the

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**External and Total Sources of Money Resources of Non-Financial Corporations¹**

("000 million dollars")

<table>
<thead>
<tr>
<th>Year</th>
<th>External sources</th>
<th>Total sources</th>
<th>Per cent of external sources in total sources</th>
</tr>
</thead>
<tbody>
<tr>
<td>1901-12</td>
<td>17.9</td>
<td>40.1</td>
<td>45.0</td>
</tr>
<tr>
<td>1913-22</td>
<td>30.1</td>
<td>76.1</td>
<td>40.0</td>
</tr>
<tr>
<td>1923-29</td>
<td>39.0</td>
<td>86.1</td>
<td>45.0</td>
</tr>
<tr>
<td>1930-33</td>
<td>-4.8</td>
<td>-0.6</td>
<td>—</td>
</tr>
<tr>
<td>1934-39</td>
<td>0.7</td>
<td>28.9</td>
<td>2.0</td>
</tr>
<tr>
<td>1940-45</td>
<td>14.9</td>
<td>75.4</td>
<td>20.0</td>
</tr>
<tr>
<td>1946-49</td>
<td>39.3</td>
<td>110.6</td>
<td>36.0</td>
</tr>
<tr>
<td>1950-56</td>
<td>112.8</td>
<td>254.8</td>
<td>44.0</td>
</tr>
</tbody>
</table>

¹ Ibid., p. 248.
increase dividends when profits are rising). On the whole, the sum of dividends has a tendency to rise slowly but steadily, and only a very strong crisis or some extraordinary external influence could affect it.

That is why the volume of undistributed profits depends chiefly on the profitability of the corporations themselves. Profitability, in turn, is largely a result of the employment of the monopoly price system and the general economic situation.

### Profits and Dividends of American Corporations

<table>
<thead>
<tr>
<th>Year</th>
<th>Profits after taxes</th>
<th>Cash dividends</th>
<th>Undistributed profits</th>
<th>Undistributed profits, per cent of profits after taxes</th>
</tr>
</thead>
<tbody>
<tr>
<td>1940</td>
<td>6,486</td>
<td>4,043</td>
<td>2,443</td>
<td>38</td>
</tr>
<tr>
<td>1945</td>
<td>8,288</td>
<td>4,691</td>
<td>3,597</td>
<td>43</td>
</tr>
<tr>
<td>1950</td>
<td>22,763</td>
<td>9,208</td>
<td>13,555</td>
<td>60</td>
</tr>
<tr>
<td>1955</td>
<td>23,035</td>
<td>11,215</td>
<td>11,820</td>
<td>51</td>
</tr>
<tr>
<td>1959</td>
<td>24,469</td>
<td>13,682</td>
<td>10,787</td>
<td>44.1</td>
</tr>
<tr>
<td>1961</td>
<td>21,920</td>
<td>15,172</td>
<td>6,748</td>
<td>30.8</td>
</tr>
<tr>
<td>1965</td>
<td>44,500</td>
<td>18,900</td>
<td>25,600</td>
<td>57.5</td>
</tr>
</tbody>
</table>

A substantial decline in the share of profits after taxes distributed as dividends was confined in the United States to a brief period of several years after the end of the war. Subsequently, it returned to the pre-war level on the whole.

In the 1950s the size of undistributed profits noticeably declined, which is explained by the slowing down of economic growth rates. Only faster depreciation somewhat remedies the general picture. The total of these two internal sources of capital investments shows an increase of 50 per cent over the same decade. But the biggest part of depreciation undoubtedly is spent for the actual replacement of equipment.

On the other hand, the need in investments continued swiftly to grow until 1957, which caused the shift to external financing sources. Approximately up to the mid-1950s the demand on the money market was above the supply, which limited the scale of this shift. But when the “lenders market” gave way to the “borrowers market” the cost of loans and security placement declined, and the share of external financing became stabilised, although it was easier to attract outside capital and the undistributed profits continued to decrease.

This cursory review of the money market shows what influence the change in the share of external financing exerts on the real interconnections of bank and industrial companies. This indicator may conceal entirely different undercurrent developments. It is clear, for example, that the big decline of “external financing” in the 1930s attested to the vastly increased dependence of industrial companies on bank credits, the sale of securities, and so on. In the 1940s, the resources of the money market were insufficient for satisfying the demand of industry. The share of “external sources” was therefore lower than it could have been, although the dependence of industrial companies on the banks was sufficiently high.

But let us view the same problem from a broader angle. First, given a normally functioning money market, the complete refraining by industrial companies from recourse to long-term crediting of their capital investments would have been an anomaly for capitalism. Every large corporation, and not only an ordinary capitalist enterprise, intrinsically strives to break out beyond the narrow bounds of its own money accumulations. It is impelled to do so above all by competition, the need to renew equipment, to expand its sales, and so on. What the real possibilities of such expansion are and to what extent they can be served by the money market depends on the concrete situation. For this reason the share of external financing might fluctuate within a very wide range. To consider that a downward fluctuation reflects a long-term tendency of contemporary capitalism is as wrong as to picture upward fluctuations as the rule.

Second, as soon as the bulk of large-scale capitalist production assumes the corporate form, it witilly or unwittingly becomes involved in operations of the money and stock markets. Even if an enterprise has no long-term indebtedness, its shares have been issued on the open market and are quoted on the stock exchange. Thus, it already

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depends on the banks which undertook to place its shares and are able to influence their price. Even if the next issue of shares is arranged ten years later, this dependence remains. Similarly, a single issue of bonds of an industrial corporation makes for its long-term dependence on the owners of the bonds, chiefly in financial institutions.

Thus, even the disappearance of “external financing” for a time cannot destroy the web of financial dependence created by the sale of stocks and bonds. Probably several decades of complete discontinuation of industry’s long-term financing would be needed to wipe out completely the indebtedness of industrial corporations. But this clearly is impossible. As for the actual post-war situation in the United States, notwithstanding the scale of self-financing, the share of corporations’ indebtedness in their total liabilities systematically rose. It climbed from 15 per cent in 1945 to 19 per cent in 1950, 22 per cent in 1960 and 24 per cent in 1963. In that year it was only slightly less than in 1935 (25 per cent).\(^1\) As for personal union it, as we have seen, is preserved for a long time, notwithstanding the absence of new loans or stock issues.

It would be absurd if a banker who enjoys influence in a corporation would be interested only in increasing its debt or in seeing that it systematically issue new stock. As a representative of big fictitious capital belonging to the wealthiest families he cannot allow corporate capital to be watered down and the financial position of “his” corporation to deteriorate. After all, he is not merely a middleman out to make a profit on the issue of securities, but a representative of finance capital.

Suffice it to recall the activities of John P. Morgan, Sr., who at the threshold of 20th century organised trusts which were huge for those days. Morgan received unusually high commission fees for the issue of their securities for the very reason that he created them as monopoly organisations. The deliberate watering down of capital, which at first brought him a profit as promoter, was quite swiftly eliminated by the intensive growth of real capital through the monopoly profits of the trust itself. As a result, the price of its stock rose too. Thus, the watering-down operation was based on

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pension funds, philanthropic foundations and trust departments of commercial banks.

S. Kuznets tried to express statistically this process.

Share of “Financial Intermediaries” (i.e., Bank Monopolies) in Financing American Corporations

<table>
<thead>
<tr>
<th>Year</th>
<th>Per cent of external financing of non-financial corporations</th>
<th>Per cent of total financing of non-financial corporations</th>
<th>Per cent of total financing of all capital outlays in the USA</th>
</tr>
</thead>
<tbody>
<tr>
<td>1900-09</td>
<td>36</td>
<td>16</td>
<td>19</td>
</tr>
<tr>
<td>1910-19</td>
<td>30</td>
<td>12</td>
<td>23</td>
</tr>
<tr>
<td>1920-29</td>
<td>40</td>
<td>18</td>
<td>21</td>
</tr>
<tr>
<td>1930-39</td>
<td>88</td>
<td>3</td>
<td>42</td>
</tr>
<tr>
<td>1940-44</td>
<td>16</td>
<td>3</td>
<td>76</td>
</tr>
<tr>
<td>1945-55</td>
<td>51</td>
<td>20</td>
<td>30</td>
</tr>
</tbody>
</table>

These data reveal the unusual growth in the might of finance capital. In post-war years the share of the banking institutions in “external financing” is much higher than ever in the 20th century, except the 1930s (at that time the individual demand for securities was almost completely absent owing to the protracted crisis). The share of banking institutions in total financing of industrial corporations increased as compared with any past period, notwithstanding the fact that the share of “self-financing” in the total outlays was below the maximum registered in the 1920s.

Let us emphasise that these data cover only credits given to industry and also securities bought by banking institutions. If we take into account the securities placed by the same banks, the share will be twice as high. But even if we ignore this additional factor, 20 per cent is quite an imposing figure. A. Berle admits that “if 20 per cent of the capital requirements must be raised from the outside, then the ‘outside’ cer-

tainly has a powerful voice in affairs.”¹ What is noteworthy is that the share of banks is even higher in financing all capital outlays in the country. It is higher than in industry because it includes financing the capital expenditure of families (the purchase of durable goods on the instalment plan) and especially the participation of banks in financing the government in which their share is quite high.

¹ S. Kuznets, Capital in the American Economy, pp. 306-08. We have used in the table the author’s terminology. Data in the third column have been calculated by us on the basis of the same table and the table on p. 248 of his book.

¹ A. Berle, Power Without Property, New York, 1959, p. 41.
Chapter VI
FINANCIAL GROUPS

Our analysis so far dealt with processes of the coalescence (merger) of monopolised industrial and bank capital in general outline; it examined finance capital and finance-capitalists as a result of the combination of the two main forms of capital at a definite stage in the development of the capitalist system. In such an analysis the contradictions within the ruling monopoly bourgeoisie are relegated to the background in some degree. But even this analysis shows that the financial oligarchy does not make up a single whole. It consists of various financial groups, of monopoly bank-industrial complexes operating in different areas. The bank groups discussed in Chapter IV merge, coalesce with monopoly groups in industry, forming financial groups.

Few bourgeois authors in the United States admit the existence of financial groups (and also of the financial oligarchy and plutocracy)—and then only as a thing of the past, not later than the end of the 1930s. Since then financial groups, it is claimed, have either vanished or are breathing their last, which is a result of the contemporary “corporate revolution” (G. Means) or the “managerial revolution” (A. Berle and others).

But the facts are not on their side. Thorough analysis shows that some of the old financial groups did disintegrate in the last 30-35 years, but new ones emerged on the scene. The forces of the financial oligarchy have been regrouped, but this process did not signify the disappearance of financial groups; on the contrary, most of the existing groups have been consolidated. Financial empires and kingdoms have displayed the ability to outlive their founders and survive the mediocrity of their heirs. With each passing year, mergers of the biggest banks have shaped and delimited the separate groups more clearly.

1. The Financial Group as an Economic Category

Lenin gave his definitions of the various economic categories of imperialism, including finance capital. But at the time Lenin wrote his Imperialism, the Highest Stage of Capitalism, the material available in the literature was sufficient to single out only the Morgan and Rockefeller groups from the entire intricate web of financial relationships in the United States. “In America,” he wrote, “not nine but two very big banks, those of the multimillionaires Rockefeller and Morgan, control a capital of eleven thousand million marks.”1 Lenin, however, did not use the concept “financial group” in his study.

In later years, Marxist literature about the American financial oligarchy widely used the term “financial group”, but theoretically it has not been sufficiently defined. This applies in particular to the excellent study of Victor Perlo. A financial group, in his definition, consists of a number of industrial and bank monopolies which control each other or are under the control of one or several groups of monopolists. When there are many companies and their assets are large these “super-monopolies” are conveniently called “empires” and if their number and assets are relatively smaller, they are named “duchies”.2

Nothing is wrong either in the way Perlo understands the financial group or in the way he names them. This, however, is only a definite stage in the scientific analysis that performs the very important task of describing the existing groups. The next step is to establish what stage of monopolisation of production and circulation a financial group expresses; in what relationship it is with other forms and stages of monopolisation; is control the only cementing material of a financial group; to what extent does a financial group reflect, and in what degree does it run counter to, the

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2 See V. Perlo, op. cit., pp. 17, 125.
progress of the productive forces, the socialisation of production and circulation, etc. Greater clarity should also be introduced in the concept “control” and the various forms a financial group assumes or can assume. In other words, what is wanted is an analysis of the development trends of the American financial oligarchy at a stage when, to use Perlo’s expression, “the economy is clustered around several major empires and a number of minor duchies”. This by far is not an academically abstract subject.

Financial groups undoubtedly represent a higher, more developed stage in the monopolisation of production and circulation than any other form of private monopoly association. The simplest cartel divides markets between independent capitalists: a syndicate organises the centralised sale of their output; a trust gathers under single management the output and sale of dozens of big factories producing similar goods; a concern manages simultaneously enterprises of various sectors by way of production integration or “diversification”. A cartel of trusts divides the market at an immeasurably higher level. The financial group combines all these forms of monopolisation and thus raises it to a qualitatively new stage.

Perlo states that in the case of financial groups control based on a small block of stock results in profits of control. These profits come from the following sources: promoting activity (or its equivalent); highly paid posts: “the channelling of ... banking business to the institutions of the control group; channelling of orders for materials and supplies to corporations under related control; sale of goods or property at a favourable price to corporations under related control; payment of fees for services and advertisement to corporations under related control; the use of inside information.”

One of the main ways a financial group obtains monopoly superprofits is to divide markets between its component parts. Whereas in a cartel this is a result of a compact among several companies, of written or oral agreements between them, in a financial group the same result is achieved by systematic co-ordination of their activities which, as a rule, does not require special agreements.

T. Quinn, a former General Electric vice-president, relates how a price war in the refrigerator market flared up between his company and General Motors at the end of the 1930s. The conflict was resolved in the following way: the executives of both companies were invited by a leading figure in the Morgan group who “educated” them. This example is instructive because it shows the type of monopolisation characteristic only of a financial group. What are its specific features? In this case both corporations were entirely independent of each other in all managerial affairs. Had they operated within the bounds of one trust or concern their functions would have been strictly defined by the bosses. But they outgrew these bounds long ago, and the objective conditions for extracting monopoly profits dictated their separate management. Usually no sharp competition problems arose between them because their main output (automobiles and electrical equipment) differed. The top executives of these corporations undoubtedly knew about the community of interests of the components of the Morgan empire and sought to avoid clashes. But the middle echelon of managers (for example, the heads of divisions producing refrigerators) were evidently unaware of these “fine points”. That is why they launched the manufacture of competing models of refrigerators and even began to cut prices. Were General Motors and General Electric corporations fully independent of each other, this activity of the heads of divisions would have been considered normal, quite logical and correct. Possibly the price war would have ultimately resulted in a cartel agreement between them. But things turned out differently. The price war led to a conference and the “education” of the executives concerned. Such a case could not happen within the bounds of one trust without the permission of its leadership. It would have been settled differently in a cartel. But for the buyers of refrigerators the result was the same as in a trust or a cartel because both companies belonged to one financial group.

This example shows what a big part co-ordination plays within a financial group and how fine, and at times hardly

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1 V. Perlo, op. cit., pp. 55-57.
2 Cabot Corporation, for example, allows competition between its foreign branches, but this is a rare exception.
perceptible the concept of control becomes. This is a very important distinction that sets a financial group apart from a concern. A concern is often one corporation encompassing a number of enterprises in different sectors. In that case all the wizardry of monopolisation is ultimately explained by the single management of the various enterprises: coordination of action is determined by the general plan of the corporation; the question of control does not even arise because the enterprises belong and are fully subordinate to the concern. Another type of concern is also known: a complex of legally independent companies, controlled and managed from one centre. A combination of centralised control and management is possible here because the head company or group of monopolists owns most of the stock of the other firms making up the concern.

The Kaiser concern is an example of such a monopoly association. Its organisational and control set-up is simple: The Kaiser Industries Corporation stands at the head of it. Alongside operational management of aircraft and electronic factories and radio stations, it owns the controlling block of stock of the following main companies:

- Henry J. Kaiser Co. (industrial construction and building materials)—100 per cent;
- Willys Motors, Inc. (trucks, specialised automobiles)—100 per cent;
- Kaiser Steel Corp.—79.72 per cent of the stock;
- Kaiser Aluminum Chemical Corp.—42.26 per cent of the stock;
- Permanent Cement Co. (cement and other building materials)—38.97 per cent of the stock;
- Kaiser Community Homes (housing construction)—50 per cent of the stock.¹

In addition, the ties of the concern are reinforced by the Kaiser family holding large blocks of shares of the head corporation. According to 1962 data, Henry Kaiser owned 13.4 per cent of the stock of Kaiser Industries; he was also trustee of 33.7 per cent of the corporation’s stock. Edgar Kaiser owned 10.6 per cent of the stock and the Henry J. Kaiser Family Foundation held 3.5 million shares (that is, 15.3 per cent).²

Formally, management of these companies is decentralised. Each one has its board of directors, which somewhat differ in composition. Actually, however, the situation is as follows: two men, Edgar Kaiser and Eugene E. Trefethen, Jr., the top executive closest to the Kaiser family, are represented in each directorate. These two men co-ordinate the activities of the companies. They are at once informed about all disputes and outstanding issues. The main offices of all the companies are located in one skyscraper, the Kaiser Center in Oakland, California.

It is clear that this concern does not have the attributes which turn a monopoly association into a financial group. First, although the finances of its companies are centralised and the head corporation to a certain extent serves as the bank for the others, the concern has no specialised banking institutions which would have independent access to accumulation sources of free money capital, in addition to the capital formed by the concern itself. In other words, there is no coalescence of bank and industrial capital, which is an attribute of a financial group. Second, the companies making up the concern are managed as though they were components of one corporation. This is partly explained by the size of the companies, the biggest of which has assets of $979 million and sales of $576 million and employs 23,000 people.² All the Kaiser companies combined have assets smaller than any of the 15 largest U.S. industrial corporations; sales smaller than 40 and less employees than 25 top corporations. In other words, a concern of this kind, even considering the differing production specialisation of its units, can be centrally managed.

A financial group is a sum total of companies managed independently. Each one is a commercial entity. Control (if it exists) is separated from management. The activities of such companies are co-ordinated at a higher level, outside the companies themselves. Such co-ordination deals with the more general and broader problems; it is effected not so much by those who directly manage the companies, as by

¹ Kaiser Industries Corp. Annual Report 1961. The stocks of the last four companies are jointly owned by Kaiser Industries and Henry J. Kaiser Co.

men connected with the wealthiest families, the big banks, and so on.

In present conditions ownership of an absolute (and even relative) majority of stock is not an indispensable requisite for control; there are other, at times, even stronger ties: long-term financing, the placing of “trusted” people in the leadership and financial advice, which opens access to the sanctum of monopoly domination. The existence of several, approximately equal modes of control actually means that an absolute majority of shares does not yet provide a guarantee of control if the debt to the banks is large, if powerful outside forces have implanted their men in the given company, if financial plans, prior to approval within the company, have to be agreed upon with bankers, “experts”, and so on.

That is why the concept of control as such is not simple and is in no way limited to the concentration of stock in the hands of one or several families. The existence of direct control over a company should be judged by the sum total of the enumerated features and, at times, also of other factors which do not fit into the most complete lists.

Even if one or several families own big blocks of stock, it is not so simple to decide the question of control. But what if no such blocks can be traced at all? This is not an idle question. The answer involves an understanding of the evolution of the concept and types of control over corporations and banks in the United States in recent decades. What is the essence of this evolution?

First, a natural break-up of big blocks of stock owned by individual millionaires is under way. While formerly a block of shares was owned by one man, now it is owned by many of his heirs. The total sum of their wealth has not decreased; as a matter of fact, it has grown manyfold as a result of the rise in stock quotations and the systematic conversion of surplus value into capital. But stock ownership is more fragmented, even though within the bounds of one family. The creation of family holdings, trust funds and other legal devices retard this tendency, often postponing for decades the de facto fragmentation. But sooner or later some heirs receive the right to sell their part of the block; another part had been sold earlier to pay the inheritance tax; still other shares have been withdrawn from the family holding, and are ad-

ministered independently by their owners. The total wealth of a family of multimillionaires may increase many times over, but the fragmentation of stock ownership is a fact.

Second, the break-up of big blocks of shares is an inevitable consequence of the centralisation of capital. It is a fact, for example, that commercial banks are merged as a rule through the exchange of the stock of the smaller bank for that of the larger or by the exchange of the stock of both banks for new stock. In industrial corporations, too, mergers are effected in the same way.

In such cases the family block shrinks in relation to the total. Let us consider the following simple case. Family A owns 50 per cent of the stock of a bank with assets of $500 million. If it is merged with another bank of the same size through an exchange of stock, family A will receive 25 per cent of the shares of the combined bank. The nominal value of its stockholding has not changed. What is most important is that this smaller block, as a rule, is sufficient to assure control of the enlarged bank.

Such a “break-up” of blocks of shares, characteristically enough, is possible without resorting to the stock market, without the sale of stock to outsiders, merely as a natural result of the concentration and monopolisation of industry and banking.

Third, the prevailing conditions for the enrichment of the American plutocracy (described in Chapter II) often clash with the preservation of big blocks of stock. The best ways to swell a fortune, paying minimal taxes, is to gamble on the stock market, to speculate in urban real estate, oil lots, etc. But if capital is invested in the stocks of only one company, such operations are impossible. Moreover, in that case it is subject to greater “tax hazards”. Hence it is natural that many families which formerly held controlling blocks of shares of big companies are now using them for stock market operations. This presupposes the “diversification” of fortunes, that is, their simultaneous investment in smaller amounts in the stocks of different companies, and also in bonds. Even if a multimillionaire is not actively engaged in stock market and other speculations he frequently, by being merely cautious, “puts his eggs in different baskets”, as the Americans say. This is true of most of the old large fortunes (which partly explains the origin of the myth about
their disappearance) and to a smaller extent is also characteristic of the *nouveaux riches* who are in the process of "making" their fortunes.

Fourth, as the size of corporations and their capital increase, the keeping of a very large block of their stock or an attempt to acquire it becomes difficult. In the early 1920s the Du Ponts bought 22 per cent of General Motors stock. Anyone wanting to repeat that operation today would have to hand over the counter more than $4,500 million in cash. This is beyond the strength of the wealthiest American families. But even if someone wanted to buy the shares of Charles S. Mott, the biggest known individual stockholder of this corporation who owns only 0.8 per cent of the total, that person would have to pay more than $150 million. It is a colossal sum, but it could hardly give the new owner of the 0.8 per cent of the stock real control over the biggest automobile company in America. Even in the case of companies with one-tenth of the assets of General Motors, big blocks of stock involve sums which most American plutocrats would hardly spend to gain control of the particular company.

That is why in the case of 200-250 of the largest industrial corporations the seizure of control by individuals is practically ruled out. Such coups are usually effected through mergers, in the course of which no cash has to be paid and everything is arranged with the funds of the corporations themselves and of the mass of their stockholders.

But what is unfeasible in the world of mammoth corporations is possible in the case of middle-size and small companies with assets that are infinitesimal as compared with those of the leading monopolies. Millionaires use their free capital (obtained by selling stock of leading corporations) to seize control of small companies which are marketing new, highly profitable products and are swiftly expanding. Such operations bring the millionaires a big capital gain, which is subject to a lower tax rate than other profits. That is why in our days financial tycoons like Laurance Rockefeller suddenly become engrossed in the sphere of "small business". The shrinkage of the blocks of shares of large corporations held by the plutocracy is compensated by inveigling small companies into the nets of finance capital and, consequently, extending the financial groups.

### Largest Industrial Corporations of the U.S.A.:
#### Size of the Biggest Block of Stock Held by One Person, a Family Group or Firm

<table>
<thead>
<tr>
<th>Size of block, percentage of total stock</th>
<th>Number of corporations</th>
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<tbody>
<tr>
<td></td>
<td>1938-39*</td>
</tr>
<tr>
<td>Personal or family blocks</td>
<td>Blocks belonging to company</td>
</tr>
<tr>
<td></td>
<td>Number</td>
</tr>
<tr>
<td>Less than 10</td>
<td>33</td>
</tr>
<tr>
<td>10-19.99</td>
<td>11</td>
</tr>
<tr>
<td>20-49.99</td>
<td>5</td>
</tr>
<tr>
<td>50 and more</td>
<td>4</td>
</tr>
<tr>
<td>Total</td>
<td>53</td>
</tr>
<tr>
<td>Including companies with a block of 10 per cent or more</td>
<td>20</td>
</tr>
</tbody>
</table>

These data show a certain reduction in the number of corporations in which the biggest block exceeding 10 per cent is owned by an individual or a family. But the drop in the number of such corporations is not big; the shift within the rather wide category "10 per cent and more" from the higher to the lower group is more important. The shrinking of the blocks is in evidence, but it is not substantial. On the whole, of the more than 100 largest corporations in American industry about one-third had personal, family or company blocks of stock exceeding 10 per cent both prior to the Second World War and in the early 1960s.

Let us see how far the "break-up" of personal and family blocks of stock has gone. Prior to the Second World War, such blocks were below 10 per cent of the total in 82 per

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2. Our calculations, based on proxy statements of more than 100 of the largest industrial corporations in the U.S.A.
cent of the largest industrial corporations (91 out of 111), while in 1961-62 there were blocks of this size in 85 per cent of the corporations.

But these data do not fully reveal the processes under way, because they focus attention on numerically similar groups, whose composition, however, has substantially changed in 25 years. The list of 111 companies in 1961-62 includes 32 corporations which were absent in the list for 1938-39. The composition of the industrial top group was renewed by almost one-third during this period.

Changes in stock ownership of the largest American industrial corporations in the last quarter of a century were very considerable. Moreover, with two or three exceptions, the tendency was to reduce the blocks of shares belonging to individual millionaires and their families. Were it not for the structural change in the industrial top group and its replenishment by new monopolies, the big companies with large blocks could have soon vanished completely.

But in the list of 1961-62 there were 14 new corporations with blocks of 10 per cent and more, including 8 companies with personal and family blocks of such size. Here is the result of the opposite tendency, which on the whole stabilizes the general picture of stock ownership.

This is a natural result. Evidently the position of the corporations which are ousted from the top group is not enviable and they are not especially attractive for the investment of big fortunes. The latter flee from such companies which, together with their disappearance from the top category, also drop out from the range of companies in which big blocks of stock are held. Conversely, personal wealth is attracted by new, swiftly growing companies. As a result, together with the advance of the latter into the ranks of the biggest corporations, they also come into the category of companies with big blocks of stock. This, however, does not at all mean that the same tendency of reducing the personal blocks of stock does not hold true of the new companies.

We have traced the fate of personal blocks of shares in six companies. Only in one of them (General Dynamics) is the big block a result of a recent acquisition (through a merger). In other cases this is an indicator of a steady but incomplete process of erosion. Thus, in McDonnell Aircraft, founded in 1939, the share of the main owner dropped from over 50 per cent after the Second World War to 13 per cent at the beginning of 1962. In particular, 7 per cent of the stock was turned over to a philanthropic foundation. In the Olin Mathieson Chemical Corp., the founders' family owned 58 per cent of the stock in 1953 and only 13 per cent nine years later. In Reynolds Metals Co., the share of the main family dropped from 38.1 per cent to 15.3 per cent during the same period. In the Kaiser Aluminum and Chemical Co. the Kaiser family owned 100 per cent of the stock prior to 1948 and now 42 per cent.

Let us examine similar processes in the banking world. The Patman Report, published at the beginning of 1963, made it possible for the first time to establish the big blocks of stocks, both personal and company, in 200 of the leading U.S. commercial banks. Unfortunately, we have no com-

<table>
<thead>
<tr>
<th>Size of blocks, percentage</th>
<th>Number of banks</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>Personal blocks</td>
</tr>
<tr>
<td>Less than 1</td>
<td>22</td>
</tr>
<tr>
<td>1-5</td>
<td>23</td>
</tr>
<tr>
<td>5-10</td>
<td>2</td>
</tr>
<tr>
<td>10-20</td>
<td>2</td>
</tr>
<tr>
<td>More than 20</td>
<td>1</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>50</strong></td>
</tr>
<tr>
<td>Including blocks of 10 per cent and more</td>
<td>3</td>
</tr>
</tbody>
</table>

1 In 1953, 51 per cent of the stock of Reynolds Metals belonged to the United States Boil Co. where the Reynolds held 75 per cent of the stock.
2 *Chain Banking, Stockholder and Loan Links of 200 Largest Member Banks*. Report by Wright Patman, Chairman to the Select Committee on Small Business, House of Representatives, Washington, 1963 (hereafter—*Chain Banking . . .*).
3 Compiled on the basis of the *Patman Report*. Four banks controlled by the bank holding companies and one controlled by insurance holding company were omitted. Instead of them data were taken on the four banks next on the list and one bank holding company. Data on the latter were taken from the proxy statement.
parable data for the pre-war period. A comparison of information for a number of New York, Chicago and other banks reveals a general decrease in the blocks of shares owned by individuals or families.

In banking the fragmentation and decrease of big blocks of shares proceeded farther than in industry. Only in 6 per cent of the biggest commercial banks were there large personal blocks, while in industry they were in 15 per cent of the companies. Big company blocks were recorded in 12 per cent of the banks compared with 15 per cent in industrial corporations. Moreover, in most cases the company block of stock was handled by the trust department of the bank itself and not by some outside organisation. A comparison of the names of the biggest stockholders of banks and industrial corporations reveals their coincidence only in one or two out of the 50 possible cases.

This non-coincidence points to some distinctions between a trust, a concern and a financial group. A trust or concern controlled by one family clearly contains the seeds of conversion into a family financial group, that is, a banking-industrial complex where the particular family holds a dominating position. The original crystallisation of a number of the best known U.S. financial groups (Rockefellers, Mellons, Du Ponts) proceeded in this way. But since the big blocks of shares have been decreasing in banks and industrial corporations, this way, far from being indispensable, is usually becoming impossible.

The reason is that the old type of control, represented by a big personal block of stock and still preserved in a minority of the large industrial and banking monopolies, has been replaced by a new type of control. In addition to blocks of stock, personal union and financial ties, such control is based on concentration of ownership or disposal of stock of corporations and banks in the hands of several and at times even of 10-20 large banking institutions: commercial and savings banks, insurance companies, investment trusts, brokerage houses, philanthropic foundations, etc. In corporations where the individual blocks of stock owned by multimillionaires are reduced to a small size, actual control can be exercised only by the combined stockholders—individuals and institutions. Joint control presupposes either definite understanding among them about the distribution of roles or tacit consent not to challenge the leading role of some members of such a group.

Let us cite some examples. The Union Pacific Railroad Company has the following biggest groups of stockholders:


2. Boston banks (Massachusetts Investors Trust, Boston Safe Deposit and Trust, John Hancock Mutual Life Insurance)—2.7 per cent.

3. Philadelphia banking institutions (Insurance Company of North America, Girard Trust Corn Exchange Bank and three others)—1.8 per cent.


5. Mellon National Bank and Trust—1.3 per cent.

The total number of shares they hold (15 per cent) is quite sufficient to ensure control because there are no other big stockholders. It would seem that the first group should enjoy the biggest influence, but this is not the case. According to a director of Union Pacific, the Harrimans enjoy effective, unchallenged control. Roland Harriman heads the board of directors, the supreme authority on financial matters, and a Harriman partner, Robert A. Lovett, heads the executive committee which approves all the main measures of the managers. Six other representatives of the New York financial world who sit on the railroad’s board do not challenge the Harriman supremacy and they exercise only functions of general supervision. Neither the Boston nor Philadelphia banks, nor the Pittsburgh bank of the Mellons are represented on the board. Lastly, operational management of transport activities is partly turned over to persons associated with the Eccles group (the latter has less than 0.3 per cent of the stock).

What is the mainstay of the Harrimans’ control? Evidently, it rests chiefly on alliance with New York bankers. Today it is no longer the personal control of the Harrimans

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it was at one time, but joint control of two groups. In this particular case one group maintains favourable neutrality, giving the other actual control. But this neutrality is essential for maintaining the status quo. There would have been no need for it had the personal block of stock been sufficiently large. And so, in the given case joint control signifies actual control for one group and potential control for the other.

To understand the mechanism of joint control it is necessary to know how a banking institution acts towards corporation the stocks of which are either in its possession or are administered by it. When the affairs of the company are in order and it is managed properly from the viewpoint of the bank, insurance company or investment trust, their relationships are limited to the usual credit operations, financial advice and general supervision. In the opinion of American multimillionaires and bankers, management that does not require day-to-day supervision merits the highest praise. This strategy, typical of the financial oligarchy, is designed to save effort in order to concentrate it on the most important sectors where both attention and interference are needed.

So long as the conditions making interference unnecessary are preserved, bank control exists in latent form. Superficially, it looks as though there is no outside control or that control is exercised by a group of top executives. Most of the arguments of the "managerial revolution" theory are based on the latter illusion. True enough, a group of chief executives, if it has a majority on the board of directors, or if the role of the board where it has no majority (because of the concrete circumstances) is reduced to a minimum, is able to control a majority of the stockholders' votes, utilising the proxy machine. This, generally speaking, is tantamount to management by proxy of the fictitious capital of others, which is now a specialised function of some bank monopolies. But if the banks own or administer a considerable block of stock, the machinery of voting by proxy remains an effective means of control by top executives only in alliance with the banks or if the latter maintain favourable neutrality. In such cases joint control by top management and the bankers is in evidence, with the latter frequently having the decisive say.

Before general meetings of stockholders, company management send out voting proxies. Banks receive them, just like the individual shareholders who themselves manage their fortunes. While for the overwhelming majority of the latter the signing of a proxy, as a rule, is a routine matter done automatically, the banks have to decide whether to support the given management, vote against it or abstain from voting. In big banks such questions cannot be decided mechanically. Since the blocks of stock concentrated in their trust departments are sufficiently large, they are always a threat to the top management of corporations.

If the affairs of the company are in good shape, neither the bank itself nor the clients of its trust department have grounds for voting against the management or for abstaining. But if the corporation is in a difficult position, if from the viewpoint of the bank and those whom it represents management does not cope well with its duties, a conflict arises in which, it would seem, latent control should at once turn into open control. But the actual situation is more involved.

If the bank has its representatives on the board, they could try to replace the undesirable executives, or change management methods, the policy of the corporation, etc. By making use of the channels of financial advice, a bank, even if it is not directly represented, may be able to indicate desirable changes. But if the corporation refuses to obey, it is clear that no bank by itself is capable of ousting its top management. To muster the necessary number of votes, unity of action of almost all the banks administering the stock of the given company is needed. Again, to effect a credit blockade an alliance of a number of big banks is required.

The easiest way for a bank to make a recalcitrant company toe the line is to sell its stock. If the head bank begins to sell its stock, however cautiously it might act to avoid a loss on the drop in quotations, the number of dumped shares is too big for other banks, insurance companies and investment trusts not to notice it. The natural reaction of the latter is to sell their holdings to avoid losses. As a result the leadership of the rebellious company is faced with a sudden stockmarket conspiracy engineered by the bank monopolies.

A drop in stock quotations of the given company and also continuous indifference of banks to its securities, as a rule,
create insurmountable difficulties for its management. The company's credit standing is undermined and the way to eliminating financial difficulties is blocked. The automatic support of the top management by the mass of small stockholders is eroded. And, last but not least, what directly affects the chief executives is that they lose the chance of making money on stock options. Since there are other, more lucrative ways of "making" money, the executives gradually lose interest in the given corporation and the power of their resistance to external forces declines. The ranks of the top management are split and the ground is thus prepared for restoring the joint control of the banks.

The more striking example of the exercise of such control in recent years is the change of Chrysler top management. The real reasons for it have not been made public, although they are well known in Wall Street. A vice-president of a large New York bank told the author in a personal conversation: "We sold all our stock in this company; the same was done by almost all other banks. As a result, the main creditor, Prudential Insurance, became alarmed, lawyers went into action and the top management was removed."

Banks obviously prefer the top executives to own, if not a big, than at least a substantial block of stock. In that case there is a certain guarantee that their interests will coincide with the interests of the bank; there is greater chance that control will remain for a long time in the same hands. A combination of family control (with a small block of stock) and potential bank control is now the most typical binder which holds together financial groups.

The evolution of control we have traced signifies that family financial groups must gradually either vanish or become dissolved in broader financial associations, in which there is no domination of one family, nor can there be any. Joint control, whatever its form, implies a more or less solidly formed alliance, association or co-operation of several families, banks and companies. Single control of one family over a group of corporations and banks cannot exhaust the relationships within a financial group; it itself is merely a survival of control which existed in a trust or concern, i.e., a stage in the development of the monopolisation process. A contemporary financial group, as a rule, rests on an alliance of several or many families, united by the common striving for further enrichment.

We have shown that such an alliance stems from the evolution of monopoly control as such. The following arguments can also be added to demonstrate this tendency: 1. In the course of breaking up the personal blocks of shares owned by the Very Rich, the stocks of separate companies are accumulated in different banks controlled by different family groups. Control over such corporations demands an alliance of these groups.

2. The largest industrial corporations grow beyond the narrow bounds of exclusive service by one bank or one bank group. No commercial bank may give a company a loan exceeding 10 per cent of its own capital; on the other hand, the large corporations must have a guarantee of obtaining much bigger loans (at the end of 1962, the credit line of General Motors reached $950 million while the maximum loan the Chase Manhattan Bank could give was only $75 million and the Morgan Guaranty Trust, $52-53 million). Even financial advice to such corporations is beyond the capabilities of a single bank.

The banks, however, do not even strive to utilise to the full their limit of crediting large corporations. A commercial bank (and other banking institutions) is operated as a capitalist enterprise, i.e., for profit. Concentration on serving a limited number of big clients is not the most profitable business. That is why the interbank syndicates, of which we spoke in Chapter IV, arose. While in such syndicates the right of supervision and control belongs solely to the head bank and others adhere to the non-interference tactics, there is a deeper division of labour in the daily contacts between a bank and a large corporation.

Let us take, for example, the Standard Oil Co. (New Jersey). Eugenc Holman, the late chairman of its board, was a director of the Chase Manhattan Bank at the beginning of 1962. Its chairman of the board and former vice-president Leo D. Welch was for a long time a director of the First National City Bank of New York. M. J. Rathbone, president of the company, sat on the board of the Morgan Guaranty Trust. A former vice-president of the Bankers Trust who knows well the inside working of New York banks, told the author: "In the case of the Standard Oil Company (New
Jersey), the presence of three of its executives simultaneously in three different banks naturally shows that all of them have very serious financial ties with the company, which must be considered in their sum total. There is no doubt that all of them are leading creditors of the company, have a very large number of its shares in their trust departments, keep its deposits, and so on. The same is true, for example, of the First National Bank of Chicago which, being a large oil bank, also credits the Standard Oil of New Jersey, or of the Bankers Trust which administers its pension fund. All these banks exert a strong influence on the company management and it must reckon with them as much or almost as much as with Chase Manhattan, its main bank.”

An interesting aspect of this example is that all the three banks stand at the head of three different large and independent financial groups. From this it follows that not only separate groups now represent alliances of several or many families, but also that a condominium, that is, joint control of several financial groups over monopolies, division of spheres of influence within trusts and concerns is now becoming a characteristic tendency in the development of the financial oligarchy. As we shall further demonstrate, traces of such a condominium can be found in most of the leading U.S. industrial corporations.

However amorphous their structure and indistinct their boundaries, financial groups represent definite associations of companies which produce definite goods, trade in definite commodities or transport definite freights between definite geographical places; of banks with branches serving a definite range of clients, specialising in definite types of loans, and so on and so forth. In other words, a financial group, besides being a banking-industrial complex, cemented by ties of alliance or control, is also a combination of enterprises in the spheres of production, circulation and credit.

Without a special study it is impossible to say to what extent the components of the existing financial groups are interconnected economically, to what extent integration, specialisation and co-operation in production are developed among them. It would seem that these interconnections should increase as one and the same companies continue to orbit around one and the same financial luminary. The development of this process would signify a colossal saving of social labour which under capitalism is appropriated by the monopoly upper crust. But, as shown even by the experience of separate concerns and corporations, economic ties between their components are frequently weakened by the “diversification” of their production range. The latter is based on the laws of capitalist profit. Inasmuch as profit is of utmost interest to the heads of financial groups, the development of such ties between their companies is not considered obligatory. Thus, the contradiction between the productive forces and the capitalist relations of production are displayed in a specific form in the financial group.

Separate groups, clearly, are not and cannot be economically autarchic units. Even under maximum integration the final product of a group has to be sold to outside companies, the state or the population. Whether such integration is profitable is a matter depending on the circumstances. But between companies in one financial group there must be certain co-ordination in making outside sales and purchases and in drawing up plans which set the scale of these operations. All other conditions being equal, the strength of a financial group directly depends on the degree of such co-ordination.

The latter arises spontaneously as a result of simultaneous co-ordinating efforts by separate companies. Most large corporations in the United States have annual and long-term plans which at certain stages in their formulation are agreed upon with the head bank or of which they inform this bank and the other banking institutions serving them. Even if a company does not co-ordinate its plans with its bank or inform the latter about them, the banker sitting on its board of directors knows about them.

Banks are interested in these plans above all because they want to know the future demand for loan capital so as to take it into consideration in their own plans. This, so to say, is passive co-operation, adaptation of the credit resources of the banks to the credit needs of the financial group. But there is an active side as well. Immeasurably more information about various industries, factories, regions and individuals is concentrated in banking institutions than in any industrial corporation. A banker is in a position to compare competing firms in one and the same sector which utilise his services and to suggest a modus vivendi to each one. A banker is familiar with plans of competitors from other groups and
can warn "his" company in advance about them. He can help introduce the necessary changes in the plans of "his" corporations in the interests of the bank and the financial group as a whole. Such a function is also performed by an investment banker or a big lawyer who sits on the board of a company.

Industrial corporations also have on their boards executives of companies which buy their products, of supplier firms, and so on. Such representation, of course, is not, and cannot be, the general rule. The number of directorships is limited and big stockholders, bankers and top executives lay claim to them. But where these claims are modest, the boards of directors largely reflect these economic ties. For example, among the directors of Republic Steel we find:

a) the chairman of a New York brokerage firm, which handles contracts for insuring its factories and other property, sea cargoes, group insurance of its factory and office workers and so on;

b) the head of a railway company—one of the iron ore suppliers of Republic Steel;

c) the head of a local building firm who is an expert in capital construction;

d) the chairman of the board of a shipping company which transports Liberian ore belonging to Republic Steel and jointly with it owns six ocean-going ships;¹

e) the head of one of the largest U.S. companies for the production of paints, without which the normal sale of tin plate and cans would be impossible.

The board of directors of Republic Steel thus resembles the headquarters of a whole group of industrial, transport and insurance companies, which it actually is.

This tendency has been most pronounced in the directorates of large commercial banks which are now filled not so much by big stockholders, the executives of the bank itself and local businessmen who founded it in the past, as chiefly by men who head large industrial, insurance, commercial and other companies. In the absence of large stockholders it is they who often consider themselves the masters of the bank or its main controlling force. At times they do not play the decisive role. Be that as it may, the boards of directors of leading banks are less and less becoming an abridged version of the list of stockholders; they are increasingly turned into a meeting place for closely interconnected leaders of large banks and industrial complexes, into headquarters where the activities of the financial group as a whole and, more frequently, of a big part of it, are co-ordinated.

This shows that within a financial group a corporation enjoys considerably more autonomy than is usually assumed. This follows, first, from the present-day nature of groups, which are based on an alliance of corporations. Their association eliminates neither the differences in their interests nor their independence. Second, joint control examined earlier, as a rule, signifies the absence of petty guardianship by the controlling bodies over corporate management. Corporations are mostly allowed to run things themselves, except for matters pertaining to co-ordination within the group. Theoretically it is quite possible to conceive a higher stage of centralisation of management of a financial group. The application of electronic computers, which is now swiftly spreading, probably would make it possible to organise more operational guidance of companies by the headquarters of a group.

We mentioned earlier the inevitable relativity of boundaries between groups. It is a result not only of the spread of joint control and the condominium system but also because of constant changes in the composition of the groups themselves: some companies are added, other drop out.

The withdrawal of a company from a group does not at all mean that the threads linking it with all the former banks, lawyers, buyers and suppliers are automatically torn up. Control changes, but economic ties remain if they are to mutual advantage. This happened in the case of the Kaiser concern which, having fallen under the guardianship of the First Boston Corporation, preserved business ties with the Bank of America.

Like monopolies in general, financial groups are a superstructure over capitalism of free competition. For their very nature such groups cannot include all the companies in

¹ In the opposite direction the same vessels transport oil products. It is interesting that the same man is also director of the Rockefeller-controlled Chase Manhattan Bank. The latter is one of the head banks of Republic Steel.
the country. The economic raison d'être of a monopoly is that it stands above the mass of non-monopolised establishments, without which it could not exist as a monopoly, could not obtain monopoly superprofits. Similarly, a mass of outsiders, big and small, is preserved at the junctions between financial groups and in their pores. They owe their existence to the contradictions between the groups and to the fact that they serve them. All the large industrial and financial centres of the United States, not to speak about the "provinces", are full of such outsiders, New York especially.

The structure of the U.S. financial oligarchy, in the sense of its division into financial groups, is constantly changing. New trusts and concerns constantly arise on the basis of the concentration of production, circulation and credit. Some of them grow over into family financial groups. Others turn into groups by co-operating with each other. In the course of clashes some of them lose their significance, while others grow in size and strength.

Abstractly speaking, there are no limits to this expansion except the boundaries of the economy as a whole. But actually it runs up against obstacles engendered by capitalism's contradictions. Besides the internal contradictions of the capitalist class and rivalry between the monopolies, bounds to the power of separate groups are set by the contemporary productive forces. An objective boundary exists, beyond which private control of a narrow group of monopolists over the social productive forces grows weaker and becomes impossible. Separate groups cannot cross this boundary without sharing power with others, without pooling forces with them.

At first family and then broader financial groups come into contradiction with the requirements of developing the productive forces they control. But the capitalist system constantly reproduces these anachronisms which have existed, and will continue to exist as long as capitalism exists. That is why the structure of the U.S. financial oligarchy at each given period represents an intricate combination of the most diverse forms of monopolisation—both the oldest and the "supermodern". Such a system, eliminating at times and in some places its non-conformity with the modern productive forces, is in crying contradiction with them most of the time and in most places.

2. Regional Concentration of Finance Capital.
   The Special Role of New York

In such a large country as the United States the distance between economic areas and between industrial and bank centres greatly affects the structure of the financial oligarchy. The distinctions between the "industrial North", "expanding West" and the "backward slave-owning South", of course, have not been fully obliterated as yet. But the swift development of modern industry and banks both in the West and the South in the last two decades has essentially altered the country's aspect. The distribution of the productive forces and the resources of loan capital has become more even. This is a natural process, but it is exploited by bourgeois authors as an argument supposedly proving the withering away of financial groups.

In reality, however, parallel with the geographic deconcentration of industry, trade and, to a certain extent, of banking, the regional concentration of finance capital is proceeding perhaps even at a faster pace than before. We refer to the shaping and consolidation of banking-industrial complexes which gravitate towards large bank and urban centres. The new, swiftly growing industrial corporations gravitate towards the resources of skilled labour, scientific and technical personnel and short- and long-term loan capital which they find in and around the large cities. In conditions of the modern scientific and technological revolution, with its stress on synthetic materials, this attraction to urban centres becomes stronger than, for example, to mineral resources.

It would be absurd to look for the main financial groups outside of these urban centres. It would be similarly wrong in our time to confine an analysis only to the traditional "old" centres—New York, Boston, Cleveland, Chicago and San Francisco. We have tried also to analyse, at least by way of initial approximation, the other, younger centres whose growth in recent decades is beyond dispute. But this analysis must be made in the proper light. Alongside the undoubted growth of both new and old regional financial centres, the special role of New York as the unchallenged financial capital of the United States has definitely been consolidated.
Concentrated in New York are the overwhelming majority of investment banks which enjoy a monopoly of selling securities; the biggest stock exchanges in the country which monopolise trading in the securities of the biggest corporations and set their prices; the largest insurance companies which own the main mass of private bonds; commercial banks with the biggest trust departments which administer hundreds of millions of shares. The investment banks and brokerage houses with headquarters in New York account now for more than nine-tenths of all the operations of these banking institutions. At the beginning of 1964, of the 33 such banking institutions with a capital of more than $10 million, 28 had their main offices in New York. Moreover they accounted for 85 per cent of the total capital of these houses. Of the biggest investment banks which are the recognised leaders in underwriting securities of large corporations only three have their head offices outside New York. In recent decades even banking houses which formerly were located in Boston, Chicago and San Francisco have tended to transfer their main offices to New York.

The growing geographical concentration of investment banking is easy to explain. No provincial centre has such a broad and capacious market of fictitious capital as New York and the adjacent states. Thirty per cent of all the individual shareowners in the United States reside in four states—New York, New Jersey, Pennsylvania and Connecticut. What is even more important, here are the biggest insurance companies, the main buyers of bonds, and also trust departments of banks, the main buyers of stocks. That is why, with a few exceptions, provincial banking houses now successfully organise only syndicates which sell stock issues of local firms, issues which are small in size and are not in big demand in other areas. But no sooner do companies outgrow local bounds than they inevitably turn for help to New York investment banks. This, by the way, means that control over large industrial companies by provincial millionaires and banks is seldom “pure”; as a rule, it is shared with New York financial groups.


In 1956, the share of New York institutions in the total income of all commercial banks was as follows in different divisions: trust departments, 34.8 per cent; administration of pension and profit-sharing funds, 60 per cent, and administration of personal fortunes, more than 50 per cent. At the beginning of 1963, of the 50 largest life insurance companies only nine had their main offices in New York or Newark. But they had 55 per cent of all the assets.

The thesis about the decline of New York's role as the financial centre of the U.S.A. is usually based on data showing a decrease of its share in total deposits of commercial banks. True enough, its share dropped from 24.8 per cent in 1942 to 14.8 per cent in 1958. With the considerable development of "retail" banking, deposits grew faster where the increase in population, especially of its more prosperous part, was swifter; New York has invariably lagged behind in this respect. But to draw conclusions about the importance of commercial banks of a city as a financial centre only on the basis of their "retail" operations is absolutely wrong. Here other indicators are of great importance, namely, the credit of industrial and commercial companies and also of other banking institutions; the size of banks and ability to offer large loans, provide unique information and render other financial services; correspondent ties with banks in other areas; participation in foreign exchange and foreign trade operations and also in servicing branches of American companies abroad; close ties with the government credit system.

At the end of 1950s, New York banks accounted for about 30-32 per cent of the "commercial" loans (i.e., credits to industry and trade), 45-46 per cent of loans for the purchase and sale of securities (73 per cent of the loans to brokerage houses) and 66 per cent of bank acceptances. About three-fourths of the commercial loans of New York banks went for the needs of the enterprises outside New York and its suburbs, while the loans of banks in other cities, with few exceptions, were of a definite local character. Term loans (for a year and more) amounted to almost 60 per cent of the

4. Ibid., pp. 84, 85.
business credits of New York banks, while the average share for the country was much lower. Of the 50 largest commercial banks, 10 had their main offices in New York in 1965. They had 42 per cent of the total assets of these banks.\footnote{1}

It is not surprising that New York banks headed most of the underwriting syndicates. Even in cases when a provincial bank organises a syndicate New York banks are the biggest participants. New York banks, better than those in other cities, have organised the collection of commercial and financial information, which enables them to render corporations numerous services which cannot be furnished by other banks.\footnote{2} The conclusion is clear: New York banks personify the coalescence with the country's largest industrial monopolies, and local banks, as a rule, with local, smaller companies. New York commercial banks, just as the investment banks, actively invade the spheres of influence of provincial banks.

New York is in effect by far the dominant foreign exchange market in the United States. All large New York banks have departments abroad and keep accounts of foreign banks. In other American cities there are no foreign exchange brokers. All banks and firms interested in foreign trade or in opening branches abroad have to turn to New York bankers either directly or through their correspondents. Few commercial banks outside New York have direct outlets to foreign markets. Moreover, it is in New York where the offices, departments and branches of foreign private and state banks are concentrated. The short-term assets and gold belonging to foreigners are kept here, too. Lastly, loans to foreign states and private companies are arranged here.

The importance of New York is also determined by its special place in the state credit system. The bulk of trade in securities of the Federal Government is handled by its banks and brokerage houses. The Federal Reserve Bank of New York, acting hand in glove with Wall Street financiers, fully controls the operations of the Federal Reserve System on the open market. Clearing settlements are made almost exclusively through a New York private bank. When the

\footnote{1} \textit{Fortune}, July 15, 1966, p. 252.  
West. At the threshold of the 20th century, the concentration of these provincial banks brought into being new bank centres which were largely independent of New York and stood in opposition to it. But at the beginning of the 1920s, the shortage of loan capital gave way to a surplus. Simultaneously, the expansion of New York financiers in the West and the expansion of provincial financiers in the East and the West led in the 1920s and 1930s to the sharpest clashes between the old and the new financial groups in the history of American imperialism. In the 1940s and 1950s, the struggle, without abating, assumed less violent forms. Some of the rivals were ruined, some knuckled under and some agreed to a compromise. But on the whole New York has won the battle for the time being.

The potential might of the provincial groups, however, has been steadily growing in recent decades. While at the end of the 1920s groups with head offices in New York accounted for almost 70 per cent of all the assets controlled by financial groups, at the beginning of 1960s their share declined to 49 per cent. Thus, the uneven development of the economic power of the financial groups, generally speaking, was in favour of the provinces and against New York. Evidently this tendency is fraught with further serious aggravation of internal contradictions in the American oligarchy. An analysis of separate financial groups shows how these contradictions are developing in our days.


Dictatorship of the Morgans: Cause of Its Fall

The present financial “community” of New York represents a totality of mainly independent groups which on a number of economic and political questions have common interests and in such cases act jointly, but keenly compete in other spheres. Each group, however small it might seem, enjoys a certain share of the financial superiority of New York in controlling industrial, commercial and transport companies. The centres of these groups are in some of the biggest commercial and investment banks and only by way of exception in law firms.

If we follow a descending line we can name the following eight New York financial groups and the banks they head (see table).

<table>
<thead>
<tr>
<th>Name of group</th>
<th>Assets controlled as of the beginning of 1965, million dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Banking</td>
</tr>
<tr>
<td>Morgan Guaranty Trust</td>
<td>29,896</td>
</tr>
<tr>
<td>Chase Manhattan Bank-Chemical Bank New York Trust</td>
<td>34,741</td>
</tr>
<tr>
<td>First National City Bank of New York</td>
<td>11,677</td>
</tr>
<tr>
<td>Manufacturers Hanover Trust</td>
<td>8,261</td>
</tr>
<tr>
<td>Sullivan and Cromwell-Marine Midland</td>
<td>5,494</td>
</tr>
<tr>
<td>Lehman Bros.-Goldman, Sachs and Co.-Lazard Frères</td>
<td>700</td>
</tr>
<tr>
<td>Harriman-Newnham Mining</td>
<td>1,765</td>
</tr>
<tr>
<td>Dillon, Read and Co.</td>
<td>463</td>
</tr>
<tr>
<td>Joint Control of New York groups</td>
<td>5,000</td>
</tr>
<tr>
<td>Ford group (sides with New York groups)</td>
<td>3,488</td>
</tr>
<tr>
<td>Total</td>
<td>101,485</td>
</tr>
</tbody>
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These groups sharply differ in size. Notwithstanding the difference in concentration of economic power, each represents an independent association not controlled from the outside and not subordinate to external forces, although the degree of independence of its line may depend on the sum total of the concrete circumstances. What is absent in Wall Street since the 1910s is the dictatorship of one man; nor is there since the 1930s a dictatorship of one group over all the other, over the rest of the financial “community”.

This is manifested not only organisationally—in the absence of meetings at which the opinions of bank leaders would be submitted to the judgment of one man. Wall Street does not even have a generally recognised oracle who
would be trusted and heeded by all others. Claims to the role at least of an oracle are laid by Henry Alexander, head of the Morgan Guaranty Trust; David Rockefeller, president of the Chase Manhattan Bank who commands an array of personal publicity experts; André Meyer, principal partner of the Lazard Frères investment bank, who acts behind the scenes, and some others. But these claims are not accepted in the financial world, and these men are not obeyed implicitly by those whom they do not control. Not one of them is recognised as the indisputable leader. Nor are there any "duumvirates", mentioned by some authors. At most it is possible to speak of a "Directory" (not in a formal sense) of six-seven leading investment bankers and a dozen of the chief commercial bankers.

To understand the operation of this system it is necessary to describe, if only in brief, the dictatorship of the Morgans in the first quarter of the 20th century and the reason for its fall. This dictatorship rested on the distinctive features of the banking system at the end of the 19th century. At that time only a few banking houses were capable of headling the distribution of corporate securities. The commercial banks were relatively small and they engaged chiefly in short-term credits. They were only starting to coalesce with the industrial monopolies. The United States had no central bank of issue that could regulate the loan capital market at least to some extent. Under these objective conditions the conversion of the relatively small banking house of Morgan into an almost absolute dictator of Wall Street did not encounter big obstacles and, so to say, was a natural product of the epoch.

John Pierpont Morgan I was first of all a monopolist among the investment bankers, but not only that. He for the first time applied on an unprecedented scale the idea of active intervention by a banker in industry with the object of creating a supply of securities. The organisation of colossal trusts (for those days) was a means of steeply increasing the flow of stock to a market which he already had monopolised, a means of tremendously swelling his profits. This operation, which for Morgan was a way of accelerating the self-growth of his capital, turned him into one of the first finance-capitalists in the true sense of the word, that is, a "hybrid" of an industrial and bank monopolist. This combination made Morgan a unique figure on Wall Street. At that time, besides Morgan, only the banking house of Kuhn, Loeb played a definitely independent part in this field. But its coalescence with industry was expressed chiefly in an alliance with Harriman, a railroad tycoon, while the house of Morgan at once combined both banking and domination of industrial companies.

Morgan exploited his special position for subordinating all the main commercial banks of New York. That was not difficult because they were in a rather poor condition at the time. Founded originally by rich New York merchants, they subsequently came to be administered by professional managers and lost their ties with most of the old families. All banking crises, quite frequent in those days, placed them on the verge of bankruptcy. They were willing to submit to Morgan's leadership and he was ready to command them. The exception were two banks which had powerful owners—the National City Bank of the Stillmans and the First National Bank of the Bakers. The former recognised Morgan's leadership and the latter established a long-standing alliance with him. Morgan set up the Bankers Trust to serve as a kind of central reserve for New York bankers, placing one of his partners at its head.

Domination over the commercial banks of New York and Philadelphia was consolidated, first, by the house of Morgan discounting their notes; second, by selling to them a considerable part of the securities it underwrote; third, it was ready to relieve them of the "burden" of administering the fortunes of the rich (the first trust companies and trust departments); fourth, during crises, he organised bankers' syndicates to save tottering institutions from bankruptcy; fifth, he enjoyed special confidence of the Federal Government as its constant financial adviser and organiser of loans.
sixth, he enjoyed a monopoly of financial representation of the United States in Western Europe.

Morgan's influence and his dictatorship encompassed a much wider range of companies and banks than those he directly controlled. The Morgan empire was then considerably wider than his financial group and also included vassals to which the majority of the old plutocracy belonged.

The Wall Street dictator died in 1913. For a time his empire was kept intact by his partners, above all by Thomas W. Lamont, and his son John P. Morgan II. But by the mid-1930s the empire had vanished. The First World War turned the United States from an international debtor into an international creditor. This abolished the dependence of many companies on foreign capital and, consequently, also on the house of Morgan as its main supplier to the American market. Instead of a shortage of national capital there was a relative surplus of it.

Together with the growth of internal capital sources, new banking houses sprang up both in New York and in the provinces. Of the 12 investment banks (not counting the house of Morgan) which held a prominent place at the end of the 1920s, eight were founded during and after the First World War. Some commercial banks, which for a time engaged in investment banking only as passive participants in syndicates (organised by the house of Morgan), gradually turned into rivals of the latter.

All these changes undermined the monopoly position of the house of Morgan in investment banking. The cartel of investment banks, set up prior to the First World War, in the 1920s was dominated by J. P. Morgan and Company in placing both American and foreign securities. It was only later, in the 1930s and 1940s, that it became a union of equals, although the Department of Justice, instituting proceedings against the cartel, rightly placed the name of Morgan at the top of the defendants' list. But the cartel was not the same thing as the dictatorship of one bank; its organisation as such was admission of the existence of strong rivals.

It was about the same time that the Morgans lost their unique position of finance-capitalists. Tycoons of the Rockefeller type who made a fortune in industry began to subordinate banks. These men naturally were in opposition to the Morgans. First, they were either richer than this banking family or equal to it in wealth. The capital of the Morgans, considered "colossal" on Wall Street, did not particularly impress them. The same was true of the Morgan trusts, because their own trusts were not smaller or weaker. Second, they sought to gain control over banks to get rid of Morgan's grip on the loan capital market. The dictatorship of the house of Morgan was thus attacked not only by rivals within the banking sphere but also by new powerful financial groups.

The establishment of the Federal Reserve System in 1913 undermined the special position of J. P. Morgan and Co. as the bankers' banker. A helping hand in creating this system was lent by Senator Nelson W. Aldrich who was related by marriage to the Rockefellers, the banker Paul Warburg of Kuhn, Loeb and other opponents of the Morgan dictatorship. Their efforts did not bring immediate victory. In its "infancy" (up to the beginning of the 1930s) this system greatly depended on the Morgans, because, first, it did not coalesce as yet with the provincial bankers who were natural enemies of Wall Street and, second, its main link, the Federal Reserve Bank of New York, was headed by Morgan placemen.

In the 1920s, much was still maintained by inertia, to be more exact, the faith of the old plutocracy in the infallibility and omnipotence of the Morgans. But when the stock market panic broke loose in 1929 the Morgans were powerless to remedy the situation even to some extent. A new force, the government, acted as the "saviour" of the banking system and of the economy as a whole.

The investigations in the 1930s, in the course of which J. P. Morgan and Co. was the main "defendant" in the eyes of public opinion, imprisonment of a number of its placemen (in particular the president of the New York Stock Exchange), banking legislation of those days, extension of state regulation of the economy, specifically credit—all these were merely separate elements of the main development that struck a mortal blow at the dictatorship of the Morgans over Wall Street, namely, the conversion of monopoly capitalism into state-monopoly capitalism. The dictatorship of the Morgans fell under the blows of rival financial groups and the growth of state-monopoly capitalism.
4. The Morgan Guaranty Trust Group

The end of the dictatorship of the Morgans did not spell the doom of their financial group. The latter was held together by much stronger ties, which enabled it to weather the biggest economic storms. What is the Morgan group like now? Let us examine its main components, beginning with the banking sphere.

**Banks.** The 1934 Act on the division of commercial and investment banks sundered, as it were, the J. P. Morgan and Co. in two. The latter was known above all as an investment bank, but it also had quite big deposits of the millionaires, large corporations and banks. Almost 90 per cent of its assets consisted of government securities, cash and deposits in other banks. J. P. Morgan and Co. did not give big loans.

The heads of the house of Morgan decided to remain in both banking spheres, and set up two banks: J. P. Morgan and Co., a commercial bank, and Morgan, Stanley and Co., an investment bank.¹

Both have operated quite successfully in the next 30 years. J. P. Morgan and Co., which was accustomed to command in the financial community, found itself in the mid-1930s holding the 25th place among the country's commercial banks and the 7th-8th place among New York banks. To preserve its main clients the house of Morgan concentrated in its offices a highly competent group of bankers who until then were associated with several banks that were within its sphere. For a time it limited its role to organisational and advisory functions, without engaging in large credit opera-

¹ Henry S. Morgan told the author: “At the time of the division we had deposits of $400-500 million. The number of clients was small, but these were important clients. The bank was not open to the public. It maintained close relations with its clients. We gave them advice, organised mergers and in necessary cases arranged the sale of their stocks and bonds. The new banking law only prohibited banks to underwrite securities; everything else remained in their hands, in other words, they could engage in mergers and other activities.... Naturally we could not drop this business. Father [J. P. Morgan—S.M.] remained to direct the bank, just as most of his partners. The underwriting of corporate securities was merely part of our old business, and we did not know whether it would be capable to stand on its own as an independent profit-making enterprise. It was an experiment for us.”

1 A partner of Morgan, Stanley and Co. relates: “Study of a company begins long before it first issues its securities. We keep an eye on all the well-known large corporations which do not quote their securities on the open market. This means that even at that stage we are in
The Morgan banks keep up their reputation of a "club for the select". This, by the way, explains why, having a smaller number of floated issues and much smaller capital than its rivals, Morgan, Stanley invariably holds first or second place for the value of the securities underwritten annually. Syndicates are organised by this bank with its minimal money participation, thanks to the enlistment of other, well-known investment houses. From 1935 to 1961, Morgan, Stanley managed syndicates for the placing of $22,500 million of securities, including those of 23 of the 100 largest American industrial corporations.

Who directs these two main institutions of the Morgan group, who controls them? In the case of Morgan, Stanley, the answer is not hard to come by. The capital of the bank belongs to its partners, with the biggest share (one-seventh) being held by Henry S. Morgan (in the past, it was 30-50 per cent, according to various sources). No data is available on the distribution of the capital among the other partners. General guidance of the bank almost since its foundation has been exercised by Henry S. Morgan; for more than 20 years Perry Hall, a top executive who also owns some of the capital, has been his closest aide.

Control of Morgan Guaranty Trust is a much more involved question. During the merger of the two banks in 1959, most of the top executives came from J. P. Morgan and Co., while Guaranty Trust men received mostly secondary posts, although under the terms of the merger stockholders of J. P. Morgan and Co. received only one-fifth of the stock of the combined bank. This is explained by two reasons: the executives of J. P. Morgan were more competent, while stock ownership in Guaranty Trust was more scattered. After World War I, following the sale of the 10-per cent block of stock belonging to the multimillionaire Thomas F. Ryan, close contact with them and they readily give us the necessary information, knowing that sooner or later they will need our services. As for us, we see to it that the future business should come to us and not to our competitors. A specific case is the Upjohn Company, in which we took an interest ten years before it turned to the market."

1 As of January 1, 1964, the capital of Morgan, Stanley and Co. amounted to $5.2 million, smaller than the capital of 71 other investment and brokerage houses (Finance, Appendix, March 1964, pp. 26-32).

Guaranty Trust shares were no longer owned by big individual stockholders. Autocratic executives, mostly Morgan men, or partners of J. P. Morgan, dominated this bank.

Prior to 1940, J. P. Morgan and Co. was a private bank and its capital belonged to 13 partners, of whom the biggest shares were held by John P. Morgan II and Thomas W. Lamont. Its conversion into a joint-stock bank in 1940 necessitated an increase of its own capital by enlisting funds of the public. After the death of J. P. Morgan II in 1943, most of his stock was sold. Part of the stock held by Thomas W. Lamont was inherited by his son, but a part was also sold. The other partners had no big blocks of stock. After the merger with the Guaranty Trust their proportion further declined.

At present the biggest block of Morgan Guaranty Trust stock (8.6 per cent) is held in its own trust department and other big blocks are kept in trust departments of other New York banks.1 As for the bank directors and top executives, their aggregate share is only 0.4 per cent of which 0.27 per cent belong to two former partners of J. P. Morgan, Thomas S. Lamont and Charles D. Dickey.2

The total number of shares of which the management of Morgan Guaranty Trust directly disposes is at least 9 per cent. This share, in view of the small size of the other blocks, is quite sufficient for control.

After the death of J. P. Morgan I, management of the bank was taken over by a duumvirate: Thomas W. Lamont and J. P. Morgan II. The latter's financial abilities were not of the same calibre as his father's and throughout the 1920s and 1930s first fiddle was played by Lamont. A son of Morgan II, Junius S. Morgan, who up to his death was vice-president of the bank, took little interest in the business, played no decisive part and did not lay claim to leadership. After 1940, George Whitney took over leadership from the ageing Lamont. A son of Thomas Lamont and Harry Davisson, a son of another Morgan partner, were his closest assistants. In the 1950s, Whitney became gravely ill and Henry Alexander, a man more capable than the "partners of the second generation", became the bank's chief executive. He is a former lawyer with no large fortune of his own.

1 Chain Banking . . ., p. 138.
2 Ibid., p. 332.
What is striking about this group is the almost complete absence of Morgans in the leadership. It is true that the aged Henry S. Morgan headed Morgan, Stanley and Co. But he, though personally a qualified investment banker, did not enjoy in Wall Street an influence commensurate to that of his bank. Moreover, there are no data demonstrating his influence on the leadership of Morgan Guaranty Trust. Inasmuch as the Morgan family is now neither a big stockholder nor is represented among the top management of that bank, it is difficult to say in what way its decisive role is displayed there. From the business angle, both head banks of this group depend on each other only in so far as they have a large number of common clients, the main ones for each of them. The leadership of the Morgan Guaranty Trust was hardly subordinate to Henry S. Morgan or the leadership of Morgan, Stanley and Co., to Henry Alexander. Thus, J. P. Morgan and Co., a closely-knit partnership in the past, has evolved into an alliance of two autonomous banking institutions.

That Thomas S. Gates, ex-Defence Secretary, became president of Morgan Guaranty Trust in 1962, was hardly accidental. He was a co-owner of Dreuxel and Co., which prior to 1940 was part of J. P. Morgan and Co. Gates received this post only by virtue of his long-standing ties, because previously he had not engaged in commercial banking.

Other changes, too, have occurred in the leadership of Morgan Guaranty Trust. In contrast to Morgan, Stanley and Co., which has remained a closed partnership, it, having become a joint-stock company, admitted to its board representatives of other companies. This happened for the first time at the end of 1942, on the eve of the death of J. P. Morgan II. Gradually the number of former Morgan partners and bank executives in its directorate decreased, while the number of outside directors increased (up to 18 out of 23 in 1963). Evidently the old system, under which the headquarters of the Morgan group was staffed by a few men close to Morgan himself who were placed in the numerous Morgan-controlled companies to oversee the fulfillment of decisions taken in this headquarters, has been replaced by a new system under which decisions are adopted jointly by a group of bankers and industrialists.

We do not know how precisely this mechanism operates. But there is indisputable evidence of the changed role of outside directors in Morgan Guaranty Trust. First, we find among them several multimillionaires who cannot be considered mere subordinates. These are Stephen D. Bechtel, John T. Dorrance, Robert T. Stevens, and in the recent past A. P. Sloan and R. Woodruff. Second, the relationship of the bank management and of directors, who are executives of large corporations, is not necessarily one-sided. It sooner may be said that the dependence is reciprocal because the bank needs them as big depositors and carriers of its influence in the respective industry or area.

Industrial executives, who sit on the board of Morgan Guaranty Trust and are in the majority there, are able to wield no less influence on the policy of the bank than the bankers. It is interesting to recall that it were the outside directors of Guaranty Trust who were the initiators of the merger with J. P. Morgan and Co. Most of them then became directors of the combined bank. Let us stress, however, that the alliance of millionaires, banking and industrial executives and top managers of the head institutions of the Morgan group still largely rests on the old basis of administering the fortunes of numerous old plutocratic families.

In the 1930s, the First National Bank of New York and Bankers Trust were among the commercial banks in the Morgan group. The Bakers, multimillionaires who maintained their long-standing alliance with J. P. Morgan, were the biggest stockholders of First National. But subsequently this alliance did not survive. At the beginning of the 1950s, the First National Bank stopped expanding and its shares lost their popularity. It is not known to whom Baker and his close entourage tried to sell their bank. If such offers were

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1 Carl J. Gilbert, chairman of the board of Gillette Co. and a director of Morgan Guaranty Trust, related: "The old partners of the bank are not its biggest stockholders now.... The present Morgan Guaranty Trust is a concentration of capable men, more than ever before.... They are very valuable; it is wonderful how much they know.... But in the last ten years almost all our financing has been strictly internal.... At the end of 1961 we had only $10 million in cash (in banks) and $55 million in various short-term securities. This means that it is not where we depend on the banks, but it is they who depend on us. I have greater influence on Morgan Guaranty Trust than it has on me."
made to J. P. Morgan, the latter was obviously not interested. At the end of 1954, it was taken over by the National City Bank.

The history of the Bankers Trust took a different turn. It was founded in 1903 by Morgan and his partners. Up to 1935, J. P. Morgan and Co. had no less than three of its partners on the bank's directorate. In the mid-1930s, the representation of J. P. Morgan was whittled down to one director and in 1939 disappeared completely. But at that time direct personal union between banks was prohibited by law and, therefore, the absence of interlocking directors offers no sufficient ground for the conclusion about the break of their ties.

The biggest stockholders of the Bankers Trust Company are:

<table>
<thead>
<tr>
<th>Stockholder</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Morgan Guaranty Trust</td>
<td>5.34</td>
</tr>
<tr>
<td>Bankers Trust</td>
<td>5.10</td>
</tr>
<tr>
<td>Wellington Fund</td>
<td>2.34</td>
</tr>
<tr>
<td>Manufacturers Hanover Trust</td>
<td>1.85</td>
</tr>
<tr>
<td>First National City Bank of New York</td>
<td>1.79</td>
</tr>
<tr>
<td>Chase Manhattan Bank</td>
<td>1.77</td>
</tr>
<tr>
<td>Chemical Bank New York Trust</td>
<td>1.63</td>
</tr>
</tbody>
</table>

Since the Wellington Fund is closely linked with both head Morgan banks (see Chapter IV), their share can be combined—7.68 per cent. The Chase Manhattan Bank and the Chemical Bank New York Trust together have only 3.4 per cent, that is, much less. Clearly, only an alliance of the Morgan Guaranty Trust with the leadership of the Bankers Trust ensures firm control (13.3 per cent). A big block of shares was held by Paul Moore up to his death in 1959. His son, William H. Moore, now heads the bank. This shows that the Moores preserve a big interest in it, possibly hidden in the trust department of the Bankers Trust. The existence of inside control is also confirmed by the big share of bank executives among the directors (9 out of 24).

We have made an analysis of the personal union of Bankers Trust directors with other institutions, and also of its financial ties wherever this was possible. The study covered about 150 of the largest industrial, transport and commercial corporations. The analysis reveals the following picture.

Directors of the Bankers Trust are represented on the board of 13 of these companies. In 7 cases out of the 13 directors of the Morgan Guaranty Trust or partners of Morgan, Stanley and Co., were also present on their boards. In two other companies there were no representatives of the latter, but Morgan, Stanley was their head investment banker. Only in three cases did the bank have interlocking directors with companies in which Morgan banks were not represented and other groups prevailed. Of the 29 companies, which the Bankers Trust served as stock transfer agent or bond trustee, head Morgan banks were represented in ten, in four its own directors sat on the board and in 15 representatives of 13 other financial groups prevailed.

The alliance of the Bankers Trust with the Morgan Guaranty Trust and Morgan, Stanley and Co., is beyond doubt. In the 25 years it has functioned without direct guardianship of J. P. Morgan, this bank has not built up either an independent system of personal union or a special range of clients as would enable it to head an independent financial group. Its present connections sooner reinforce the Morgan banks than enable it to play an independent part.

For all these reasons, we consider it possible to place the Bankers Trust in the group headed by Morgan Guaranty Trust, but with the following reservations: a) the Bankers Trust is not directly subordinate to the latter, but is in alliance with it; it is an alliance based both on joint stock control and a community of clientele; b) the Bankers Trust has some independent, very essential ties which do not fit into the framework of the Morgan group. This applies to the ties with the Olin Mathieson Company, controlled by the Olins and to the International Business Machines Corporation controlled by the Watsons. The two main owners of these corporations sit on the board of the Bankers Trust and, naturally, influence it. Olin Mathieson has no direct contacts with the head Morgan banks; International Business Machines has a line of connections with Rockefeller interests. In addition, the Bankers Trust board includes direct representatives of G. H. Whitney, a long-standing Rockefeller ally, and of the Lehmans.

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1 Chain Banking... p. 127.
Let us see what other banking institutions are associated with the Morgan group. Of the leading investment banks only Drexel and Co. (Philadelphia) for a long time belonged to it. In 1940, this firm turned from a branch of J. P. Morgan into an independent partnership owned by the former partners and officers of the branch. The advancement of Thomas S. Gates to top management of Morgan Guaranty Trust in 1961 confirmed the preservation of close ties between them. In investment banking Drexel acted as an independent organiser of syndicates only for Philadelphia companies which are not too big; in all other respects it reinforced the positions of Morgan, Stanley and Co.

The appointment of William L. Day, another former Drexel partner, as chairman of the board of the First Pennsylvania Banking and Trust Co., the largest commercial bank in Philadelphia, is of interest. Day is an old Morgan man. He began his business career under Perry Hall (of Morgan, Stanley) by financially “curing” Philadelphia Steel and Wire which belonged to the latter. In addition to Day, the board of the bank he heads includes a director of Morgan Guaranty Trust and a director of the U.S. Steel Corporation who is now president of Philadelphia Steel and Wire. Here we have apparently joint control, based on an alliance of the bank management, itself headed by Morgan men (control of 5.8 per cent of the stock), with other Philadelphia capitalists represented on its directorate (7.4 per cent).\(^1\)

In 1965, Drexel was merged with the Harriman, Ripley investment bank. Thus the ties between Philadelphia and New York banking were further strengthened. Whether this merger meant the incorporation of Drexel into the Harriman group or the establishment of a closer relationship between the latter and the Morgan group is of secondary importance.

In 1934, when the Morgan-controlled Guaranty Company (investment branch of Guaranty Trust) was dissolved, a number of its executives and more than half of the employees were transferred to the Smith, Barney investment bank.\(^2\)

The main task of the latter, as defined by management, was to keep the clientele of the Guaranty Company. At present Smith, Barney acts as organiser or co-organiser of syndicates for floating the securities of 8 out of the 110 largest industrial corporations and one large commercial monopoly. Six out of nine of these companies have essential ties with the Morgan Guaranty Trust. The non-independent position of Smith, Barney is compelling them to look for leaders which so far are the Morgan banks. But it would be wrong to consider that its partners, especially men like multimillionaire Ogden Phipps, in all cases act on orders from above and cannot have independent interests.

One of the connecting links between them is Davis, Polk, a law firm which has represented Morgan interests since the 1880s.\(^1\) Henry Alexander, the present head of the Morgan Guaranty Trust, came from this firm. Davis, Polk invariably handles legal arrangements for syndicates headed both by Morgan, Stanley and Smith, Barney;\(^2\) it is the legal counsellor of General Motors, Standard Brands, Johns-Manville, etc. Of the other law firms servicing the Morgan group mention should be made of Ropes, Gray, Best, Coolidge and Rugg, which represents the group’s interests in Boston; Perkins, Daniels and Perkins (New York) and Taft, Stettinius and Hollister (Cincinnati).

The positions of the Morgan group in insurance have grown weaker. For many years New York Life Insurance was headed by Morgan men, but the situation has noticeably changed. Of the eight members of its financial committee only two represent the Morgan Guaranty Trust.

The Morgan Guaranty Trust group has preserved strong positions in the Prudential Insurance of America and the Mutual Life Assurance Company of New York. But in the latter, another New York group, linked with the Harrimans (see subsequently), has entrenched itself in recent years.

Industry, Transport and Trade. The industrial companies within the realm of the Morgan group can now be divided into three categories: a) companies which undoubtedly are part of this financial group; b) companies in which it would be more correct to speak of joint control, with strong Morgan influence; c) companies which definitely belong to other groups but have important ties with the Morgan group.

\(^1\) Chain Banking... pp. 154, 457.
A. COMPANIES WHICH ARE PART OF THE MORGAN GUARANTY TRUST GROUP

1. Campbell Soup Co. (one of the biggest producers of canned foods). The Dorrance family owns 64 per cent of the stock. John T. Dorrance, Jr., is a director of the Morgan Guaranty Trust and he administers the family's fortune. Thomas S. Gates, president of the Morgan Guaranty Trust, and Kenneth C. Towe, a former director of Guaranty Trust and head of the Morgan-controlled American Cyanamid, are directors of Campbell Soup. The Morgan Guaranty Trust and the small Camden Trust Co., a bank controlled by the Dorrances, act as the company's stock transfer agents.

2. National Biscuit Co. (bread baking and confectionary). About 4 per cent of its stock is held by the Moore family. William H. Moore, head of the Bankers Trust, is its director. Three other directors, including an ex-president of the company, sit on the board of American Can, likewise controlled by the Moors. One more director, together with William Moore, are on the board of the Republic Aviation Corporation. National Biscuit has four interlocking directors with Prudential Insurance and one with Morgan Guaranty Trust. The latter is the company's sole stock transfer agent.

3. American Can Co. (the biggest producer of metal, paper and plastic food packs in the U.S.A.). The Moore family owns 2-3 per cent of the stock. The personal union is expressed in two interlocking directorships with Bankers Trust, four with National Biscuit and one each with Republic Aviation and Morgan, Stanley. The latter has in recent years headed three syndicates for the sale of the company's bonds and stocks. The Bankers Trust is the stock transfer agent and also the chief creditor of the company. The Morgan Guaranty Trust acted as trustee of a bond issue sold directly to insurance companies.

4. J. P. Stevens and Co. The Stevens family owns slightly less than 10 per cent of the stock of this textile monopoly. Robert T. Stevens (its president and former U.S. Defence Secretary) is a director of the Morgan Guaranty Trust. The latter acts as the company's stock transfer agent. Morgan, Stanley, jointly with Harriman, Ripley, headed two syndicates of the company's stock after the war. The connection with the Harrimans is also traced through the directorship of R. T. Stevens in the Mutual Life Assurance Company of New York controlled by the former. J. P. Stevens is a member of the financial committee of the New York Life Insurance Company.

5. Atlantic Richfield Co. (Oil). Stock ownership is highly scattered. The Chase Manhattan Bank is the stock transfer agent of the company, but the latter covers the needs for outside financing by bond issues placed through Smith, Barney. After the war, Morgan Guaranty Trust acted as trustee of the bond issues. One of its executives, Charles Dickey, is a director of the company. Three other directors are associated with Philadelphia banks. One of them, C. J. Ingersoll, is a director of the United States Steel Corporation.

6. Standard Brands, Inc. (food industry). One of its directors is H. Alexander, head of the Morgan Guaranty Trust. The latter bank is the company's stock transfer agent, administrator of the pension fund and chief creditor. Another director is a partner of Taft, Stettinius and Hollister and also sits on the board of New York Life Insurance.

7. Continental Oil Co. The company was founded in 1928 under the guidance of J. P. Morgan and Co. Two partners of this banking house sat on the board of directors in pre-war years, although it represented directly only 1.8 per cent of the stock. The company's president is now a director of the Morgan Guaranty Trust. Another director of Continental Oil was also formerly associated with this bank. The Morgan Guaranty Trust is its head bank, stock transfer agent and bond trustee. The bond syndicates are headed by Morgan, Stanley. In recent years 4.6 per cent of the company's stock was bought by the Newmont Mining Corporation which is now represented on its directorate.

8. Procter and Gamble Co. (leading U.S. soap manufacturer). Considerable blocks of shares (their exact size is unknown) are still held by the Procter, Gamble and Cunningham families. The chief executives of the company control 2.84 per cent of the stock which belongs to a profit-sharing fund, the block owned by the Gamble family, and 0.8 per cent of the shares owned by the executives themselves. Howard J. Morgens, the company's president, is a director of the Morgan Guaranty Trust. Richard R. Deupres, honorary chairman and ex-president, is a former director of J. P. Morgan and Co. The chairman of the company Neil H. McElroy
(former U.S. Defence Secretary) is a director of General Electric. David G. Gamble is a partner of the law firm Taft, Stettinus and Hollister. There is one interlocking director each with Johns-Manville, B. F. Goodrich and Coca-Cola. The Morgan Guaranty Trust is the stock transfer agent and the Bankers Trust is the bond trustee. True, the bond issues are underwritten by Goldman, Sachs, but the latter is not represented in the directorate. The representation of Mellon interests (two directors) is hardly essential.

9. Coca-Cola Co. Coca-Cola International, a holding company controlled by the Woodruff family, owns 24.4 per cent of the stock. Robert W. Woodruff, who for a long time was a director of the Morgan Guaranty Trust, also owns 17.1 per cent of the stock. J. Paul Austin, president of Coca-Cola, is now a director of this bank.

10. Cities Service Co. (oil and gas industry). The heirs of H. L. Doherty, the company’s founder, retain not more than 1 per cent of the stock. Alton Jones, Doherty’s former assistant who then for a long time headed the company, owned about 2 per cent of the shares when he died in 1961. He was a director of the Morgan Guaranty Trust. Today Thomas S. Gates, president of the Morgan Guaranty Trust, is on the company’s board. This bank is the trustee of the bond issue floated after the war. J. Ed. Warren, who was the company’s president up to 1966, had been for a long time a vice-president and director of the First National City Bank of New York handling the oil industry business.

11. Columbia Gas System, Inc. (production and sale of natural gas). In the past it was controlled by the United Corporation, a holding company set up by J. P. Morgan and Bonbright. In the 1920s and 1930s, Columbia was headed by Gossler, a director of Guaranty Trust and a close friend of Harold Stanley (Morgan, Stanley). In the 1940s (after the dissolution of the United Corporation), Gossler turned over leadership to George S. Young, a director of the Morgan Guaranty Trust for many years. With the introduction of competitive bids for bond issues, the Morgan Guaranty Trust continues to act as trustee of the company’s bonds, and the Bankers Trust is the stock transfer agent.

12. General Electric Corp. (the largest electrical equipment concern in the United States and of the war electronic industry in recent years). One of the oldest Morgan-controlled companies. It was organised by J. P. Morgan with the participation of Boston financiers. It has three interlocking directorships with the Morgan Guaranty Trust. In addition, its directors also include Henry S. Morgan, head of Morgan, Stanley, and N. McElroy of Proctor and Gamble. Morgan, Stanley underwrites its bond issues but together with Goldman, Sachs. The head of the latter, Sydney J. Weinberg, and two finance-capitalists close to him—Henry Ford II and Donald Kirk David, were also on the board of General Electric until recently. They had to retire when Ford purchased Philco, a computing electrical equipment company.

B. COMPANIES CONTROLLED BY THE MORGAN GUARANTY TRUST GROUP JOINTLY WITH OTHER GROUPS

1. International Business Machines Corp. (the biggest producer of office equipment and electronic computers). Three families—the Watsons, Fairchilds and Fords (not related to the Detroit Fords) own 3-4 per cent of the stock. Thomas J. Watson, Jr., the head of the corporation, is a director of the Bankers Trust, and the head of that bank, William H. Moore, is on the company’s board. The Morgan Guaranty Trust acts as trustee of the bond issues, most of which were offered to one insurance company, Prudential. Morgan, Stanley headed the only issue of stock in the last 40 years. There are, however, strong ties with another New York group. Arthur K. Watson (a brother of Thomas), who heads the international branch of the corporation, is a director of the Chemical Bank New York Trust, with which the corporation has two other directors in common. It has also a common director with Chase Manhattan Bank and two, with the Mobil Oil Company.

2. United States Steel Corp. (the biggest company in the iron and steel industry). Created by Morgan I, this trust has always been regarded as part of the foundation of his empire. At present two men from the leadership of the Morgan Guaranty Trust sit on the board of U.S. Steel. An executive of U.S. Steel is a director of Johns-Manville. C. Jared Ingersoll of Philadelphia personifies the union with the Insurance Company of North America. Non-Morgan groups, however, are also well represented. The Mellon National
Bank and Trust, the Chemical Bank New York Trust, the Chase National Bank, the Minneapolis financial group and also the multimillionaire Amory Houghton, Jr. were represented in the directorate at various times. Strictly speaking, "purely" Morgan directors are fewer in number than representatives of other groups, while 20 years ago, the former had seven—a clear majority. Bond issues, as before, are underwritten by Morgan, Stanley.

3. Consolidated Edison Co. of New York (one of the leading electric power producers). Its directors include Gates, president of the Morgan Guaranty Trust; Devereux C. Josephs, director of the Morgan Guaranty Trust and former executive of New York Life Insurance; Charles Munson, former director of the Guaranty Trust. Morgan, Stanley continues to head most of the bond syndicates, but the placing of stock is done on a parity basis with the First Boston Corporation. In a recent banking syndicate which gave the company a $100 million loan, $36 million were allotted to the First National City Bank of New York and only $20 million to the Morgan Guaranty Trust. The company has two interlocking directorships with the First National City Bank and two with Metropolitan Life Insurance.

4. American Cyanamid Corp. (chemical industry). In 1960, three of the four outside directors represented the Duke Endowment, a philanthropic organisation of the multimillionaire Duke. Two of them were directors of the Morgan Guaranty Trust. The head bank of the Morgan group was the trustee of the only post-war bond issue of the company placed directly among insurance companies. But the Chase Manhattan Bank acts as stock transfer agent and pays the dividends. White, Weld, an investment bank (the First National City Bank group), is represented on the board of American Cyanamid, while the latter's chief executive is a director of the Irving Trust Co.

5. Public Service Electric and Gas Co. Prior to the dissolution of the power holding companies it was an affiliate of the Morgan-controlled United Corporation (see Columbia Gas System). At present its ties with the Morgan Guaranty Trust (two directors) and a group of Newark capitalists and bankers are of about equal significance. The Morgan Guaranty Trust is the head bank and transfer agent for all stocks, but the Fidelity Union Trust Company of Newark is usually the bond trustee. Morgan, Stanley, as before, heads stock syndicates. The underwriting of bonds has mostly been taken over by non-Morgan banks.

6. B. F. Goodrich Corp. (a leading producer of synthetic rubber, automobile tyres and other rubber goods). J. Collier, former head of the company, was a director of the Morgan Guaranty Trust. The Boston banker Paul Cabot is a director of both. The Bankers Trust acts as the head bank but the securities are underwritten by syndicates headed by Goldman, Sachs and Dillon, Read. The head of the former, Sidney Weinberg, was for a long time a director of the company. Up to 1963 David Rockefeller was on the board probably representing family interests. Included on the directorate are also the head of a company of the Cleveland group and Amory Houghton, Jr., multimillionaire and director of the First National City Bank.

7. Olin Mathieson Chemical Corp. The Olins family owns about 15 per cent of the stock. John M. Olin was a director of the Bankers Trust which is the stock transfer agent, pays the corporation's dividends, and also is the trustee of one bond issue. Two other loans were received directly from Prudential Insurance. Syndicates headed by Dillon, Read, and Eastman, Dillon handled the other bond issues. The Olins family and some other directors have strong connections with the St. Louis Union Trust Co., and are part of the top leadership of the St. Louis financial group.

8. Pennsylvania R. R. (one of the largest railways in the U.S.A.). James M. Symes, former chairman of the board, was a director of the Morgan Guaranty Trust; Franklin, ex-president of the railway, was a director of Guaranty Trust. The board of directors includes the chairman of the First Pennsylvania Banking and Trust Company, three directors of the Insurance Co. of North America, three directors of other Philadelphia banking institutions and a partner of the law firm Taft, Stettinius and Hollister. Philadelphia banks are the trustees of most of the railroad's bond issues. Represented on the board are Richard Mellon, a Du Pont (up to 1961), Donald Danforth, a St. Louis millionaire, J. H. Thompson, one of the heads of the Humphrey-Hanna group, and a representative of the Chicago group. It would, therefore, be wrong to speak of the absolute predominance of the Morgan Guaranty Trust.
C. SUBSTANTIAL PARTICIPATION IN COMPANIES BELONGING TO OTHER GROUPS

1. Continental Can Co. (second largest producer of metal and other food packs in the United States). It has two interlocking directors with the Morgan Guaranty Trust (in 1960 there were three). But the predominant role apparently is played by Goldman, Sachs and Lehman Bros. Lucius D. Clay who headed the company was their placeman, while Thomas C. Fogarty, the new head of the company, is a director of Irving Trust. The presence of Sidney Weinberg on the board of directors since pre-war days as well as of two directors of Marine Midland (in which Clay was also a director) and the monopoly of Goldman, Sachs and Lehman Bros. in the organisation of syndicates—all this speaks for itself. At the same time the Morgan Guaranty Trust has acted as trustee of all bond issues placed not through the market and the Bankers Trust is the only stock transfer agent.

2. General Motors Corp. (biggest automobile producer). Half a century ago Dwight W. Morrow, a Morgan partner, brought together the Du Ponts with William C. Durant, and persuaded them to buy stock of General Motors. Since then the head Morgan banks have rendered main financial service to the corporation. All its stock and bond syndicates have been headed by Morgan, Stanley, and the Morgan Guaranty Trust has acted as trustee of the bond issues. Between 1942 and 1958, Alfred P. Sloan, chairman of General Motors and director of E. I. Du Pont de Nemours, was also on the directorate of J. P. Morgan and Co. Today two representatives of this bank are members of the company's ten-man financial committee. Henry Alexander is a member of the five-man committee which sets the salaries and other compensation of the top executives. But even after the retirement of the Du Ponts from the board of directors, the Morgan Guaranty Trust does not enjoy prevailing influence outside the indicated spheres.

3. Philadelphia Electric Co. (power stations). Before the war it was a branch of the Morgan-controlled United Corporation. At present Philadelphia banks dominate the board of directors. Though there are no representatives of the head Morgan institutions on the board, they, as before, take a big part in financing the company.

4. Standard Oil Co. of New Jersey (the biggest oil trust in the capitalist world). In 1926-27, when the company for the first time decided to sell its securities on the market, the syndicate was headed by J. P. Morgan. This connection has been preserved to this day. In post-war years Morgan, Stanley placed two bond issues and one stock issue. The Morgan Guaranty Trust is the first of the three stock transfer agents. The Bankers Trust has acted as bond trustee. In 1961, Monroee J. Rathbone, who was then president of Standard Oil, became a director of the Morgan Guaranty Trust.

5. Mobil Oil Co. (large U.S. oil trust). The Morgan group established close contact with it 20 years later than with the Standard Oil of New Jersey. In 1946, Morgan, Stanley persuaded Mobil Oil executives to let it handle a $100-million bond issue, although formerly this business had been given to Dillon, Read. After that, Morgan, Stanley placed (in 1952 and in 1957) two large stock issues and in 1963, another $200-million issue. The Bankers Trust acted as trustee of the first bond issue. In 1960, the new chairman of that bank's executive was elected director of Mobil Oil.

6. American Smelting and Refining Co. (non-ferrous metals). Prior to 1957, it was headed by the Guggenheim family and their relatives, the Straussers. But the amount of stock they held was small already in the 1930's. The Morgan Guaranty Trust is represented by two directors. Among the other company directors are George Champion, president of the Chase Manhattan Bank, R. E. McNeill, Jr., president of the Manufacturers Hanover Trust, Richard G. Croft, a partner of J. H. Whitney and Co., and J. M. Kingsley, president of the Bessemer Securities Corporation (a holding company of the Phelps Dodge). The company is a typical condominium.

7. Kennecott Copper Corp. (major trust in the non-ferrous metals industry). The situation is similar to that in American Smelting: represented on the board of directors are the Guggenheim Bros.; the Morgan Guaranty Trust and the First National City Bank of New York. The Morgan Guaranty Trust and a Boston bank are the stock transfer agents.

8. American Radiator and Standard Sanitary Corp. (leading producer of sanitary and heating equipment and also of air conditioning installations). Prior to the war, in view of the wide scattering of the stock, control was exercised by J. P. Morgan in alliance with the First National Bank. The
situation now is different. The Morgan Guaranty Trust has here only one direct representative and one indirect, of Johns-Manville. Only one director has remained from the old Baker bank. The president of the company is a director of the First National City Bank, while the bank’s vice-president sits on the company’s board. In 1961, a vice-president of Grace and Co. (belongs to the group headed by this bank) was also put on the board of directors. The prevalence of the First National City Bank is beyond doubt.

9. American Telephone and Telegraph Co. (owns more than 95 per cent of the telephone network of the U.S.A.). From 1938-39 to 1961, the stock held by 10 New York leading banks rose from 2.85 to 3.1 per cent of the total. In view of these small amounts there is hardly any point in comparing the share of separate financial groups. With such a diffusion of stock ownership struggle for control could be waged (just as in mutual companies) only through a change in the composition of the leading bodies. Twenty years ago Morgan interests were represented by at least five directors. But even then Winthrop Aldrich, head of the Chase National Bank, was on the board of the telephone monopoly, while the company’s vice-president Arthur W. Page was a director of Chase National.

Today the Morgan Guaranty Trust has two interlocking directorships with A.T. and T. But one of them is a former vice-president of the telephone company itself, while the other is president of the Standard Oil of New Jersey. Both have preserved one seat instead of three, while the interlocking of presidents and directors of Chase Manhattan Bank and the telephone company has remained unchanged. The company’s board also includes representatives of Chicago, the Ford Foundation, the Manufacturers Hanover Trust and the First National City Bank of New York. A.T. and T. has truly become the collective possession of a number of the main U.S. financial groups. The company needs annually about $1,000 million in loans, an operation impossible without the co-ordinated action of the main New York banks and insurance companies. The Morgan group still enjoys some privileges in the placement of bond issues. Approximately three-fourths of the assets of the company’s pension fund, which amounts to $4,000 million, are administered by the Bankers Trust.

10. Atchison, Topeka and Santa Fe Ry. New York banks, insurance companies and brokerage houses combined own 12.5 per cent of its stock (with Morgan institutions holding a little more than 2 per cent). The latter (two officials of the Morgan Guaranty Trust) are the only representatives of the New York financial world on its board, where the Chicago financial group prevails (six directors), although its banks dispose of less than 1 per cent of the stock.

We confined ourselves to these companies because they give a sufficiently complete idea of the present aspect of the Morgan Guaranty Trust group and the nature of its interests. As for other companies, their list together with an indication of the “share” of control enjoyed by the Morgan group follows (see pp. 254-58).

Naturally, the “share” of control we indicate is very relative. First, there are no scales for measuring it. Second, the very nature of the Morgan group, which is a coalition of a very wide circle of monopolists in different spheres, shows that any control by the Morgan family (it has hardly remained at all) or any control by partners of head Morgan banks is out of the question. We can speak of their alliance with many other tycoons or executives and the division of control between them. Thus, the “share” of the Morgan group signifies an approximate evaluation of the influence of Morgan banks and of their more or less constant allies.

It is only in this sense that the term “control” is used here. Of course, estimates of this kind are of strictly conventional significance. They are used only for comparing the relative strength of various financial groups.

Victor Perlo cited a figure of $65,300 million as the total assets of banking institutions and other companies within the Morgan sphere as of 1955. At present, the corporations he included in the given financial group would have assets considerably above our estimate of $69,600 million. There are two reasons for the difference in the estimates: first, we limited ourselves to the largest companies; second, for most companies we included in the total only part of the assets which correspond to the control of the Morgan Guaranty Trust group. Perlo, however, thinks that most of the companies are fully in the Morgan sphere of influence. Given such an approach there is often no room for smaller groups, in the case of which partial control is almost the only possible form.
## Structure of the Morgan Guaranty Trust Financial Group

<table>
<thead>
<tr>
<th>Name of company</th>
<th>Total assets, million dollars</th>
<th>Share of control</th>
<th>Total controlled assets, million dollars</th>
<th>Other groups participating in control</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Banking</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Morgan Guaranty Trust</td>
<td>5,314</td>
<td>1</td>
<td>5,314</td>
<td></td>
</tr>
<tr>
<td>Morgan, Stanley and Co.</td>
<td>5</td>
<td>1</td>
<td>5</td>
<td></td>
</tr>
<tr>
<td>Bankers Trust</td>
<td>3,935</td>
<td>1</td>
<td>3,935</td>
<td></td>
</tr>
<tr>
<td>Drexel and Co.</td>
<td>8</td>
<td>1</td>
<td>8</td>
<td></td>
</tr>
<tr>
<td>Smith, Berney</td>
<td>11</td>
<td>3/4</td>
<td>8</td>
<td>Phippses</td>
</tr>
<tr>
<td>Prudential Insurance Co. of America</td>
<td>16,622</td>
<td>2/3</td>
<td>12,415</td>
<td>Newark</td>
</tr>
<tr>
<td>New York Life Insurance</td>
<td>7,733</td>
<td>1/3</td>
<td>2,578</td>
<td>Various New York groups</td>
</tr>
<tr>
<td>Insurance Co. of North America</td>
<td>1,329</td>
<td>2/3</td>
<td>886</td>
<td>Philadelphia</td>
</tr>
<tr>
<td>Wellington Fund</td>
<td>1,415</td>
<td>1</td>
<td>1,415</td>
<td></td>
</tr>
<tr>
<td>First Pennsylvania Banking and Trust</td>
<td>1,449</td>
<td>1</td>
<td>1,449</td>
<td></td>
</tr>
<tr>
<td>Girard Trust Corn Exchange Bank</td>
<td>863</td>
<td>1/2</td>
<td>431</td>
<td>Philadelphia</td>
</tr>
<tr>
<td>Mutual Life Insurance Co. of New York</td>
<td>2,918</td>
<td>1/2</td>
<td>1,459</td>
<td>Harrimans</td>
</tr>
<tr>
<td>Davis, Polk</td>
<td></td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ropes, Gray</td>
<td></td>
<td>1/2</td>
<td></td>
<td>Boston</td>
</tr>
<tr>
<td>Perkins, Daniels and Perkins</td>
<td></td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Taft, Stettinius and Hollister</td>
<td></td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Industry, Trade, Transport, Communications</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Campbell Soup</td>
<td>411</td>
<td>1</td>
<td>411</td>
<td></td>
</tr>
<tr>
<td>National Biscuit</td>
<td>286</td>
<td>1</td>
<td>286</td>
<td></td>
</tr>
<tr>
<td>American Can</td>
<td>958</td>
<td>3/4</td>
<td>719</td>
<td>Chicago, Milwaukee</td>
</tr>
</tbody>
</table>

1 Here and elsewhere the figures are given as of the beginning of 1963.
2 Assets of commercial banks do not include figures for trust departments.
<table>
<thead>
<tr>
<th>Name of company</th>
<th>Total assets, million dollars</th>
<th>Share of control</th>
<th>Total controlled assets, million dollars</th>
<th>Other groups participating in control</th>
</tr>
</thead>
<tbody>
<tr>
<td>Continental Can</td>
<td>807</td>
<td>2/5</td>
<td>323</td>
<td>Goldman, Sachs, Lehman, Marine Midland</td>
</tr>
<tr>
<td>General Motors</td>
<td>10,239</td>
<td>1/3</td>
<td>3,413</td>
<td>Various groups</td>
</tr>
<tr>
<td>Philadelphia Electric</td>
<td>1,123</td>
<td>1/3</td>
<td>374</td>
<td>Philadelphia</td>
</tr>
<tr>
<td>Standard Oil of New Jersey</td>
<td>11,488</td>
<td>1/4</td>
<td>2,872</td>
<td>Rockefeller, First National City Bank</td>
</tr>
<tr>
<td>Mobil Oil</td>
<td>4,136</td>
<td>1/3</td>
<td>1,379</td>
<td>Rockefeller, First National City Bank</td>
</tr>
<tr>
<td>American Smelting and Refining</td>
<td>477</td>
<td>1/3</td>
<td>159</td>
<td>Chase Manhattan Bank, Whitney, Phippses and others</td>
</tr>
<tr>
<td>Kennecott Copper</td>
<td>831</td>
<td>1/3</td>
<td>277</td>
<td>Guggenheims, First National City Bank</td>
</tr>
<tr>
<td>American Radiator and Standard Sanitary</td>
<td>373</td>
<td>1/3</td>
<td>124</td>
<td>First National City Bank</td>
</tr>
<tr>
<td>American Telephone and Telegraph</td>
<td>26,717</td>
<td>1/4</td>
<td>6,679</td>
<td>Chase Manhattan Bank, Boston, Chicago and others</td>
</tr>
<tr>
<td>Atchison, Topeka and Santa Fe Ry.</td>
<td>1,633</td>
<td>1/4</td>
<td>408</td>
<td>Chicago</td>
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<tr>
<td>Eastman Kodak</td>
<td>1,103</td>
<td>1/4</td>
<td>276</td>
<td>Cleveland, Mellons and others</td>
</tr>
<tr>
<td>National Dairy</td>
<td>774</td>
<td>1/4</td>
<td>194</td>
<td>Goldman, Sachs and others</td>
</tr>
<tr>
<td>Southern Co.</td>
<td>1,578</td>
<td>1/4</td>
<td>395</td>
<td>Southern groups, First Boston Corp.</td>
</tr>
<tr>
<td>American Tobacco</td>
<td>839</td>
<td>1/2</td>
<td>420</td>
<td>Southern groups</td>
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<tr>
<td>Anaconda Copper</td>
<td>1,164</td>
<td>1/4</td>
<td>292</td>
<td>First National City Bank</td>
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<tr>
<td>American Electric Power</td>
<td>1,655</td>
<td>1/4</td>
<td>414</td>
<td>First National City Bank, First Boston Corp. and others</td>
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<td>Wilson and Co.</td>
<td>148</td>
<td>1/4</td>
<td>37</td>
<td>Chicago, Boston</td>
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</table>

<table>
<thead>
<tr>
<th>Name of company</th>
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<th>Share of control</th>
<th>Total controlled assets, million dollars</th>
<th>Other groups participating in control</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chrysler</td>
<td>1,525</td>
<td>1/5</td>
<td>305</td>
<td>Humphrey-Hanna and others</td>
</tr>
<tr>
<td>Detroit Edison</td>
<td>1,029</td>
<td>1/5</td>
<td>206</td>
<td>Detroit</td>
</tr>
<tr>
<td>International Paper</td>
<td>1,038</td>
<td>1/6</td>
<td>173</td>
<td>Chase Manhattan Bank, Phippses and others</td>
</tr>
<tr>
<td>Owens-Corning Fiber-glass</td>
<td>204</td>
<td>1/6</td>
<td>34</td>
<td>First National City Bank and others</td>
</tr>
<tr>
<td>Union Carbide</td>
<td>1,792</td>
<td>1/6</td>
<td>299</td>
<td>Manufacturers Hanover</td>
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<tr>
<td>Acme Markets</td>
<td>217</td>
<td>1/5</td>
<td>43</td>
<td>Philadelphia</td>
</tr>
<tr>
<td>American and Foreign Power</td>
<td>793</td>
<td>1/6</td>
<td>132</td>
<td>Manufacturers Hanover</td>
</tr>
<tr>
<td>Goodyear Tire and Rubber</td>
<td>1,186</td>
<td>1/6</td>
<td>198</td>
<td>Cleveland, Chase Manhattan Bank and others</td>
</tr>
<tr>
<td>Niagara Mohawk Power</td>
<td>1,129</td>
<td>1/6</td>
<td>188</td>
<td>Marine Midland Corp. and others</td>
</tr>
<tr>
<td>Gilette</td>
<td>190</td>
<td>1/2</td>
<td>95</td>
<td>Boston</td>
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<tr>
<td>Johns-Manville</td>
<td>349</td>
<td>1</td>
<td>349</td>
<td>—</td>
</tr>
<tr>
<td>Bechtel</td>
<td>250</td>
<td>1/2</td>
<td>125</td>
<td>San Francisco</td>
</tr>
<tr>
<td>Southern Ry.</td>
<td>890</td>
<td>1/4</td>
<td>223</td>
<td>Milbanks, Chase Manhattan Bank, Riggs</td>
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<tr>
<td>American Machine and Foundry</td>
<td>386</td>
<td>3/4</td>
<td>290</td>
<td>Various groups</td>
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<td>Curtis Publishing</td>
<td>128</td>
<td>1/3</td>
<td>43</td>
<td>Chicago</td>
</tr>
<tr>
<td>J. L. Case</td>
<td>174</td>
<td>1</td>
<td>174</td>
<td>—</td>
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<tr>
<td>Upjohn</td>
<td>182</td>
<td>1</td>
<td>182</td>
<td>—</td>
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<tr>
<td>Sun Oil</td>
<td>845</td>
<td>1/4</td>
<td>211</td>
<td>Pew, Philadelphia</td>
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<tr>
<td>Duke Power</td>
<td>667</td>
<td>1/2</td>
<td>334</td>
<td>Various groups</td>
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<td>Philip Morris</td>
<td>365</td>
<td>1/2</td>
<td>183</td>
<td>Southern groups</td>
</tr>
<tr>
<td>Merk and Co.</td>
<td>252</td>
<td>1/2</td>
<td>126</td>
<td>Various New York groups</td>
</tr>
<tr>
<td>Republic Aviation</td>
<td>140</td>
<td>1/2</td>
<td>70</td>
<td>Minneapolis</td>
</tr>
<tr>
<td>Northern Pacific Ry.</td>
<td>1,011</td>
<td>1/2</td>
<td>505</td>
<td>—</td>
</tr>
<tr>
<td>Name of company</td>
<td>Total assets, million dollars</td>
<td>Share of control</td>
<td>Total controlled assets, million dollars</td>
<td>Other groups participating in control</td>
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<td>----------------------------------------</td>
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<tr>
<td>Richfield Oil</td>
<td>463</td>
<td>1/3</td>
<td>154</td>
<td>Sinclair Oil</td>
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<tr>
<td>Scott Paper</td>
<td>366</td>
<td>2/3</td>
<td>244</td>
<td>Chicago</td>
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<tr>
<td>U. S. Plywood</td>
<td>236</td>
<td>1/2</td>
<td>118</td>
<td>Eastman, Dillon and Co.</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>69,551</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>of which</strong></td>
<td><strong>29,896</strong></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td><strong>banking</strong></td>
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<td></td>
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<tr>
<td><strong>industry</strong></td>
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<tr>
<td><strong>transport</strong></td>
<td></td>
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<tr>
<td><strong>&amp; trade</strong></td>
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</tr>
</tbody>
</table>

5. The Rockefeller Group,
the Chase Manhattan Bank,
the Chemical Bank New York Trust Co.

The history of the Rockefeller financial group, strictly speaking, began at the time when members of this family, having withdrawn from direct management of the Standard Oil companies, undertook to extend their influence to other spheres, especially banking. John D. Rockefeller I, after retiring as president of Standard Oil, ruled his kingdom from a small office in downtown Manhattan (he died in 1937). His son, John D. Rockefeller II, spent most of his life in supervising the creation of both his financial group and the myth of the Rockefeller benevolence through philanthropic foundations. His brother-in-law Winthrop W. Aldrich headed operations in the banking part of the group. It was only since the end of the 1930s and early 1940s that the Rockefellers returned to direct leadership. The five sons of Rockefeller II act as a well-knit group of finance-capitalists. This system which originated under Rockefeller II continues to function to this day (Rockefeller II died in 1960).

Rockefeller Bros., Inc., founded in 1946, is one of the organisational centres of this system. It administers the capital of the Rockefeller family placed in speculative operations, the buying of small but swiftly growing companies, and so on. Laurance Rockefeller was for a long time president of Rockefeller Bros. He added to the Rockefeller financial group the Eastern Air Lines, Inc., one of the biggest air transport companies, established long-lasting and strong ties between the Rockefeller banks and the McDonnell Aircraft and Martin war-industry companies, and directed the purchase and sale of a number of aircraft, rocket fuel and rare metals companies.4

Rockefeller Bros. does not seek to capture outright control of the companies it is interested in. Many small capitalists and executives indebted to the Rockefellers for their enrichment or advancement are tied to the chariot of these tycoons to one or another degree. This is a well-conceived line of expanding the Rockefeller group to the utmost in conditions when the existing large corporations have already been divided between the strongest monopoly associations. The policy of the Rockefellers is to create under their aegis a wide coalition with industrialists in the most diverse fields.

Rockefeller Bros. also guides the activity of the International Basic Economy Corporation, set up by Nelson Rockefeller for operations in Latin America. In 1960, the New York Times described it as a company engaged in investment, financing and development in all parts of the world.2 It carries on some of its operations jointly with the Chase Manhattan Bank.

A group of close advisers and assistants to the Rockefellers in their special business interests has crystallised. Rockefeller Bros. is presided over by J. Richardson Dilworth. A former partner of the Kuhn, Loeb investment bank, he became a personal adviser to the Rockefeller family and director of the Chase Manhattan Bank. The International Basic Economy Corporation is headed by Robert W. Purcell who has served under several masters: he was with White and Case, a Wall Street law firm; acted as a close aide to Robert Young and after the latter’s death headed the Investors Diversified Services, Inc., the biggest investment trust in the U.S.A. The advisers of the Rockefellers since 1950 have included Lewis L. Strauss, a former partner of Kuhn, Loeb and ex-chairman of the U.S. Atomic Energy Commission, and leading members of two big law firms—John J. Mc—

1 A. Morris, Those Rockefeller Brothers, New York, 1953, pp. 103-05, 165
Cloy and John E. Lockwood (of Milbank, Tweed) and Thomas Debevoise (of Debevoise, Plimpton). Thus, the close entourage of the Rockefeller, though it has not been gathered, as in the old J. P. Morgan and Co., "under one roof", consists of past masters in financial operations.

Among the other family organizations of this group mention should be made of:

1. The Rockefeller Center, Inc. In addition to large real estate holdings (a group of skyscrapers in New York), this company with a capital of more than $200 million owns stocks and bonds of banks and industrial corporations. The list of these investments is not made public.

2. Rockefeller Foundation. Besides philanthropic functions it acts as an investment company. More than half of its investments consist of shares of the Standard Oil Co. of New Jersey. John D. Rockefeller III heads the board of trustees, but his functions apparently are limited to general supervision over the philanthropic part of the Foundation's activities. (Such philanthropy is very intimately linked with politics as proven twice in the last 15 years by the appointment of presidents of the Rockefeller Foundation—John Foster Dulles and Dean Rusk—to the post of U.S. Secretary of State.) As for investments, they are directed by a financial committee of five trustees. In 1962, the committee was headed by Lloyd D. Brace, chairman of the board of the First National Bank of Boston. George D. Woods, President of the First Boston Corporation, was one of its members. The Chase Manhattan Bank does the actual work of administering the security holdings. Rockefeller lawyers (Eli W. Debevoise and others) have the final say on stock voting.

3. Rockefeller Brothers Fund, Inc., headed by Laurance Rockefeller. It plays chiefly a political role: draws up statements on questions of foreign and home policy, subsidises authors who study various aspects of the cold war. In 1959, the nominal value of its assets was $53 million and now it is about $210 million. The fund holds a considerable number of shares of the Chase Manhattan Bank.

But let us go beyond the strictly family establishments of Rockefellers. Chase Manhattan Bank is the most important institution which is under their direct management. It holds first place in the United States for the scale of its network of correspondents, the crediting and financial servicing of the oil, power and aerospace industries. A few years ago all operations related to serving these sectors were handed over to special departments of the bank. Prime importance is also commanded by international financial operations, of which David Rockefeller has been in charge since the end of the 1940s.

At the end of the 1920s, when the Rockefellers, after a long search, picked the Chase National Bank and bought the controlling block of its stock (in exchange for the stock of another bank, Equitable Trust) they took into account both the size of the bank, its clientele and the potentialities of growth. Winthrop W. Aldrich was placed at the head of Chase National. Prior to that he was associated with a Rockefeller law firm and then became chief legal counsel and president of Equitable Trust. One of his tasks was to train his successor from among the Rockefellers, namely, David Rockefeller. In 1952, John McCloy, also a lawyer, a partner of another law firm close to the Rockefellers, was appointed head of the Chase National Bank and then of the Chase Manhattan Bank. He held that post for the time necessary to complete the schooling of David Rockefeller. In 1962, shortly after his father's death, David was appointed president and head of the bank's executive committee.

The Rockefellers have always had another family representative on the board of Chase National. Under Aldrich it was Bertram Cutler who was close to John D. Rockefeller Jr., then Laurance Rockefeller and now it is Richard Dilworth, president of the Rockefeller Brothers. The exact number of Chase shares held by the Rockefellers is not known. In 1955 Fortune assessed it at approximately 5 per cent,1 but shortly afterwards Chase National merged with the Bank of Manhattan which automatically cut it down by one fourth.2

A prominent New York banker mentioned in a conversation with the author the figure of 4 per cent. The Patman Report furnishes the following information about the biggest stockholders of the Chase Manhattan Bank.3

---

1 Fortune, February 1957.
2 During the merger stockholders of the Chase National Bank received 9.25 million shares and stockholders of the Bank of Manhattan 2.75 million. It is assumed that the Rockefellers had no big block of Bank of Manhattan shares.
3 Chain Banking..., p. 129.
Chase Manhattan Bank (trust department) 2.04 per cent
David Rockefeller 1.03 " "
Rockefeller Brothers Fund 0.73 " "
Rockefeller Center 0.62 " "

Total of Rockefeller institutions 4.42 " "
of which the Rockefeller family 2.38 " "

Morgan Guaranty Trust 3.00 per cent
Bankers Trust 0.71 " "
Wellington Foundation 0.64 " "

Total of the Morgan group institutions 4.35 " "

The share of the Rockefeller family is underestimated because, except David, not one of them is on the list of the 20 biggest stockholders. The Morgan banks have a big block. Nevertheless, neither they themselves nor Morgan companies are represented on the board of Chase Manhattan. The Rockefellers undoubtedly enjoy predominating influence in this bank.

But this influence cannot be wielded without alliance with other families, groups of capitalists and leaders of big monopolies who may or may not be represented on the bank's directorate. Among such allies we single out the Whitemans and Milbanks and also the banking houses of Kuhn, Loeb and Stone and Webster. The Whitemans are the offspring of Colonel Oliver Paine, who was a Standard Oil partner of Rockefeller I. In time, the capital of this family was shifted to other spheres. The financial "duchy" of the Whitemans now includes a group of magazines and radio stations, Freeport Sulphur, Great Northern Paper, Vitro Corporation of America and interests in Armco Steel, American Smelting and Refining and a number of other companies. Although this group, headed by the J. H. Whitney and Co., a partnership, acts independently of the Rockefellers, allied relations have been preserved between them. Laurance Rockefeller was for a long time a director of Vitro which is headed by Charles Payson, a brother-in-law of J. H. Whitney. Rockefeller then ceded his place to Purcell, president of the International Basic Economy Corporation. Jean Mauze, a brother-in-law of the Rockefellers, is a director of the Freeport Sulphur Company, which formerly was headed by Whitney himself. The Whitemans undoubtedly helped the Rockefellers to acquire the Bank of Manhattan. As far back as the 1930s James F. Brownlee, a partner of J. H. Whitney and Co., became a director of that bank and then also a director of the merged Chase Manhattan Bank.

The Kuhn, Loeb and the Stone and Webster banking houses had been represented on the directorate of the Bank of Manhattan since the end of the 1920s. The penetration of the Bank of Manhattan by the Rockefellers and the preparations for its merger with the Chase National Bank coincided with two other interesting events. In 1950, Lewis Strauss, a partner of Kuhn, Loeb since the 1930s, became a personal financial adviser to the Rockefeller family and in 1955, Richard Dilworth, another Kuhn, Loeb partner, assumed a similar post. These coincidences are not accidental. It is beyond doubt that at least some of the partners of Kuhn, Loeb helped to bring about the merger of the Bank of Manhattan and Chase National, acting on the side of the Rockefellers. This does not mean that this banking house fully joined the group headed by the Rockefellers. After the retirement of Strauss and Dilworth and some other partners most of the capital of this banking house belongs to John M. Schiff, whose business interests do not always coincide with the Rockefellers. But Kuhn, Loeb services the Eastern Airlines. The solid ties of this banking house with the law firm Gravath, Swaine and Moore and, through it, also with the Chemical Bank New York Trust, makes it part of a broader financial group where Kuhn, Loeb, the Rockefellers and a number of other monopolists generally act as allies.

Another investment bank, Stone and Webster Securities, maintains a direct union with the Chase Manhattan Bank. All its stock belongs to Stone and Webster, Inc., whose head, Whitney Stone, is a director of Chase Manhattan. In its turn, the bank acts as the stock transfer agent of Stone and Webster.

It is usually held that the First Boston Corporation is the main investment bank of the Rockefellers. But one-fifth of its stock belongs to the Mellon family. The First Boston Corporation is connected with the Chase Manhattan Bank and enjoys the confidence of its leadership. In 1956, when Chase
Manhattan decided to sell to the public an additional one million shares, the First Boston Corporation headed the syndicate. But it has similarly sold shares of the Chemical Bank, First National City Bank, Bankers Trust, Marine Midland, Northwest Bancorporation and other non-Rockefeller banks. The First Boston has not underwritten the securities of any of the ten biggest industrial corporations which can be put in the Rockefeller group. Of the 70 largest industrial corporations it is the head banker for only 7; moreover, not one of the latter has obvious Rockefeller interests. The stock position of the Rockefellers in the First Boston Corporation is most certainly considerably weaker than that of the Mellons.

We have mentioned the Milbanks among the families allied with the Rockefellers. Jeremiah Milbank, Sr., was a director of the Chase National Bank from the 1920s to the mid-1950s, and his son, Jeremiah Milbank, Jr., sits on the board of Chase Manhattan to this day. Milbank, Tweed, a law firm founded by Albert G. Milbank, is the chief legal counsellor of the Chase Manhattan Bank and one of its members, JohnMcCloy, headed this bank from 1952 to 1960. The Milbank interests include Allis Chalmers, Corn Products, Commercial Solvents, Borden, Southern Railway and a number of other large companies. The Milbanks do not personally control any commercial bank but hold quite strong positions in Chase Manhattan, Chemical Bank New York Trust and the Bank of New York. Something more than an accidental interlocking of interests exists between these banks (see fig. on p. 265).

Prior to the 1920s, an alliance of the Stillmans, Jenningses (from the old Standard Oil of New York), Phippes, Harknesses and Hills dominated the New York Trust Co., which some 40 years later became one of the two components of the Chemical Bank New York Trust. In 1921, the house of Morgan made a coup placing at the head of the New York Trust a new leadership and putting on the directorate three of its partners and also two allies—Grayson Murphy and Charles Hayden. But the era of Morgan domination continued only up to the early 1940s when Morgan partners withdrew from the New York Trust one after another (the last one left in 1943). It was then that the old forces became more active, especially those who in the past were closely associated with the Rockefellers: the Harknesses, Jenningses, Havemeyers and Guggenheims. Towards the end of the 1950s, on the eve of the merger with the Chemical Corn Exchange Bank there were also direct representatives of the Rockefellers on the directorate of the New York Trust: Percy L. Douglas (in the past assistant to Nelson Rockefeller on Latin American affairs, and then president of the Otis Elevator Company and director of the International Basic Economy Corporation) and J. E. Crane (vice-president of the Standard Oil of New Jersey, in the past an adviser to Nelson Rockefeller). It is still more important to trace the antecedents and connections of the Chemical Corn Exchange Bank (the other component of the present Chemical Bank New York Trust).
The Chemical Bank, which in the 1940s absorbed the Corn Exchange Bank, was one of New York's oldest banking institutions. It was founded in 1823 by local merchants and real estate owners—Goelts, Roosevelt, Astors, De Witts and others. The bank had old connections with the Du Ponts. They were established by one of the Roosevelts in the mid-19th century and the president of E. I. Du Pont de Nemours is now, too, a director of the Chemical Bank New York Trust. In the 1920s, the Hillmans, large Pittsburgh coal operators, began to employ its services. In investment banking it maintained the closest ties for decades with Kuhn, Loeb (Schiffs) and Dillon, Read and among law firms, with Cravath, Swaine and Moore. After the promulgation of the 1934 Act, the directorship links with investment banks were severed. But John M. Schiff, principal owner of Kuhn, Loeb, and Siegmund Warburg, head of its British branch, are represented on the international advisory committee of the Chemical Bank New York Trust.

The development of close relations with the Rockefeller group was a natural process for the Chemical Corn Exchange Bank. It was promoted by the drawing together of Kuhn, Loeb with Chase Manhattan and the Rockefeller family itself; by the establishment of ties with some of the Whitney-controlled corporations and with the Stone and Webster group and also by the fact that companies with big Milbank capital (Corn Products, Commercial Solvents and Borden) were regular clients of the Chemical Corn Exchange Bank; lastly, by the community of international interests. In 1954, the American Overseas Finance Corporation was set up for medium-term private financing of foreign companies. The founders were the Chemical Corn Exchange Bank, Chase National Bank, Mellon National Bank and Trust and the First National Bank of Boston. The advisory committee of Chemical Corn Exchange also included a representative of the Standard Oil of New Jersey, a vice-president of the Standard Oil of Indiana, a vice-president of the First Boston Corporation, and others.

According to the Patman Report, the biggest stockholders of the Chemical Bank New York Trust are its own trust department (4 per cent) and the Chase Manhattan Bank (1.37). The Chemical Bank New York Trust is a natural ally of Chase Manhattan for another reason too. Of the non-Morgan banks in New York it has the biggest ties with heavy industry which the main Rockefeller bank finances in the first place.

The third commercial bank of the coalition is the Bank of New York. At the beginning of the 20th century it turned into the main administrator of the fortunes of the Southern cotton, sugar and tobacco planters and traders. In 1929, John Foster Dulles, co-owner of the law firm of Sullivan and Cromwell, became a director of the bank. At first he himself and then his successors in the law firm (now Arthur H. Dean) have systematically implanted their own men into it. In the 1930s seats on the board were given to P.E.W. Deboyece, head of Borden, a Milbank company, and personal lawyer of the Rockefellers, and then to head of the Whitney-controlled Freeport Sulphur. In the 1940s, after the merger with the Fifth Avenue Bank of New York, a Harkness and Dunlevy Milbank were put on the board of directors. The union with the Rockefeller-Milbank group became obvious.

The personal union of the three banks is consolidated by their joint use of two of the four largest U.S. insurance companies: Metropolitan and Equitable. Both were drawn into the orbit of the Rockefellers and families allied with them at a relatively late stage in their history. Metropolitan Life Insurance, founded in 1860, was a joint-stock company until 1914. Joseph Knapp, the biggest stockholder, headed the company during most of that period. In 1914, by agreement with Knapp's heirs, their stock was bought by the Metropolitan Company itself which turned into a mutual society.

Shortly after that the presidents of the Chase National Bank and the New York Trust were put on its directorate. At the beginning of the 1930s, the link with Chase National automatically turned into a link with the Rockefellers. At the end of the 1930s, the Chase National Bank already kept more than 80 per cent of Metropolitan's deposits. It is beyond doubt that the leaders of Metropolitan and the Rockefeller-dominated Chase Manhattan Bank maintain close relations.

A similar, though less developed union exists among the

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1 M. James, The Metropolitan Life.
banks of the group with Equitable Life Assurance. At first, a coalition of Standard Oil-Kuhn, Loeb-Harriman dominated it. Then the controlling block of shares (60 per cent) fell into the hands of Thomas F. Ryan, who in 1909 sold it to J. P. Morgan. The Du Ponts bought these shares from Morgan's heirs. The top executives of the insurance society first co-operated with Chicago bankers and then with John D. Rockefeller II. When the latter acquired the Equitable Trust he offered Parkinson, president of Equitable Life, to head the bank. Later on Parkinson became a director of Chase National Bank, while a director of the latter B. Cutler, a personal assistant to the Rockefellers, became a director of Equitable. The same interlocking combination but of different men (David Rockefeller, James Oats, Jr.) is in force today. But the presence on Equitable’s directorate of many representatives of other groups makes this alliance far from complete. Grant Kechn, Equitable’s president, had been an executive of the First National City Bank of New York. An analysis of the securities held by Equitable shows that of the 205 industrial corporations (excluding power, communications and railways) which it credits, only four, strictly speaking, come within the range of Rockefeller interests.

INDUSTRY, TRANSPORT, TRADE

Though this group has a powerful basis in banking, and includes wealthy families which own considerable blocks of stock, the number of the largest industrial corporations where its domination is indisputable is much smaller than in the Morgan Guaranty Trust group. What tells here evidently is the incomplete union of the Chase Manhattan Bank with the other commercial banks and the absence of the group’s own strong basis in investment banking.

Let us take, for example, the four leading oil monopolies which in the past were fully controlled by the Rockefeller group.

**Standard Oil Co. of New Jersey** (biggest oil trust in the capitalist world). We have mentioned the fact that financial service of this company has in large measure been taken over by the head Morgan banks. It is quite difficult to trace Rockefeller control and, even more so, to measure its relative magnitude. Prior to World War II, the Rockefellers owned 8.7 per cent of the company’s stock, their philanthropic foundations 4.8 per cent, the Harknesses 4.3 per cent, and the Standard Oil of Indiana 6.7 per cent. At that time Walter C. Teagle, a grandson of the first partner of Rockefeller I, was chairman of the board.

The Rockefellers and allied families still own a considerable block of Standard Oil stock; 3 per cent may be considered a fair estimate. This figure was mentioned to the author by Courtney Brown, former assistant to the chairman of the board of the Standard Oil of New Jersey. The Chase Manhattan Bank, controlled by the selfsame Rockefellers, remains the company’s head bank.

Nevertheless, the influence of the Rockefellers has noticeably waned. Never before has the president of Standard Oil been represented on the directorate of the head Morgan bank; nor has its chairman been a man who made his business career in the National City Bank.

**Mobil Oil Corp.** (another leading U.S. oil trust). The situation here resembles that in the Standard Oil of New Jersey but there are also certain distinctions. The Rockefeller family owns about 6 per cent of the stock. The Rockefeller Foundation holds only 0.7 per cent, and the share of Rockefeller Brothers Fund is probably higher. The company had no long-standing union with Chase National Bank in the past. Some of its executives were directors of New York Trust. A personal union has developed with the First National City Bank and with Bankers Trust. External financing is almost fully in the hands of the head Morgan banks. Specifically, Bankers Trust administers the Employees Savings Plan, which owns 4.6 per cent of its stock.

**Standard Oil Co. of California.** The Rockefellers hold about

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5 per cent of the stock. The company has a strong personal union with the First National City Bank of New York, with the Western Bancorporation, a Los Angeles group, and the bank of the Crockers in San Francisco. External financing is handled almost exclusively by San Francisco investment banks. The chief executives dispose of the employees' stock-purchase plan, which owns 3.3 per cent of the shares.

_Standard Oil Co. of Indiana._ The company has preserved a strong directorship link with the Chase Manhattan Bank. The share of the Rockefeller Foundation declined to 2.8 per cent and Rockefeller Brothers hardly owns much more than 1 per cent. The company has now a strong personal union with Chicago bankers. As a result of one of the mergers, Jacob Blaustein, a Baltimore multimillionaire, gained control of 3.9 per cent of the stock. Lastly, Morgan, Stanley became its head investment bank.

If we take the more active part of the Rockefeller group (together with the Milbanks, Harknesses and other families), it includes, besides the Standard Oil of New Jersey, the following largest industrial and transport corporations.

_Eastern Air Lines, Inc._ Laurance Rockefeller gained control of the company at the end of the 1930s. It is headed by a former partner of Debevoise, Plimpton, the Rockefeller law firm. Hugh Knowlton, a partner of Kuhn, Loeb, is on the directorate. Laurance Rockefeller, who owns about 3 per cent of the stock (in 1957, 3.6 per cent), served as director up to 1960. The Chase Manhattan is the head bank of the company. It had the biggest share (40 per cent) in the last two syndicates which gave the company loans (in 1948 and 1961). Equitable Life is its chief creditor among insurance companies.

_American Airlines, Inc._ The company's president is a director of the Chase Manhattan Bank; Debevoise, Plimpton, is its chief legal counsellor. There are two interlocking directorships with Equitable Life and one with the Chemical Bank New York Trust. The main creditors are Metropolitan Life (more than 50 per cent of the company's indebtedness) and Equitable Life. Firms associated with American Airlines hold that personal capital of the Rockefellers is invested in the latter. True, the company also has considerable ties with other groups (in particular Lazard Frères and the Mellons), but the Rockefeller group predominates. This was brought out during negotiations for a merger with Eastern Air Lines. The resistance of small companies and the trade unions compelled Federal agencies to refrain from sanctioning this merger which had been approved by the stockholders of both companies.

_National Lead Co._ (biggest producer of articles from lead, titanium, etc.). The company's president Joseph A. Martino has been a director of the Chase Manhattan Bank since 1952. The latter is the company's stock transfer agent. Among the stockholders are Metropolitan Life (2.2 per cent of the voting stock) and other large insurance companies (a total of 9 per cent).

_Borden Corp._ (dairy industry). It was founded by the Borden's and Milbanks. The latter originally owned 50 per cent of the stock, then 25 per cent, but at the end of the 1930s controlled less than 3 per cent. A representative of the Milbanks headed it up to 1941 and sat on the board of directors up to 1948. Milbank, Tweed and Hope, a law firm of the Milbanks and Rockefellers, remains the chief legal counsel of the company and its partner, Morris Hadley, is a director. A personal union links the executives of Borden with the Bank of New York and the Chemical Bank New York Trust. As a rule there is one interlocking director with Chase Manhattan.

_Corn Products Corp._ (food industry). Another Milbank company. There is a personal union with the Chemical Bank New York Trust which serves as its head bank. But now it is possible to speak only of joint control with other groups in view of their large representation on the directorate.

_Southern Ry._ Prior to the war, the Milbanks held 5.9 per cent of the stock, but now own 2.1 per cent. Jeremiah Milbank is a director and exerts direct influence on the railway's affairs. Together with other companies which are part of this group, they command 5.2 per cent of the shares. There are two interlocking directorships with Chase Manhattan and several with banking institutions allied to the Rockefellers. Neither the Boston financiers who control 5.8 per cent of the

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1 Ibid.
stock nor the First National City Bank group (2 per cent) have so far sought to challenge this domination.

Southern Pacific Ry. A considerable part of the financing is done by Morgan banks. But two representatives of Chase Manhattan, three of the Chemical Bank New York Trust and one of Metropolitan Life sit on the board of directors. The Rockefellers have also family ties with the Crockers who organised this railway and still have an interest in it. Kuhn, Loeb most often heads the bond syndicates. Chase Manhattan and allied banks control over 2 per cent of the company's stock.

Our summary estimate of the assets of the group (see table on pp. 273-75) is again smaller than the data of Victor Perlo, although the number of companies in our list is much bigger. While the first divergence is explained, as pointed out earlier, by the method of measuring control, the second reason lies in the consistent policy of expanding the sphere of influence pursued by the Rockefellers, Milbanks, Whitenys and other participants in this monopoly alliance. One outstanding feature is that they no longer keep large controlling blocks in a small number of companies but are trying to penetrate the most diverse sectors. This inevitably leads to wider use of the method of joint control employed long before them by the house of Morgan. Let us note, however, that the latter has a much wider circle of allies than the core of the Rockefeller group. This is the reason why the Morgan banks, together with their coalition, enjoy superiority in a larger number of industrial corporations than their main rival.¹

6. The Group of the First National City Bank of New York, the Fords, Dillon, Read and the Harrimans

The structure of the third largest New York group is quite simple. Its core consists of one commercial bank, one law firm and one investment bank. The First National City Bank

¹ It goes without saying that within the bounds of the present study it is impossible to trace the entire sphere of influence of these groups. Suffice it to say that Chase Manhattan alone acts as the head bank of more than 1,500 companies and pays interest on 20,000 different securities (Chase Manhattan Bank Annual Report, 1957, p. 22). Morgan banks have similar ties.
<table>
<thead>
<tr>
<th>Name of company</th>
<th>Total assets, million dollars</th>
<th>Share of control</th>
<th>Total controlled assets, million dollars</th>
<th>Other groups participating in control</th>
</tr>
</thead>
<tbody>
<tr>
<td>Borden</td>
<td>503</td>
<td>3/4</td>
<td>377</td>
<td>Various groups</td>
</tr>
<tr>
<td>American Airlines</td>
<td>666</td>
<td>2/3</td>
<td>444</td>
<td>&quot;</td>
</tr>
<tr>
<td>Southern Railway</td>
<td>890</td>
<td>2/3</td>
<td>593</td>
<td>&quot;</td>
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<tr>
<td>Southern Pacific Ry.</td>
<td>2,519</td>
<td>1/2</td>
<td>1,259</td>
<td>&quot;</td>
</tr>
<tr>
<td>Corn Products</td>
<td>504</td>
<td>1/2</td>
<td>252</td>
<td>&quot;</td>
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<tr>
<td>Mobil Oil</td>
<td>4,135</td>
<td>2/5</td>
<td>1,654</td>
<td>Morgan Guaranty Trust, First National City Bank Phippses, Morgan Guaranty Trust, Merrill, Lynch</td>
</tr>
<tr>
<td>International Paper</td>
<td>1,038</td>
<td>2/5</td>
<td>415</td>
<td>&quot;</td>
</tr>
<tr>
<td>Martin-Marietta</td>
<td>554</td>
<td>2/5</td>
<td>222</td>
<td>&quot;</td>
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<tr>
<td>Foremost Dairies</td>
<td>158</td>
<td>1/3</td>
<td>53</td>
<td>California</td>
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<tr>
<td>Sinclair Oil</td>
<td>1,515</td>
<td>1/3</td>
<td>505</td>
<td>Merrill, Lynch</td>
</tr>
<tr>
<td>International Business Machines</td>
<td>2,112</td>
<td>1/3</td>
<td>704</td>
<td>Morgan Guaranty Trust, Waccovia Bank</td>
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<tr>
<td>Burlington Industries</td>
<td>667</td>
<td>1/3</td>
<td>222</td>
<td>&quot;</td>
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<tr>
<td>American Smelting and Refining</td>
<td>477</td>
<td>1/3</td>
<td>159</td>
<td>Guggenheim's, Morgan Guaranty Trust, First National City Bank and others</td>
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<tr>
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<td>26,717</td>
<td>1/4</td>
<td>6,679</td>
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<tr>
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<td>1,236</td>
<td>1/4</td>
<td>309</td>
<td>&quot;</td>
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<tr>
<td>Allied Chemical</td>
<td>1,022</td>
<td>1/4</td>
<td>255</td>
<td>&quot;</td>
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<tr>
<td>Westinghouse Electric</td>
<td>1,516</td>
<td>1/4</td>
<td>379</td>
<td>&quot;</td>
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<tr>
<td>B. F. Goodrich</td>
<td>648</td>
<td>1/4</td>
<td>162</td>
<td>Morgan Guaranty Trust and others</td>
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<tr>
<td>American Electric Power</td>
<td>1,655</td>
<td>1/4</td>
<td>414</td>
<td>&quot;</td>
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<tr>
<td>Standard Oil Co. (Indiana)</td>
<td>3,109</td>
<td>1/4</td>
<td>777</td>
<td>Chicago</td>
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<tr>
<td>Standard Oil Co. (California)</td>
<td>3,358</td>
<td>1/4</td>
<td>838</td>
<td>California, First National City Bank</td>
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<tr>
<td>McDonnell Aircraft</td>
<td>149</td>
<td>1/4</td>
<td>37</td>
<td>St. Louis</td>
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<tr>
<td>U. S. Rubber</td>
<td>686</td>
<td>1/4</td>
<td>171</td>
<td>Du Ponts</td>
</tr>
<tr>
<td>American Sugar Refining</td>
<td>240</td>
<td>1/5</td>
<td>48</td>
<td>Irving Trust and others</td>
</tr>
<tr>
<td>Radio Corporation of America</td>
<td>1,059</td>
<td>1/5</td>
<td>212</td>
<td>Lehman Bros., Lazard Freres</td>
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<tr>
<td>Republic Steel</td>
<td>1,132</td>
<td>1/5</td>
<td>226</td>
<td>Cleveland</td>
</tr>
<tr>
<td>Armco Steel</td>
<td>995</td>
<td>1/5</td>
<td>199</td>
<td>First National City Bank, Mellons and others</td>
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<tr>
<td>Youngstown Sheet and Tube</td>
<td>773</td>
<td>1/6</td>
<td>129</td>
<td>Cleveland</td>
</tr>
<tr>
<td>Pacific Gas and Electric</td>
<td>2,809</td>
<td>1/6</td>
<td>468</td>
<td>California</td>
</tr>
<tr>
<td>Owens-Corning Fiberglass</td>
<td>204</td>
<td>1/6</td>
<td>34</td>
<td>First National City Bank, Morgan Guaranty Trust</td>
</tr>
<tr>
<td>Goodyear Tire and Rubber</td>
<td>1,186</td>
<td>1/6</td>
<td>198</td>
<td>Cleveland, Dillon, Read</td>
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<tr>
<td>Stone and Webster</td>
<td>68</td>
<td>1/2</td>
<td>34</td>
<td>Other groups</td>
</tr>
<tr>
<td>Otis Elevator</td>
<td>177</td>
<td>3/4</td>
<td>133</td>
<td>Various New York groups</td>
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<td>Vitro Corp.</td>
<td>22</td>
<td>1</td>
<td>22</td>
<td>Newmont Mining, St. Louis</td>
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<tr>
<td>St. Joseph Lead</td>
<td>118</td>
<td>1/3</td>
<td>39</td>
<td>Irving Trust</td>
</tr>
<tr>
<td>West Virginia Pulp and Paper</td>
<td>275</td>
<td>1/4</td>
<td>69</td>
<td>Other New York groups</td>
</tr>
<tr>
<td>Great Northern Paper</td>
<td>130</td>
<td>1/2</td>
<td>65</td>
<td></td>
</tr>
<tr>
<td>Freeport Sulphur</td>
<td>182</td>
<td>1/2</td>
<td>91</td>
<td>First National City Bank and others</td>
</tr>
</tbody>
</table>

| Total                         | 62,972                       |                  |                                        |                                      |
|                               |                              |                  |                                        | of which                              |
|                               |                              |                  |                                        | banking                               |
|                               |                              |                  |                                        | 34,741                                |
|                               |                              |                  |                                        | industry and transport                | 28,231 |
of New York is the centre of the group. Two other U.S. commercial banks have bigger assets but it exceeds them for the number of foreign branches and their deposits and also the size of its own capital. The National City Bank (as it was called prior to 1955) was already in the 1910s the largest bank in the U.S.A. It ceded first place to the Bank of America only during World War II and first place in New York to Chase National only after the latter merged with the Bank of Manhattan.

As far back as the end of last century, the old National City Bank represented an alliance of various families and financial interests. From the beginning of the century and up to World War I its directorate included the Schiffs (Kuhn, Loeb) and Harrimans, Fricks and Dodges (non-ferrous metals), Havemeyers and McCormicks, Graces, and Armours. Operational leadership of the bank was in the hands of the Stillmans who were related by marriage to the family of William Rockefeller, a brother of John D. Rockefeller I. At that time William was on the board of Standard Oil.

Up to the death of Morgan I, a partner of this banking house sat on the board of the National City Bank. The Stillmans and Rockefellers and their managers recognized the leadership of J. P. Morgan and Co. up to the mid-1930s. Charles E. Mitchell, who headed the bank, depended on Morgan financially. In 1929, J. P. Morgan and Co. lent Mitchell a large sum, with a block of National City Bank stock serving as collateral. Mitchell was unable to repay the loan and the block (the second largest) fell into Morgan hands. A bigger block of stock was controlled by A. P. Giannini who was on the bank’s directorate from 1933 to 1941. He did not, however, enjoy real power because he was opposed by a strong group of New York tycoons.

The trusteeship of the Morgans over the National City Bank ended in the mid-1930s. By that time both the Stillmans and the descendants of William Rockefeller had withdrawn from direct leadership. This apparently was the reason why the bank was not regarded as a centre of an independent group at the end of the 1930s. It was only at the beginning of the 1950s that a representative of this family (James Stillman Rockefeller) again took a seat on the board. Early in the 1960s he became its top executive.

The Stillmans-Rockefellers are not as rich as the des-

cendants of John D. Rockefeller. Moreover, they have kept out of the limelight. Therefore it is difficult to ascertain both the magnitude of their influence and especially the block of the bank’s shares they hold. A considerable part of the stock, it is asserted, is concealed in the trust department of the Chemical Bank New York Trust, the right to administer it having been granted to the law firm of Shearman and Sterling. The Patman Report presented the following information about the biggest stockholders of the First National City Bank of New York:

<table>
<thead>
<tr>
<th>Stockholder</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>First National City Bank of New York</td>
<td>4.01 %</td>
</tr>
<tr>
<td>Chemical Bank New York Trust</td>
<td>0.84 %</td>
</tr>
<tr>
<td>James Stillman Rockefeller (direct ownership)</td>
<td>0.01 %</td>
</tr>
<tr>
<td>Robert Winthrop</td>
<td>0.31 %</td>
</tr>
<tr>
<td>Charles C. Parlin (head of Shearman and Sterling)</td>
<td>0.02 %</td>
</tr>
<tr>
<td>Total under the control of the Stillmans-Rockefellers</td>
<td>5.19 %</td>
</tr>
<tr>
<td>Morgan Guaranty Trust</td>
<td>2.72 %</td>
</tr>
<tr>
<td>Bankers Trust</td>
<td>0.73 %</td>
</tr>
<tr>
<td>Philadelphia banks</td>
<td>1.54 %</td>
</tr>
<tr>
<td>George F. Baker, Jr.</td>
<td>0.09 %</td>
</tr>
<tr>
<td>Total under the control of the Morgan group</td>
<td>5.08 %</td>
</tr>
<tr>
<td>Chase Manhattan Bank</td>
<td>1.90 %</td>
</tr>
</tbody>
</table>

The Winthrop family has been represented on the board of the National City Bank since 1914 and is a staunch ally of the Stillmans-Rockefellers.

The Stillmans-Rockefellers enjoy the support of the millionaires Amory Houghton, John R. Kimberly, Grace, Caw and also of top executives of some large industrial corporations connected with the First National City Bank by close long-standing ties.

What are the business relations between the two branches of the Rockefellers? Historically, things have so developed
that they represent two different coalitions of monopolists. Ever since the "main" branch of the Rockefellers has withdrawn from the National City Bank and founded its own bank, competition between them has become genuine and quite acute. The so-called war of deposits is indicative in this respect. In 1961, when commercial banks were allowed to raise the interest paid on savings deposits rumour spread that the Chase Manhattan Bank intended to increase the rate to 3.5 and even 4 per cent. The First National City Bank hastened to raise its rate to 4 per cent. The other banks unwittingly had to follow suit. The motives of the First National City Bank were to attract new depositors and demonstrate that it, and not Chase Manhattan, is the leading New York bank.

The Shearman and Sterling law firm plays a very important part in this group. It has been the bank's chief legal counsellor since 1897 and it also serves the Stillmans-Rockefellers. Its main clientele almost fully coincides with that of the First National City Bank. Perhaps no other law firm in New York has coalesced so fully with one bank as Shearman and Sterling. Its two chief partners—Charles C. Parlin and Frederick M. Eaton—are on the board of the bank. One of the Stillmans-Rockefellers (William Rockefeller) is a partner of Shearman and Sterling. Most of the 400 employees of the law firm are engaged in serving the bank and its clientele. The firm does not play a subordinate role and, as pointed out earlier, participates in control over the First National City Bank. The heads of this firm play at least second fiddle in this group and at times, perhaps, even first fiddle.

White, Weld and Co., an investment bank, holds a somewhat special position. Traditionally, it has always relied on the old National City Bank more than on any other New York institution. The swift growth of White, Weld (in the 1930s it was a small firm which confined itself to participation in syndicates organised by other New York banks) is explained partly by its specialisation in serving the rapidly developing natural gas industry and also by its acting as intermediary between American and West European monopolies. White, Weld had become a big investment bank only by the time when the circle of the chief clients of the First National City Bank had been formed and they were served by other investment banks (Blyth; Dillon, Read; Harriman, Ripley). That is why of the ten large industrial corporations within the sphere of the First National City Bank, White, Weld serves only three (as organiser or co-organiser of syndicates). More than half of its capital is invested not in underwriting securities but in organising small companies (purchase of a block of stock for a long period with the object of making a capital gain).

The First National City Bank group has a relatively weak basis of its own in investment banking. Some consider that this gap is filled by Blyth. In 1935, the New York branch of this San Francisco banking house was headed by Charles Mitchell, former chairman of the National City Bank and of its investment affiliate, the National City Company. Mitchell utilised his old connections for luring away some big clients of this bank. But Mitchell was not the owner of the firm which has been and remains under the control of San Francisco bankers. The relations between Blyth and the First National City Bank are those of allies only in a limited number of cases. Another weakness of the First National City Bank group is that it has no prevailing influence in the biggest insurance companies. True, a personal union connects it with Metropolitan and New York Life, while Shearman and Sterling are the chief legal counsellors of Prudential. But this is only partial compensation. The bank has also strong positions in a number of relatively small insurance companies. On the other hand, in contrast to the Morgan and Rockefeller banks, the First National City Bank has sufficiently solid positions in investment companies.

The core of the industrial part of the First National City Bank group includes the following companies:

Boeing Airplane Co. (aircraft, guided missiles). The connection with Boeing and also with United Aircraft was established by the National City Bank as far back as the 1920s. At present First National City is the head bank of the company and it has a regular seat on its directorate. Harriman, Ripley and Blyth handle the issue of the company's bonds.

United Aircraft Corp. (aircraft, guided missiles). The president of the First National City Bank is a director of the company and the chairman of the board of United Aircraft is on the bank's directorate. As the head bank it organises the company's financing. Harriman, Ripley invariably
handles the issue of its securities. Shearman and Sterling are the official lawyers of the company.

*St. Regis Paper Co.* A senior vice-president of the First National City Bank and a partner of White, Weld are directors of the company. Both institutions act as the company’s head banks.

*National Cash Register Co.* (second largest producer of office equipment). It is one of the oldest clients of the First National City Bank. There are three interlocking directors, including James Stillman Rockefeller. Dillon, Read has been its head investment banker since 1926; its president is a director of National Cash Register.

*Owens-Corning Fiberglass Co.* (industrial glass). The company is headed by Harold Bosenstein, who maintains close business contacts with the leaders of the group, especially with Shearman and Sterling, whose senior partner has served on the company’s board for many years. There is also another common director with the First National City Bank. White, Weld is a co-organiser of security syndicates. At present 31.4 per cent of the company’s stock is held by Owens-Illinois Glass and 31.1 per cent by the Corning Glass Works.

*Corning Glass Works* (various glass articles) is fully controlled by the Houghton family, which owns 33.1 per cent of its stock. Two Houghtons are directors of the First National City Bank; the company and the bank also have two more interlocking directorships. This bank is the company’s sole stock transfer agent and bond trustee. Harriman, Ripley is a co-organiser of syndicates. Lazard Frères enjoys influence both in the Corning Glass Works and in Owens-Corning Fiberglass.

*Owens-Illinois Glass Co.* (manufacture of glass jars and other glass articles). Lazard Frères and Goldman, Sachs are its main investment bankers. It also has financial ties with the Chase Manhattan Bank and the Chemical Bank New York Trust. Nevertheless, the First National City Bank also has serious interests here. For example, it has been given the right of voting on the 3 per cent of the stock of Continental Can which belongs to Owens-Illinois Glass. F. Eaton, a partner of Shearman and Sterling, is the company’s only representative in the directorate of Monsanto Chemicals (1.3 per cent of the stock).

*W. R. Grace and Co.* (mainly chemical products). The Grace family which manages the company controls slightly less than 10 per cent of the total vote and the Phipps family, about 4 per cent. Chase Manhattan renders part of the financial service but the First National City is the head bank. The latter has four interlocking directorships with the company. W. R. Grace owns 80 per cent of the shares of the Grace National Bank of New York.

*Pan American World Airways, Inc.* The composition of the board of directors is quite varied. One striking feature is the three interlocking directorships with Metropolitan Life Insurance. But the First National City Bank is the company’s biggest creditor. It is also the only New York commercial bank which has its chief executive, James S. Rockefeller, on the board of the company.

*Anaconda Copper Corp.* (one of the largest non-ferrous metals trusts). Prior to the war the National City Bank disposed of the second biggest block of the company’s stock. Today the First National City Bank is the chief stock transfer agent. James Stillman Rockefeller is a director of Anaconda, while the company’s president is a director of the bank. The company has less developed ties with the Morgan Guaranty Trust.

The prevailing position of the First National City Bank is a result of the alliance with the Harrimans, one of whom is on the directorate of Anaconda.

Our summary data on the total assets of the group (see table on pp. 282-84) are much bigger than the estimate of Victor Perlo. The reason is that we have taken into account the participation of the First National City Bank in joint control over many large industrial corporations, while Perlo placed them in the sphere of absolute control of other financial groups. The companies where the First National City Bank enjoys absolute prevalence are mainly in the war industry, chemical industry, some branches of engineering and in civil aviation. At the same time this group has joined in control over the oil industry. Thus, it is following a trend which compels it to be quite aggressive in battles for spheres of influence. It is interested in utilising the state machine and exerting influence on the country’s military and foreign policy.

We have deliberately not included in the First National City Bank group some other groups which, being connected
<table>
<thead>
<tr>
<th>Name of company</th>
<th>Total assets, million dollars</th>
<th>Share of control</th>
<th>Total controlled assets, million dollars</th>
<th>Other groups participating in control</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Banking</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>First National City Bank of New York</td>
<td>10,280</td>
<td>1</td>
<td>10,280</td>
<td></td>
</tr>
<tr>
<td>Shearman and Sterling</td>
<td></td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>White, Weld and Co.</td>
<td>22</td>
<td>1</td>
<td>22</td>
<td></td>
</tr>
<tr>
<td>Blyth and Co.</td>
<td>28</td>
<td>1/3</td>
<td>9 San Francisco</td>
<td></td>
</tr>
<tr>
<td>Grace National Bank</td>
<td>272</td>
<td>1</td>
<td>272</td>
<td></td>
</tr>
<tr>
<td>Group of investment companies of Hugh Long (Anchor Corp.)</td>
<td>932</td>
<td>1</td>
<td>932</td>
<td></td>
</tr>
<tr>
<td>Group of investment companies led by Shearman and Sterling</td>
<td>104</td>
<td>1</td>
<td>104</td>
<td></td>
</tr>
<tr>
<td>Mercantile Bank of Canada</td>
<td>116</td>
<td>1/2</td>
<td>58</td>
<td></td>
</tr>
<tr>
<td><strong>Industry, Transport and Trade</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Boeing Airplane</td>
<td>648</td>
<td>2/3</td>
<td>432</td>
<td>Seattle</td>
</tr>
<tr>
<td>United Aircraft</td>
<td>538</td>
<td>2/3</td>
<td>359</td>
<td>Harrimans, Hartford</td>
</tr>
<tr>
<td>St. Regis Paper</td>
<td>585</td>
<td>2/3</td>
<td>390</td>
<td>Marine Midland</td>
</tr>
<tr>
<td>National Cash Register</td>
<td>453</td>
<td>2/3</td>
<td>302</td>
<td>Dillon, Read</td>
</tr>
<tr>
<td>Owens-Corning Fiberglass</td>
<td>204</td>
<td>2/3</td>
<td>136</td>
<td>Morgan Guaranty Trust, Chase Manhattan Bank, Goldman, Sachs and others</td>
</tr>
<tr>
<td>Corning Glass Works</td>
<td>206</td>
<td>3/4</td>
<td>154</td>
<td>Harrimans, Lazard Freres</td>
</tr>
<tr>
<td>Owens-Illinois Glass</td>
<td>529</td>
<td>1/2</td>
<td>265</td>
<td>Lazard Freres, Goldman, Sachs, Stranahans</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Name of company</th>
<th>Total assets, million dollars</th>
<th>Share of control</th>
<th>Total controlled assets, million dollars</th>
<th>Other groups participating in control</th>
</tr>
</thead>
<tbody>
<tr>
<td>W. R. Grace and Co.</td>
<td>722</td>
<td>2/3</td>
<td>481</td>
<td>Phippse, Chase Manhattan Bank</td>
</tr>
<tr>
<td>J. C. Penney and Co.</td>
<td>553</td>
<td>2/3</td>
<td>369</td>
<td>Other New York groups</td>
</tr>
<tr>
<td>Pan American Airways</td>
<td>564</td>
<td>1/2</td>
<td>282</td>
<td></td>
</tr>
<tr>
<td>Anaconda Copper</td>
<td>1,164</td>
<td>1/2</td>
<td>582</td>
<td>Morgan Guaranty Trust, Harrimans</td>
</tr>
<tr>
<td>National Distillers and Chemical</td>
<td>642</td>
<td>1/2</td>
<td>321</td>
<td>Chase Manhattan Bank and others</td>
</tr>
<tr>
<td>Kimberly-Clark</td>
<td>444</td>
<td>1/2</td>
<td>222</td>
<td>Milwaukee</td>
</tr>
<tr>
<td>International Paper</td>
<td>1,038</td>
<td>1/5</td>
<td>208</td>
<td>Chase Manhattan Bank, Phippse, Morgan Guaranty Trust</td>
</tr>
<tr>
<td>Phelps-Dodge</td>
<td>446</td>
<td>1/3</td>
<td>149</td>
<td>Newmont Mining and others</td>
</tr>
<tr>
<td>Southern Pacific Ry.</td>
<td>2,519</td>
<td>1/4</td>
<td>630</td>
<td>Chase Manhattan Bank, Morgan Guaranty Trust and others</td>
</tr>
<tr>
<td>American Sugar Refining</td>
<td>240</td>
<td>1/5</td>
<td>48</td>
<td>Irving Trust, Morgan Guaranty Trust, Chase Manhattan Bank and others</td>
</tr>
<tr>
<td>Phillips Petroleum</td>
<td>1,735</td>
<td>1/3</td>
<td>578</td>
<td>First Boston Corp. and others</td>
</tr>
<tr>
<td>Cities Service</td>
<td>1,506</td>
<td>1/3</td>
<td>501</td>
<td>Morgan Guaranty Trust</td>
</tr>
<tr>
<td>American Smelting and Refining</td>
<td>477</td>
<td>1/6</td>
<td>79</td>
<td>Morgan Guaranty Trust, Chase Manhattan Bank, Guggenheims</td>
</tr>
<tr>
<td>Allis-Chalmers</td>
<td>505</td>
<td>1/3</td>
<td>168</td>
<td>Milwaukee</td>
</tr>
<tr>
<td>Monsanto Chemical</td>
<td>1,325</td>
<td>1/3</td>
<td>442</td>
<td>St. Louis</td>
</tr>
<tr>
<td>Armco Steel</td>
<td>995</td>
<td>1/4</td>
<td>249</td>
<td>Mellons, Chase Manhattan Bank</td>
</tr>
<tr>
<td>Standard Oil Co. of California</td>
<td>3,353</td>
<td>1/4</td>
<td>838</td>
<td>California, Chase Manhattan Bank</td>
</tr>
</tbody>
</table>
In the 1930s, Manufacturers National Bank was controlled by Henry Ford I. Now, too, although control is denied, the Ford family has about 4 per cent of its stock and one of the Ford brothers (William) is represented in the directorate.1

Up to the 1930s, the Ford family, fearing control by banks, avoided dealings with Wall Street. The first contact was established with the National City Bank when Morgan's influence there declined. But up to the beginning of the 1950s there was not a single “outsider” and, even less so, a New York banker, on the board of Ford Motor. The latter has no need in long-term loans and utilises over 100 different banks for its current operations; of them 10-12 are regarded as the main banks. In 1956, when Ford stock was publicly offered for the first time, Blyth headed the syndicate of investment banks.2 But it did not become the regular financial adviser of the Ford company. In recent years this function has been performed by Sidney Weinberg, head of Goldman, Sachs. He was one of the first “outsiders” to become a director of Ford Motor; moreover, he persuaded Henry Ford II to sit on the board of other companies where he himself is a director (at first General Electric and then General Foods). This connection is profitable in two ways for Weinberg’s bank; it receives a fee for the services rendered the company in its foreign operations (in 1961 Goldman, Sachs organised the buying up in Britain of the shares of the Ford subsidiary there); it maintains reciprocal credit ties with the Ford Motor Credit Company (a branch which organises the financing of the sales of cars on the installment plan). But the role of Weinberg himself is much greater: during all these years he took part in shaping the general financial policy of Ford Motor Company.

Among other outsiders admitted to the Ford directorate Harold Boeschenstein and Charles Mortimer stood out at first; the two of them are closely associated both with the First National City Bank and with Weinberg. Ford Motor Co. also began to employ the legal services of Shearman and Sterling. Subsequently, the board of directors was joined

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1 Chain Banking... pp. 225, 415.
2 According to a Blyth executive, the Fords were interested in most of the stock being sold in small lots of not more than 10 shares and at least one-tenth of the issue being placed among dealers or employees of Ford Motor. Blyth had experience in such placement of shares.
by Paul C. Cabot and Carter L. Burgess, directors of the Morgan Guaranty Trust, and also two members of the Chicago financial group.

Ford Foundation holds more than half of the stock of the automobile company. These shares have no voting rights, but should they be sold they acquire such right automatically. That is why people who determine the policy of the foundation wield considerable power: the chairman of the board of trustees, John J. McCloy, is close to the leadership of the Chase Manhattan Bank, that is, to the Rockefeller's; Eugene R. Black, member of the financial committee, is a director and former official of Chase Manhattan; Stephen D. Bechtel is a director of the Morgan Guaranty Trust.

That various financial groups are strongly attracted by the huge capital owned or disposed of by the Ford family is not surprising. Naturally, each one tries to draw this capital into its orbit. But the Fords themselves have the decisive say and they are slow in bestowing their sympathies. One obstacle to rapprochement with the Morgan banks is that the General Motors they guide is Ford's chief competitor. There is just as little probability of Chase Manhattan Bank or the Chemical Bank New York Trust being chosen; it would be difficult for the Fords and Rockefellers with their differing interests to get along there. Hence the natural gravitation towards the First National City Bank of New York.

It is characteristic that James M. Nicely, vice-president and treasurer of the Ford Foundation, has been put on the directorate of this bank. Nicely handles the investment activities of the foundation. By selling stock of Ford Motor the foundation becomes the owner of securities of many other companies. With its assets (about $2,500 million) it is capable of eventually becoming the biggest investment company in the United States.

The Harriman group. Up to the mid-1930s, the Harrimans (just as Kuhn, Loeb) belonged to the National City Bank coalition. In 1934, when the investment branch of the bank was dissolved, part of its leading personnel joined the newly-organised Harriman, Ripley and Co., an investment bank where it assumed operational leadership. But 95 per cent of the original capital belonged to Averell and Roland Harrimans. After the war their share decreased to 43 per cent of the voting and 97.7 per cent of the non-voting stock. At the end of the 1950s, 38 per cent of the stock was bought by Phillip Hill, Higginson, a British investment bank which received a seat on the directorate of Harriman, Ripley. Control, however, was retained by Harrimans and their partner Joseph P. Ripley. Harriman, Ripley continues to serve some of the main clients of the First National City Bank (Boeing Airplane, Corning Glass Works, United Aircraft). Other companies, however, make up the majority of its clients.

In the meantime Brown Bros., Harriman and Co. continues to exist as one of the few surviving private commercial banks in the United States (of the same type as J. P. Morgan and Co. had been prior to 1940). Its entire capital belongs to its partners, a considerable part apparently to the Harriman brothers. Inasmuch as it is allowed to engage in stock market operations Brown Bros., Harriman also concentrates on administering the stocks of others.

The Harriman group plays a subordinate role in the financial oligarchic system, confining itself, as a rule, to participation in joint control over large industrial corporations. But there are also exceptions.

Let us examine the Newton Mining Company which, alongside direct operation in the oil and non-ferrous metals industries, owns big blocks of stock of Continental Oil and Phelps-Dodge and is represented on their boards. It has two

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1 The choice of a lead bank is the more difficult since 40.4 per cent of the shares of Ford Motor which had been sold to the public are now concentrated in trust departments of various banks (unpublished Ford Motor Company summary of August 2, 1962). This gives them about one-fourth of the total vote. The Ford family controls 40 per cent of the vote, but it cannot ignore the other concentration. The profit-sharing fund of Ford Motor employees holds 9.2 per cent of the shares (almost 6 per cent of the vote). This fund is held in trust and administered by the Manufacturers National Bank of Detroit (Prospectus 2.750,000 Shares Ford Motor Co. Common Stock, July 27, 1961, p. 22). It is interesting to note that the trust department of the First National City Bank of New York holds 3.2 per cent of the shares of Manufacturers National and the Wellington Fund, 5.3 per cent (Chain Banking..., p. 225).

1 In 1963 part of the stock which belonged to Phillip Hill, Higginson was sold to the partners of the firm. The British retained chiefly the non-voting stock.
Composition of the Harriman-Newmont Mining Group

<table>
<thead>
<tr>
<th>Name of company</th>
<th>Total assets, million dollars</th>
<th>Share of control</th>
<th>Total controlled assets, million dollars</th>
<th>Other groups participating in control</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Banking</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Brown Bros., Harriman and Co.</td>
<td>301</td>
<td>1</td>
<td>301</td>
<td></td>
</tr>
<tr>
<td>Harriman, Ripley and Co.</td>
<td>7</td>
<td>2/3</td>
<td>5</td>
<td>Hill, Higginson</td>
</tr>
<tr>
<td>Mutual Life Insurance Co. of New York</td>
<td>2,918</td>
<td>1/2</td>
<td>1,459</td>
<td>Morgan Guaranty Trust</td>
</tr>
<tr>
<td><strong>Industry, Transport</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Union Pacific Ry.</td>
<td>1,643</td>
<td>2/3</td>
<td>1,095</td>
<td>Various New York groups</td>
</tr>
<tr>
<td>Newmont Mining.</td>
<td>175</td>
<td>2/3</td>
<td>117</td>
<td>&quot; &quot; &quot;</td>
</tr>
<tr>
<td>Continental Off.</td>
<td>1,241</td>
<td>1/3</td>
<td>414</td>
<td>Morgan Guaranty Trust</td>
</tr>
<tr>
<td>Phelps-Dodge.</td>
<td>446</td>
<td>1/3</td>
<td>149</td>
<td>Morgan Guaranty Trust, First National City Bank</td>
</tr>
<tr>
<td>North American Aviation.</td>
<td>663</td>
<td>1/3</td>
<td>221</td>
<td>Du Ponts and others</td>
</tr>
<tr>
<td>Anaconda Copper.</td>
<td>1,164</td>
<td>1/4</td>
<td>292</td>
<td>First National City Bank, Morgan Guaranty Trust</td>
</tr>
<tr>
<td>El Paso Natural Gas</td>
<td>1,529</td>
<td>1/4</td>
<td>382</td>
<td>Texas, First National City Bank</td>
</tr>
<tr>
<td>United Aircraft.</td>
<td>538</td>
<td>1/6</td>
<td>90</td>
<td>First National City Bank, Hartford</td>
</tr>
<tr>
<td>Illinois Central Railroad.</td>
<td>724</td>
<td>1/4</td>
<td>182</td>
<td>Chicago</td>
</tr>
<tr>
<td>Columbia Broadcasting System.</td>
<td>321</td>
<td>2/3</td>
<td>214</td>
<td>Other New York groups</td>
</tr>
<tr>
<td>Air Reduction.</td>
<td>316</td>
<td>1/6</td>
<td>53</td>
<td>&quot; &quot; &quot;</td>
</tr>
<tr>
<td>National Sugar Refining.</td>
<td>54</td>
<td>1/2</td>
<td>27</td>
<td>&quot; &quot; &quot;</td>
</tr>
<tr>
<td>Curtis Publishing.</td>
<td>128</td>
<td>1/3</td>
<td>43</td>
<td>Chicago</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>5,044</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>of which banking.</td>
<td>1,765</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>industry, transport</td>
<td>3,279</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

(at times three) interlocking directorships with the Mutual Life Insurance Co. of New York.

Some authors (including V. Perlo) unqualifyingly include Newmont Mining and Mutual Life Insurance in the Morgan group. More than 10 per cent of the shares of Newmont Mining belong to heirs of the company's founder W. B. Thomson, who half a century ago acted in alliance with J. P. Morgan and Co.¹ But today Newmont Mining has no single directorship link with Morgan banks. Analysing the list of directors in 1960, we find there A. Meyer, head of Lazard Frères, and Stuart F. Silloway, president of Harriman, Ripley. Now the latter became chief executive of this banking house after serving a quarter of century in Mutual Life Insurance under Lewis W. Douglas who also holds a directorship in Newmont Mining. Fred Searles, Jr., chairman of the board of Newmont Mining, was an assistant to Douglas² in the War Department during World War II. As for Mutual Life Insurance, Roland Harriman sits on its board. In 1961-62, Silloway and two directors of Mutual Life (Douglas and Artemus L. Gates) represented in Webb and Knapp, the largest New York real estate company, Hill, Higginson, the British house allied with the Harrimans. The Harrimans-Mutual Life-Newmont Mining union reveals the nature of the Harriman financial group as an alliance of several families and cliques of executives (one more family, the Paleys, owns more than 10 per cent of the stock of Columbia Broadcasting).

The ties of Dillon, Read and Co. with the First National City Bank group in the past were not so close as of the Harrimans. Dillon, Read services the National Cash Register Company and, strictly speaking, this company came into the sphere of the First National City Bank only after its reorganisation by Dillon men in the 1920s. Shearman and Sterling are the lawyers of Dillon, Read and of the investment

---


² In 1947, Douglas was appointed U.S. ambassador to Britain, succeeding W. Averell Harriman.

companies it controls—the United States and Foreign Securities Corporation and the American-South African Investment Company. But the nature of most of its ties shows that Dillon, Read is the centre of an independent group.

In the 1920s and 1930s Dillon, Read was one of the Wall Street investment banks which challenged the domination of the house of Morgan. By a series of reorganisations it sponsored Dillon, Read placed under its prevalent control a number of large corporations: National Cash Register, Goodyear Tire and Rubber, Chrysler (automobiles), Union Oil Co. of California, American and Foreign Power, Seaboard Airline Railroad, Frisco Railroad, etc. It became one of the biggest intermediaries in operations of U.S. monopolies in Western Europe (especially the Royal Dutch-Shell group, the German Siemens and others). Total assets of this group, had it survived in the same composition, would have now totalled no less than $4,000 million. But subsequently Dillon, Read lost prevalent influence in most of these companies.

The main reason, in our opinion, was the absence of a big commercial bank of its own. Empire Trust, subordinated to theDllons, is small. This enabled rivals to reduce the positions of Dillon, Read to participation in control, the placing of securities and so on. The banking house succeeded in preserving its positions only in Amerada Petroleum and small oil and gas companies in the South. In Amerada its sole “rival” is the Bank of England which administers 10.8 per cent of the stock on behalf of the British government, but does not participate in the affairs of the company. Dillon, Read is represented on the board by several of its men and it holds about 4 per cent of the stock through the U.S. and Foreign Securities, enjoying indisputable control in these conditions.

The Dilloins have been associated with the Union Oil Company since the 1920s. But after the war stronger positions in the company were gained by California groups and the

---

1 How seriously Dillon, Read was engaged at that time in building up its empire is seen from the fact that Walter Chrysler concluded a long-term contract for the purchase of tyres with Goodyear Tire and Rubber Co. The combination Chrysler-Goodyear-Dillon, Read was counterposed to two other similar combinations of those days: General Motors-U.S. Rubber (Du Ponts) and Ford-Firestone.

---

Composition of the Dillon, Read Group

<table>
<thead>
<tr>
<th>Name of company</th>
<th>Total assets, million dollars</th>
<th>Share of control</th>
<th>Total controlled assets, million dollars</th>
<th>Other groups participating in control</th>
</tr>
</thead>
<tbody>
<tr>
<td>Banking</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dillon, Read and Co.</td>
<td>3</td>
<td>1</td>
<td>3</td>
<td></td>
</tr>
<tr>
<td>Empire Trust</td>
<td>291</td>
<td>1</td>
<td>291</td>
<td></td>
</tr>
<tr>
<td>U.S. and Foreign Securities</td>
<td>109</td>
<td>1</td>
<td>109</td>
<td></td>
</tr>
<tr>
<td>American South African Investment</td>
<td>50</td>
<td>1</td>
<td>50</td>
<td></td>
</tr>
<tr>
<td>Industry</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>National Cash Register</td>
<td>453</td>
<td>1/3</td>
<td>151</td>
<td>First National City Bank</td>
</tr>
<tr>
<td>Colgate-Palmolive</td>
<td>392</td>
<td>1/3</td>
<td>131</td>
<td>Various groups</td>
</tr>
<tr>
<td>Union Oil Co. of California</td>
<td>797</td>
<td>1/4</td>
<td>199</td>
<td>California, Mellons, Reynolds</td>
</tr>
<tr>
<td>Reynolds Metals</td>
<td>1,002</td>
<td>1/5</td>
<td>200</td>
<td></td>
</tr>
<tr>
<td>Goodyear Tire and Rubber</td>
<td>1,186</td>
<td>1/6</td>
<td>198</td>
<td>Cleveland and others, British capital</td>
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<tr>
<td>Amerada Petroleum</td>
<td>233</td>
<td>1/2</td>
<td>116</td>
<td>Various groups</td>
</tr>
<tr>
<td>Louisiana Land and Exploration</td>
<td>71</td>
<td>3/4</td>
<td>53</td>
<td>Texas</td>
</tr>
<tr>
<td>Southwestern Public Service</td>
<td>238</td>
<td>3/4</td>
<td>201</td>
<td></td>
</tr>
</tbody>
</table>

Total: 1,712
of which
banks: 463
industry: 1,249

Mellons (in alliance with Phillips Petroleum through the First Boston Corporation). These groups have made public some facts from the activities of Dillon, Read: as the financial adviser of Union Oil the bankers made it buy tankers, oil pipelines and gasoline stations from small companies which they themselves controlled. As a result of the scandal Frederick H. Brandt, president of Dillon, Read, had to resign his directorship in Union Oil. But the former head of
the Manufacturers Trust Company, Horace C. Flanigan, remained a director of Union Oil. (His son Peter is a partner and big stockholder in both Dillon, Read and the companies which are controlled by it and which profited on sales to Union Oil.) In 1963, another crushing blow was struck at the positions of Dillon, Read in this company: 15 per cent of its stock was bought by Daniel K. Ludwig, a California multimillionaire shipowner.

7. Other New York Groups

The battle in Union Oil once again threw the spotlight on the hidden connections between Dillon, Read and Manufacturers Hanover Trust. The latter was set up in 1961 through the merger of two big New York commercial banks: Manufacturers Trust and the Hanover Bank. Almost all the companies which Dillon, Read controlled in the past or served as investment bankers were linked through personal union with one of these two institutions and used them as their head banks.

Manufacturers Trust was formed in the 1920s mostly from small banks which served a narrow circle of commercial and industrial companies in New York. In 1929, Goldman, Sachs and Lehman Bros. gained control of Manufacturers Trust. Its directorate was then replenished by representatives of many large companies in the food, canning, textile, oil and building industries and of trading companies. At that time the law firm of Simpson, Thatcher and Bartlett which served the Lehmans became the legal counsellor of the bank. It has preserved both these clients to this day.

Although direct representatives of Goldman, Sachs and Lehman Bros. had to resign from the bank’s directorate after new banking legislation came into force in the 1930s, leadership of Manufacturers Trust and its personal union remained practically unchanged for a long time. A partner of Simpson, Thatcher and Bartlett, who represented the Lehmans, and Sidney Weinberg who under the law could not serve on the bank’s directorate, were all the time on the bank’s Business Development Committee. Goldman, Sachs (jointly with Lazard Frères and others) headed syndicates which sold the bank’s stock.

Early in the 1930s, the Hanover Bank was ruled by a coalition of old New York families (Roosevelts, Vanderbilts, Iselins, de Forests) and new banking houses (Dillon, Read; Brown Bros.; White, Weld). The second part of the coalition withdrew in the mid-1930s and the first disappeared in the 1940s. Their places in the bank’s directorate were taken by executives of some large companies (Chrysler, Phelps-Dodge, Union Carbide, Continental Insurance, and others). Notwithstanding its fairly large trust department, the bank actually remained without a master. Its merger with the Manufacturers Trust was a natural development.

The biggest stockholders of the combined Manufacturers Hanover Trust Company are:

<table>
<thead>
<tr>
<th>Stockholder</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacturers Hanover Trust</td>
<td>8.10</td>
</tr>
<tr>
<td>Continental Insurance Co. (close personal union with this bank)</td>
<td>1.71</td>
</tr>
<tr>
<td>Niagara Fire Insurance Co. (controlled by Continental Insurance)</td>
<td>0.60</td>
</tr>
<tr>
<td>Bank directors</td>
<td>0.20</td>
</tr>
<tr>
<td>Helen Gibson (heiress of a former top executive of Manufacturers Trust)</td>
<td>0.38</td>
</tr>
</tbody>
</table>

| Total within group | 10.99 |

<table>
<thead>
<tr>
<th>Stockholder</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Morgan Guaranty Trust</td>
<td>1.32</td>
</tr>
<tr>
<td>Bankers Trust</td>
<td>0.99</td>
</tr>
<tr>
<td>First National City Bank of New York</td>
<td>1.01</td>
</tr>
<tr>
<td>Chase Manhattan Bank</td>
<td>0.64</td>
</tr>
</tbody>
</table>

Charles J. Stewart, who until then had been a partner of Lazard Frères for seven years, became the first chairman of the board of the Manufacturers Hanover Trust.

Possibly, the merger of Manufacturers Trust and Hanover was an attempt to combine the interests of several groups: Goldman, Sachs and Co., Lehman Bros., Lazard Frères, Dillon, Read, and some others. So far it is too early to say that such a coalition has crystallised, with the bank serving as its basis. We can only note that the Manufacturers Hanover Trust is the centre of an independent bank-industrial complex.

1 Chain Banking... pp. 135, 330.
Composition of the Manufacturers Hanover Trust Group

<table>
<thead>
<tr>
<th>Name of company</th>
<th>Total assets, million dollars</th>
<th>Share of control</th>
<th>Total controlled assets, million dollars</th>
<th>Other groups participating in control</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Banking</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Manufacturers Hanover Trust</td>
<td>6,532</td>
<td>1</td>
<td>6,532</td>
<td>—</td>
</tr>
<tr>
<td>Continental Insurance and the companies it controls (former America for Loyalty Group)</td>
<td>1,637</td>
<td>1</td>
<td>1,637</td>
<td>—</td>
</tr>
<tr>
<td>Electric Bond and Share</td>
<td>138</td>
<td>2/3</td>
<td>92</td>
<td>Other New York groups</td>
</tr>
<tr>
<td><strong>Industry, Construction, Trade</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>American and Foreign Power</td>
<td>793</td>
<td>2/3</td>
<td>529</td>
<td>Other New York groups</td>
</tr>
<tr>
<td>Union Carbide</td>
<td>1,792</td>
<td>1/2</td>
<td>896</td>
<td>Cleveland and others</td>
</tr>
<tr>
<td>Phelps-Dodge</td>
<td>446</td>
<td>1/3</td>
<td>149</td>
<td>First National City Bank, Harrimans</td>
</tr>
<tr>
<td>Colgate-Palmolive</td>
<td>392</td>
<td>1/3</td>
<td>131</td>
<td>Dillon, Read and others</td>
</tr>
<tr>
<td>Standard Brands</td>
<td>264</td>
<td>1/6</td>
<td>44</td>
<td>Morgan Guaranty Trust and others</td>
</tr>
<tr>
<td>Reynolds Metals</td>
<td>1,002</td>
<td>1/3</td>
<td>334</td>
<td>Reynolds and Dillon, Read</td>
</tr>
<tr>
<td>Chrysler</td>
<td>1,525</td>
<td>1/4</td>
<td>381</td>
<td>Cleveland and others</td>
</tr>
<tr>
<td>National Dairy</td>
<td>774</td>
<td>1/5</td>
<td>155</td>
<td>Varicus New York groups</td>
</tr>
<tr>
<td>Atlantic Refining</td>
<td>908</td>
<td>1/6</td>
<td>151</td>
<td>Morgan Guaranty Trust and others</td>
</tr>
<tr>
<td>J. P. Stevens</td>
<td>394</td>
<td>1/8</td>
<td>49</td>
<td>Morgan Guaranty Trust</td>
</tr>
<tr>
<td>Allied Stores</td>
<td>353</td>
<td>1/2</td>
<td>177</td>
<td>Lehman's</td>
</tr>
<tr>
<td>Paramount Pictures</td>
<td>153</td>
<td>1/2</td>
<td>77</td>
<td></td>
</tr>
<tr>
<td>George A. Fuller</td>
<td>35</td>
<td>1</td>
<td>35</td>
<td>Lehman's</td>
</tr>
<tr>
<td>Cluett, Peabody</td>
<td>112</td>
<td>1/2</td>
<td>56</td>
<td>Lehman's</td>
</tr>
</tbody>
</table>

Total: 12,238
of which
banking: 8,261
industry, etc.: 3,977

What are the prospects of a coalition between Lehman Bros., Goldman, Sachs and Co., Lazard Frères and others? The bank of the Lehman Bros. was founded at the end of the 19th century from a trading company in the South (the latter supported the slave-owners in the Civil War). Since then the Lehman family has owned 60 per cent of its capital. During the period of the Morgan dictatorship those Lehman financed the food industry and retail trade. Now they are equally active in the oil, aircraft, chemical, textile and other industries, in air transport, insurance and other spheres. Partners or officials of Lehman Bros. are directors in over 120 companies. In recent years this banking house, as a rule, has held first or second place in the U.S.A. in distributing securities of industrial companies (except competitive bids) by way of "private placements". From 1958 to 1961, the bank organised 36 mergers of different firms, including such important ones as General Dynamics and Material Services. Usually Lehman Bros. acts in coalition with other big banking houses.

Its alliance with Goldman, Sachs dates back to 1906. Prior to 1924, their security operations on the public market were undertaken only jointly. The community of interests was reinforced by daily meetings of Henry Goldman and Phillip
Lehman. This alliance was based on a combination of Lehman capital with the energetic activity of the Goldman, Sachs partners. Their traditional alliance in many spheres (trade, food industry, finance) has been preserved to this day. As a rule, security syndicates are organised jointly. There is also an exchange of personnel. The head of Goldman, Sachs and Co., Sidney Weinberg, advanced General Lucius Clay to top leadership of the Continental Can Company. The latter became a director of the Lehman Corporation, an investment institution, and at the beginning of 1963 a partner of Lehman Bros.

Another alliance—the Lehman Bros. and Lazard Frères—was established in the 1930s. The banking house of the Lazards (who came from France) was first set up in California and moved to New York at the beginning of the 20th century. The family which gave the bank its name has not been active in its affairs for a long time. Its present head, André Meyer, is one of the most influential figures on Wall Street not only because of his personal fortune (estimated at $30-40 million) but thanks to his outstanding financial abilities which attracted the capital of many representatives of the old and even the new plutocracy and made Lazard Frères the financial adviser of many large corporations. Although André Meyer acts in close contact with Robert Lehman, he is also close to the leaders of the Rockefeller group (David Rockefeller and John McCloy).

Lazard Frères is the financial trustee of Bell and Howell, a Chicago company whose chief executive is close to David Rockefeller and is a director of Chase Manhattan. Richard H. Mansfield, president of Lazard Frères, was an official of the Chase National Bank for 15 years and a leading executive of the Rockefeller Centre for 10 years. Albert J. Hettinger, Jr., a partner of Lazard Frères, is an adviser of the council for administering trust property of the Chemical Bank New York Trust.

Lazard Frères has regularly represented in the United States the interests of the French banks, and the financial interests of the French Government and the European Coal and Steel Community. Lazard Frères of Paris is one of the biggest stockholders of the Banque de Paris et des Pays-Bas. In 1960, when the latter opened its investment branch in New York, the Paris Bas Corporation, it was headed by Robert Craft, vice-president of Chase International (a branch of the Chase Manhattan Bank). This is natural because the directorate of Chase International includes André Meyer, George Woods (of the First Boston Corporation), John McCloy and David Rockefeller.

The union of Lazard Frères with the Rockefellers, Melons and other groups on the international arena (and also in the United States) places this banking house in a special position; on the other hand, it prevents the conversion of the Lehman–Weinberg–Meyer triangle into a financial group of the first order, equal in importance to the Morgan or Rockefeller groups.

A considerable part of this group is a monopoly association of retail merchants headed by the Lehmans and Goldman, Sachs. Hence, their natural gravitation towards light industry and cinema companies and towards big New York commercial banks whose resources are not fully taken up by serving heavy industry. These above all are the Manufacturers Hanover Trust and also the Irving Trust Company.

We have singled out into a separate financial group banks and companies headed by the law firm of Sullivan and Cromwell. The Dulles brothers were its chief partners in recent decades. Its relative independence is explained by the select, super-rich clientele from the ranks of the plutocracy, representation of the interests of the West European financial oligarchy in America and, lastly, the wealth and business operations of Sullivan and Cromwell itself.1 As far back as the end of the 19th century its partners participated in creating the Morgan and Rockefeller trusts and it itself organised and headed the American Cotton Oil Trust, the National Tube Company and other corporations.

In the banking sphere Sullivan and Cromwell, thanks to its extensive ties with Western Europe, relied chiefly on the Schröder bank and subsequently on the Lazards. In the 1930s it captured strong positions in the Bank of New York. Old ties with the Seligman banking house enabled the law firm to gain influence in a number of big investment companies and in Union Securities, an investment bank. At the end of

---

## Composition of the Lehman-Goldman, Sachs Group
*(with the participation of Lazard Frères)*

<table>
<thead>
<tr>
<th>Name of company</th>
<th>Total assets, million dollars</th>
<th>Share of control</th>
<th>Total controlled assets, million dollars</th>
<th>Other groups participating in control</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Banking</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lehman Bros.</td>
<td>29</td>
<td>1</td>
<td>29</td>
<td>—</td>
</tr>
<tr>
<td>Goldman, Sachs and Co.</td>
<td>16</td>
<td>1</td>
<td>16</td>
<td>—</td>
</tr>
<tr>
<td>Lazard Frères</td>
<td>18</td>
<td>1/2</td>
<td>9</td>
<td>—</td>
</tr>
<tr>
<td>Paris Bas Corp.</td>
<td>12</td>
<td>1/4</td>
<td>3 Chase Manhattan Bank, French bank</td>
<td>—</td>
</tr>
<tr>
<td>Lehman Corp.</td>
<td>314</td>
<td>1</td>
<td>314</td>
<td>—</td>
</tr>
<tr>
<td>1 William Street Fund</td>
<td>249</td>
<td>1</td>
<td>249</td>
<td>—</td>
</tr>
<tr>
<td><strong>General American Investors</strong></td>
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<td>1</td>
<td>30</td>
<td>—</td>
</tr>
<tr>
<td>Lazard Fund</td>
<td>101</td>
<td>1/2</td>
<td>50</td>
<td>—</td>
</tr>
<tr>
<td>Simpson, Thatcher and Bartlett</td>
<td>1</td>
<td></td>
<td>1</td>
<td>—</td>
</tr>
<tr>
<td><strong>Industry, Trade, Transport</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Federated Department Stores</td>
<td>426</td>
<td>1</td>
<td>426</td>
<td>—</td>
</tr>
<tr>
<td>Sperry Rand</td>
<td>873</td>
<td>1/2</td>
<td>437</td>
<td>Other New York groups</td>
</tr>
<tr>
<td><strong>American Metal Climax</strong></td>
<td>348</td>
<td>1/3</td>
<td>116</td>
<td>Sullivan and Cromwell, British capitalists</td>
</tr>
<tr>
<td><strong>General Foods</strong></td>
<td>602</td>
<td>1/2</td>
<td>301</td>
<td>Other New York groups</td>
</tr>
<tr>
<td>Continental Can</td>
<td>807</td>
<td>1/2</td>
<td>404</td>
<td>Morgan Guaranty Trust</td>
</tr>
<tr>
<td>General Dynamics</td>
<td>656</td>
<td>1/4</td>
<td>164</td>
<td>H. Crown and others</td>
</tr>
<tr>
<td>National Dairy</td>
<td>774</td>
<td>1/2</td>
<td>387</td>
<td>Various New York groups</td>
</tr>
<tr>
<td>Owens-Illinois Glass</td>
<td>529</td>
<td>1/4</td>
<td>132</td>
<td>First National City Bank, Toledo</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>5,889</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*Account was taken only of the participation of Lazard Frères in joint operations of the triangle but not of its separate actions. Nor were the special interests of the group in the Ford Motor Company considered.*

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The 1930s, the Dulles law firm, together with Buffalo financiers, participated in organising the Marine Midland Corporation; this bank holding company is headed by its place-men to this day. Utilising this broad banking basis, the heads of a number of industrial corporations created by Sullivan and Cromwell enjoy certain independence, which sets them apart from the placemen of other law firms. What we have here is not relative or full control by Sullivan and Cromwell, but a specific coalition of corporations created under...
### The Sullivan and Cromwell-Marine Midland Group

<table>
<thead>
<tr>
<th>Name of company</th>
<th>Total assets, million dollars</th>
<th>Share of control</th>
<th>Total controlled assets, million dollars</th>
<th>Other groups participating in control</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Banking</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sullivan and Cromwell</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bank of New York</td>
<td>776</td>
<td>1/2</td>
<td>388</td>
<td>Chase Manhattan Bank-Chemical Bank New York Trust</td>
</tr>
<tr>
<td>J. Henry Schröder Banking Corp.</td>
<td>144</td>
<td>1/3</td>
<td>48</td>
<td>Schröders, Stillmans-Rockefellers</td>
</tr>
<tr>
<td>Schröder Trust</td>
<td>88</td>
<td>1/3</td>
<td>29</td>
<td></td>
</tr>
<tr>
<td>J. and W. Seligman and Co.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tri-Continental Corp. and other investment companies managed by Seligman</td>
<td>825</td>
<td>1</td>
<td>825</td>
<td></td>
</tr>
<tr>
<td>Eastman, Dillon, Union Securities</td>
<td>30</td>
<td>1/3</td>
<td>10</td>
<td>Other interests</td>
</tr>
<tr>
<td>Marine Midland</td>
<td>3,300</td>
<td>1</td>
<td>3,300</td>
<td></td>
</tr>
<tr>
<td>Niagara Share</td>
<td>67</td>
<td>1</td>
<td>67</td>
<td></td>
</tr>
<tr>
<td>Investment companies managed with the participation of Sullivan and Cromwell</td>
<td>809</td>
<td>1</td>
<td>809</td>
<td></td>
</tr>
<tr>
<td>Allen and Co.</td>
<td>37</td>
<td>1/2</td>
<td>18</td>
<td>Other interests</td>
</tr>
<tr>
<td><strong>Industry</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>American Metal</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Climax</td>
<td>348</td>
<td>1/3</td>
<td>116</td>
<td>Lehman's and others</td>
</tr>
<tr>
<td>American Radiator</td>
<td>373</td>
<td>1/3</td>
<td>124</td>
<td>Morgan Guaranty Trust and others</td>
</tr>
<tr>
<td>American Motors</td>
<td>393</td>
<td>1/6</td>
<td>66</td>
<td>Various groups</td>
</tr>
<tr>
<td>Babcock and Wilcox</td>
<td>285</td>
<td>3/4</td>
<td>214</td>
<td></td>
</tr>
<tr>
<td>El Paso Natural Gas</td>
<td>1,529</td>
<td>1/5</td>
<td>306</td>
<td>Texas, Harriman's</td>
</tr>
<tr>
<td>Sperry Rand</td>
<td>873</td>
<td>1/2</td>
<td>436</td>
<td>Lehmans</td>
</tr>
<tr>
<td>F. W. Woolworth</td>
<td>756</td>
<td>1/3</td>
<td>252</td>
<td>Various groups</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td></td>
<td>8,948</td>
<td></td>
</tr>
<tr>
<td>of which</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Banking</td>
<td></td>
<td></td>
<td>5,494</td>
<td></td>
</tr>
<tr>
<td>Industry</td>
<td></td>
<td></td>
<td>3,454</td>
<td></td>
</tr>
</tbody>
</table>

it's guidance which we, for the sake of convenience, name after this law firm.

If some industrial company is not placed within a definite New York financial group, this does not mean that it is not controlled from New York. As regards some very large corporations we can speak only of the degree of joint control of several New York financial groups without singling out any of them as the main one. The group of companies where such joint New York control prevails over control of provincial groups includes 13 very large industrial, transport or trading monopolies with controlled assets of $11,300 million. This supplements the picture of the indisputable supremacy of the New York oligarchy in control over the economy of the United States.

### 8. Regional Financial Groups

Within the bounds of our study it is impossible to examine the regional groups in the same detail as those of New York. We shall limit ourselves to a list of the regional groups with brief comments.
The total assets controlled by all the regional groups are somewhat higher than the combined assets of the New York groups. But while in New York three of the largest groups account for the overwhelming part of their total financial power, the regional forces are divided among many groups which, moreover, do not stand in opposition to New York as a single whole. Some of them, on the contrary, are connected by allied relations with New York to a greater extent than with other regional groups.

**Mellons-First Boston Corp.** This is one of the few major groups which has not lost its distinctly expressed family character. The huge capital of the Mellons still includes big (though shrunken) blocks of stock in some large corporations; family representatives have for a long time been at the helm of some of their large companies. But even the Mellon group is no longer as monolithic as formerly. In the past, too, it was joined by some other families along coalition lines, for example, the Pitcairns (Pittsburgh Plate Glass) and the Heinzes. Now, however, a greater part is played by leaders of the First Boston Corporation who brought them participation in control over Phillips Petroleum and, consequently, the problem of co-ordinating its activity with Gulf Oil, the main Mellon oil trust. The First Boston Corporation became the head banker of the Kaisers, which created similar problems as regards Mellon-controlled aluminium and steel companies.

The Mellon National Bank and Trust, having turned at the end of the 1950s into the head banker of Martin-Marietta (guided missiles), began largely to control its affairs (with a certain participation of the Chase Manhattan Bank, which also has extensive interests in the aerospace industry). Companies of the Cleveland Humphrey-Hanna group have also become clients of the Mellon bank; their relationships could not be purely financial because both sides are deeply involved in the steel industry of one and the same or adjacent areas. Lastly, expansion of the sphere of interests of the Mellon family and its partners to Florida, the Bahamas, etc., introduces an entirely new trend in the activities of the main institutions of this group.

**Du Pont group.** Its weak spot has always been the absence of really big independent banking facilities. No Du Pont bank can lay claim to anything bigger than a local role.

### Eighteen U.S. Regional Financial Groups

<table>
<thead>
<tr>
<th>Name of group</th>
<th>Banking</th>
<th>Industry, transport, trade</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mellon's First Boston Corp.</td>
<td>3,363</td>
<td>12,211</td>
<td>15,574</td>
</tr>
<tr>
<td>Du Ponts</td>
<td>1,579</td>
<td>6,814</td>
<td>8,392</td>
</tr>
<tr>
<td>Boston</td>
<td>18,564</td>
<td>5,823</td>
<td>24,387</td>
</tr>
<tr>
<td>Cleveland</td>
<td>5,382</td>
<td>13,430</td>
<td>18,812</td>
</tr>
<tr>
<td>of which</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cyrus Eaton</td>
<td>1,233</td>
<td>3,882</td>
<td>5,115</td>
</tr>
<tr>
<td>Humphrey-Hanna</td>
<td>1,030</td>
<td>3,587</td>
<td>4,617</td>
</tr>
<tr>
<td>Combined group</td>
<td>3,119</td>
<td>5,961</td>
<td>9,080</td>
</tr>
<tr>
<td>Kirby group</td>
<td>3,949</td>
<td>2,769</td>
<td>6,718</td>
</tr>
<tr>
<td>Chicago</td>
<td>14,345</td>
<td>23,857</td>
<td>38,202</td>
</tr>
<tr>
<td>of which</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Crown-Hilton</td>
<td></td>
<td>1,129</td>
<td>1,129</td>
</tr>
<tr>
<td>Combined group</td>
<td>11,345</td>
<td>22,728</td>
<td>34,073</td>
</tr>
<tr>
<td>Texas</td>
<td>9,876</td>
<td>9,021</td>
<td>18,897</td>
</tr>
<tr>
<td>of which</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Combined group</td>
<td>8,008</td>
<td>8,893</td>
<td>16,901</td>
</tr>
<tr>
<td>Greatamerica</td>
<td>1,868</td>
<td>128</td>
<td>1,996</td>
</tr>
<tr>
<td>California</td>
<td>36,285</td>
<td>12,462</td>
<td>48,747</td>
</tr>
<tr>
<td>of which</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Giannini heirs</td>
<td>15,666</td>
<td>960</td>
<td>16,626</td>
</tr>
<tr>
<td>Western Bancorporation</td>
<td>7,992</td>
<td></td>
<td>7,992</td>
</tr>
<tr>
<td>Joint control of these two groups</td>
<td>428</td>
<td>3,992</td>
<td>4,420</td>
</tr>
<tr>
<td>Crocker-Wells Fargo-Security</td>
<td>12,269</td>
<td>7,450</td>
<td>19,719</td>
</tr>
<tr>
<td>Minneapolis-St. Paul</td>
<td>5,446</td>
<td>4,762</td>
<td>10,208</td>
</tr>
<tr>
<td>St. Louis</td>
<td>2,451</td>
<td>5,326</td>
<td>7,777</td>
</tr>
<tr>
<td>Hartford</td>
<td>13,787</td>
<td>380</td>
<td>14,167</td>
</tr>
<tr>
<td>Detroit</td>
<td>5,373</td>
<td>6,239</td>
<td>11,612</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>120,400</strong></td>
<td><strong>103,068</strong></td>
<td><strong>223,468</strong></td>
</tr>
</tbody>
</table>

Long-standing ties with the Chemical Bank New York Trust and with Morgan banks, far from strengthening the independence of the Du Pont financial group, weaken it. At
present, this group enjoys undoubted control over only one very large industrial monopoly—E.I. Du Pont de Nemours. In the case of aircraft and rubber companies it shares control with New York groups; moreover, the influence of the latter is undoubtedly greater.

The biggest blow at the group in recent years has been struck by a court decision obligating the Du Ponts and their chemical company to dispose of all their holdings of General Motors stock. The decision called for the sale of General Motors shares owned by E. I. Du Pont de Nemours, Christiana Securities, the directors and executives of the latter (that is, the Du Pont family and their placemen), the philanthropic Longwood Foundation and by members of the Du Pont family whose capital is administered by the Wilmington Trust Company. Personal union in any form between these companies and General Motors was prohibited. The stock of the automobile company was sold, through Morgan, Stanley. The court decision, however, signified neither expropriation nor confiscation. The Du Ponts and the companies they retain received colossal additional money capital, enabling them to gain control of many other companies. As a matter of fact the Du Ponts have captured new firms; these are chiefly small plants which utilise the latest scientific and technological achievements, are swiftly growing and, as a rule, are working on military contracts. Simultaneously, the Du Ponts are trying to reinforce their weakest point—their positions in banking. Francis L. Du Pont and Company, an investment brokerage house owned by them, bought up in 1963 all the assets of Allyn and Co., one of the largest Chicago investment banks, advancing to second place in the country for the scale of brokerage activity. At present the Du Ponts also hold about 7 per cent of the shares of the Mellon National Bank and Trust. This is considerably less than the Mellons (about 35 per cent). Possibly closer coalition between the two families and even the merger of the two financial groups into one is contemplated. On the other hand, in 1963 a representative of the Du Pont family was for the first time elected to the board of the Morgan Guaranty Trust.

Boston group. The enumeration of banks and companies of this group does not include all the enterprises controlled from Boston. We refer only to the main Boston group which represents an organic entity because of the general gravitation towards the First National Bank of Boston and other banking institutions allied with it.

The main strength of the Boston group lies in control over huge resources of loan capital. In this respect Boston exceeds any of the other 17 regional groups. In contrast to other regional groups, Boston is noted not only for developed commercial banking but also for insurance, investment companies and law firms. However, most of the Boston investment houses, which at one time had been very strong and influential, moved to New York early in the 20th century and lost their independence. The Lee, Higginson Corporation declined in the 1930s under the blows of the crisis and lost control over the First Boston Corporation. Paine, Webber, Jackson and Curtis, the only large bank of this kind surviving in Boston, is satisfied with its subordinate role and lays no claim to heading big syndicates.

But the Boston financial group nevertheless exists as an independent coalition of monopolists. The representation of Bostonians in New York banks does not signify that the latter control the Boston institutions. The controlling blocks of stock of all the biggest Boston commercial banks are held by Boston banking institutions themselves; representatives of these institutions also prevail in Boston insurance companies. The facts do not corroborate the claim that Boston banking monopolies are controlled from New York.

What is true is something else: Bostonians predominate only in a few of the country's largest industrial corporations; they confine themselves to participation in joint control and in many cases even give it up. The American Telephone and Telegraph Company is a good case in point. It was organised in Boston and up to World War I was controlled from there. New England's shareholders still account for about 12 per cent of the entire stock (in 1920, 55 per cent). This is smaller than in the area gravitating towards New York (48 per cent), but is still bigger than in any other area.1 The participation of Boston banks in joint control over A.T. and T. is beyond doubt.

The coalition of Boston monopolists is the most "coupon-

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clipping” in character among all the biggest U.S. financial
groups. This is associated with the historical distinctions of
Boston; the prevalence of merchant’s capital, the early ad-
ministering of inherited fortunes by banks, and divorce from
surrounding industry. The domination of the old “aristoc-
ratian” families, which made their fortunes as far back as the
mid-19th century, has been preserved to this day. These are
the Adamses (who head the Raytheon Company and are
represented in the Sheraton Corporation), the Cabots (who
singly rule Cabot Corporation, a chemical firm, one of the
biggest investment trusts, etc.), the Lowells (who head the
Boston Safe Deposit and Trust Company); and others. Some
archaic forms of alliance between these families have been
preserved like the board of trustees of Harvard University
which is called the headquarters of the old Boston oligarchy.

Boston tycoons seldom go beyond the bounds of usual com-
petition with New York groups, being fully satisfied with
the position of a junior partner. But the rapid development
of the war electronic industry in the Boston area, the ap-
pearance of new multimillionaires who are craving for
power and the growing influence of the caste of banker-
executives might spur on this group to extend its activities.

Cleveland groups. The unity of three family concerns in
Cleveland (the Eatons, Mathers and Hannas) is a thing of the past. The Mather family no longer heads the companies
it formerly dominated; Cleveland Cliffs Iron entered the
Eaton group and Pickands Mather and Co. plays a secondary
role in other Cleveland coalitions.

In the 1930s and 1940s, the Eaton group, after having been
severely hit by the crisis, joined in a bloc with another
group—Young-Kirby. Young, acting with the support of
Kirby (heir of a partner of F. W. Woolworth) settled down
in Cleveland in 1937 when he bought control of part of the
former railroad empire of the Van Sweringens.1 The Eaton
investment bank, Otis and Co., became the head bank of the
Young-Kirby group. In the mid-1950s Young, who
captured from the Morgans control of the New York Central
Railroad, moved to New York and control of the Chesapeake
and Ohio Railroad went to Eaton. This marked the revival

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1 The Van Sweringen brothers, who built up this empire in the
1920s, went bankrupt not without the “help” of their banker, J. P. Mor-
gan and Co.

of the Eaton group as an independent Cleveland monopoly
association which now controls assets of $5,000 million. Its
latest big acquisition (early in the 1960s) was the Baltimore
and Ohio Railroad, which Eaton succeeded in capturing
despite the frenzied resistance offered by Wall Street and the
Federal Government.

We consider that the Kirby group stands close to the
Cleveland Eaton group. After the suicide of Robert Young
early in 1958, a fierce struggle for control over the Young-
Kirby empire flared up between Young’s partner, the multi-
millionaire Kirby, and the Murchisons, Texan oil industrial-
ists. That empire includes Alleghany, a large holding
company; Investors Diversified Services, the biggest invest-
ment company in the United States; the New York Central
Railroad and partial control over another railway, the Mis-
souri Pacific. Control of this vast empire with assets of
$7,000 million changed hands several times. But Kirby re-
captured his positions at the end of 1963.

The Kirby empire continues to maintain definite contacts
with the Eaton group. This is explained by the previous long
alliance between Eaton and Young, community of interests
in the distribution of influence spheres in North-Eastern rail-
ways and common ownership of stock of the Baltimore and
Ohio Railroad. As long as the New York Central was under
temporary control of the Murchisons the group bought shares
of the Baltimore and Ohio to prevent Eaton from adding
this railroad to his empire. These attempts failed. But now,
the fact that Kirby holds 20 per cent of Baltimore and Ohio
stock, far from weakening, reinforces Eaton’s control. What
is important is that the Murchisons enjoyed the support of
powerful New York financial groups in their attempts to
rob Kirby of his empire. The ousting of the Murchisons from
the Alleghany Corporation was thus a victory for Cleveland
financiers and their ally Kirby over Wall Street.

The Eaton group is one of the few regional groups which
obstinately do not recognise New York’s financial domina-
tion and energetically fight against it. Otis and Co., the Eaton
investment bank, in the past refused to submit to the dicta-
torship of the house of Morgan and, together with Halsey
Stewart, a Chicago banking house, succeeded in getting a
law passed which introduced competitive bids for the sale
of securities of power and transport companies. In 1937, it
snatched literally from under the noses of Morgan, Stanley and Kuhn, Loeb the issue of Chesapeake and Ohio Railway bonds. At the end of the 1940s Wall Street had its revenge when the authorities forbade Otis and Co. to engage in investment banking.

The Humphrey-Hanna group acts as an ally of Wall Street in the struggle against Eaton. The name we use points to the family character of the group which unites the heirs to the large fortune of M. A. Hanna. The most prominent member of this group, George Humphrey, was Secretary of the Treasury in the Eisenhower Administration. In the past he organised the Consolidation Coal Company, whipping it together from coal mines belonging to the Mellons and Rockefellers. Since then the group's ties with the Mellons have become quite close. The latest acquisition of the Humphrey-Hanna group was control over Chrysler, which provides this group with a guaranteed market for its main output, steel. Another multimillionaire from Hanna's heirs, George H. Love, has been placed at the head of the Chrysler Corporation.

The Humphrey-Eaton rivalry goes back to the end of the 1920s. When he became Secretary of the Treasury Humphrey used his office to hound his rival by tightening the taxation screws. By the way, in 1962, Humphrey himself, his son and other members of the group were questioned by a Congressional committee which was investigating their abuse of government purchases of strategic raw materials.

Both groups also rely on different factions of the combined Cleveland group which in the last ten years has become a tangible factor owing to the reciprocal gravitation of large local banks and industrial companies which are neither in the Eaton nor in the Humphrey-Hanna group. M. A. Hanna Company\(^1\) is represented on the board of the National City Bank of Cleveland and up to 1965 owned 3.3 per cent of its stock. Eaton has a big block of shares in Cleveland Trust (owned by the influential and wealthy George Gund) and holds positions in Republic Steel, the biggest steel company in Cleveland founded in the 1920s with his active partici-

The Eaton-controlled Cleveland Electric Illuminating Company and the Sherwin-Williams Company are connected by personal union with several Cleveland bankers and industrialists.

The Cleveland groups have two weak spots. First, they are confined to commercial banks, which means that a local company in need of long-term credits usually cannot cover it locally. Second, notwithstanding the recent development of some new industries in the area, Cleveland's industrial specialisation (iron ore, steel, coal and railways) remains narrow. It is these sectors that have been stagnating in recent years, which unfavourably affects the position of Cleveland as a banking-industrial centre.

**Chicago groups.** Although Chicago has a number of independent trusts, their intertwining into one big combined group is beyond doubt. The largest Chicago industrial corporations, with rare exceptions, have interlocking directorships (moreover several) at least with two leading Chicago banks simultaneously. In most cases these are purely allied, coalition ties which are not based on reciprocal control. We can sooner speak of an alliance of everyone with everyone else.

In the Chicago oligarchy decisions on joint action are taken by a group of 15-20 leading businessmen. These include: the heads of the four biggest commercial banks; investment bankers Harold Stewart and William Blair (a relative of the McCormicks); Joseph L. Block, Charles Percy (in 1966 he was elected a U.S. Senator), Joe Bauer, George C. Palmer, and other heads of the biggest industrial and trading corporations. The old system of leadership, under which the "Directory" consisted only of multimillionaires (McCormicks, Swifts and Fields) and their trusted representatives like the banker James Russell Forgan, has been replaced by an association of relatively new multimillionaires and chief executives of banks and corporations.

The combined Chicago group has assets of $34,000 million, which greatly exceed those of any other regional group. The Chicago group has succeeded in wrestling from New York control over Montgomery Ward, a large trading company, and a number of railways. At the end of the 1920s, J. D. Rockefeller II succeeded in ousting Stewart, the recalcitrant president of Standard Oil of Indiana. But at the

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\(^1\) In 1965, it was decided to liquidate this company and turn over its assets to the Hanna Mining Company and the Consolidation Coal Company which are part of the Hanna-Humphrey group.
beginning of 1960s, prevailing positions in this oil trust undoubtedly were held by Chicago bankers and industrialists.

As a result of some shifts in the industrial development of the Mid-West, Chicago has eliminated its former narrow specialisation in the food industry and trade. Industry in the adjacent area became more diversified. But California, New England and some other regions have considerably outstripped Chicago in the scale of military contracts and growth rates of new industries.

The banking link of the Chicago group has also vulnerable spots. Investment banking is more developed than in Boston or Cleveland but it behaves almost as passively with regard to Wall Street. Even Halsey and Stewart which at one time acted in alliance with Otis and Co. has now reconciled itself to the dominance of the New York houses. In the insurance business Chicago greatly lags behind Boston and Hartford, not to mention New York. Investment companies and savings banks are little developed. As a result, total resources of loan capital controlled in Chicago are half of the assets of its industrial corporations. The assets of trust departments of Chicago banks are also relatively small.

All this compels leaders of the Chicago financial world to seek and maintain close ties with New York groups. The ties with the Chase Manhattan Bank-Chemical Bank New York Trust group are the strongest. The development of such ties is resisted by the centrifugal forces which brought about the rise of the combined Chicago group.

A centrifugal force is represented by the desire of some Chicago capitalists to break out beyond the bounds of their city and banks by building up broader empires. This is how the Crown-Hilton group originated. Some 30 years ago Henry Crown was an ordinary Chicago industrialist who relied on the First National Bank of Chicago. During the war he pooled his interests with Conrad N. Hilton, the organiser and chief owner of the largest hotel company in the U.S.A. This alliance brought Crown into the thick of New York real estate speculations. Subsequently, Crown captured, then lost control over General Dynamics, one of the biggest corporations in the war industry. But Crown and Hilton lost firm ties with Chicago banks and are now outside the main Chicago group.

Texas groups. The combined Texas financial group was formed in the 1950s as a coalition of several local multimillionaires who made their fortune on oil, hotels and stock-raising; local banks which grew thanks to the accumulation of huge free money capital and the swiftly developing oil, gas and war industries; lastly, several big local companies which Wall Street tycoons had not as yet placed under their control.

Organisationally, this group remains amorphous. The millionaires, whose wealth is one of its bases, sit in bank directorates as heads of autonomous duchies little connected with each other. Only in some cases is there a coalescence of the capital of these millionaires with the capital of several local banks simultaneously. Thus, L. F. Corrigan owns 2.2 per cent of the shares of the First National Bank in Dallas and sits on its board and 22.8 per cent of the stock of the Mercantile National Bank (Dallas) in which he is not represented. The philanthropic R. A. Welch Fund in Houston owns 5.4 per cent of the shares of the Bank of Southwest and 3.3 per cent of the Texas National Bank. The philanthropic foundation of another millionaire, M. D. Anderson, holds 2.8 per cent of the shares of the First City National Bank (Houston) and 8.8 per cent, of the Bank of Southwest. The Browns, Abercrombies, Waggoners and other families hold big blocks of shares in different banks. There is also the following binding element—insurance companies of this group own blocks of shares in all its commercial banks.¹

There are many vulnerable spots in the banking and industrial basis of the Texas group. Investment banks are conspicuous by their absence; commercial banks play no essential part outside the South-Eastern states; insurance companies are small and other forms of banking institutions are undeveloped. That is why the Texas group is compelled to turn constantly for financing to New York and Chicago. The industrial basis is quite one-sided. Gas and oil pipelines account for almost three-fourths of the assets of the big companies in the group. The main part of the oil industry is controlled from the outside. Engineering and the manufacturing industry as a whole are poorly developed. All this taken together, plus the loose organisation of the group, determine the nature of its relations with Wall Street. If a

¹ Chain Banking., pp. 258-66.
struggle is waged it is unco-ordinated and Texans hardly resort to alliances with other financial groups.

The Murchisons seem to hold a position of their own. This group has been acting in alliance with the capital of S. Richardson who died in 1949. Its emergence on the national arena was linked with the assistance it rendered in the mid-1950s to the Young-Kirby group in winning control over the New York Central Railway. As a result of the defeat inflicted on the Morgan group the Murchisons and Richardson bought big blocks of stock in Young companies—Alleghany, Investors Diversified Services, New York Central and Missouri-Pacific. After the suicide of Young the relationship was upset. In 1961, the Murchisons wrested from Kirby control of the Investors Diversified Services and in 1962 sold it to B. Gamble, a Minneapolis financier. In 1963, Kirby regained control of this company (see the Cleveland groups).

In this struggle the Murchisons were associated with Goldman, Sachs and, through the latter, with more powerful Wall Street forces. They agreed to the merger of New York Central with the Wall-Street controlled Pennsylvania Railroad. This attempt was foiled: Kirby recaptured control over New York Central, while the Department of Justice prohibited the merger with Pennsylvania Railroad. This is how New York financiers, exploiting Texas millionaires, almost succeeded in breaking up the Young-Kirby group which challenged Wall Street in the mid-1950s. After withdrawing from the Kirby empire, the Murchisons remained merely a kind of sub-group in the combined Texas group.

Another Texas group has appeared on the scene recently. In 1962, several insurance companies controlled by Troy Post were united into one concern, the Greatamerica Corporation. Post also takes part in controlling Ling-Tempco-Vought, a war industrial company. At the end of 1962, Greatamerica bought most of the stock of the First Western, a California bank. Leaders of several companies of the Los Angeles area were placed on the board of the latter. Total assets of the new group exceed $2,000 million. For the first time it linked the banking monopolies of Texas and California. The board of directors of Greatamerica includes partners of Goldman, Sachs and the Lehman Bros., who serve Getty, Halliburton, the Murchisons and other Texas and California oil industrialists.

New York bankers, however, can also prevent an alliance of regional monopolists which might be dangerous for them. The perfidious tactic of these bankers was clearly displayed in the scandalous story of another millionaire from Texas and California—Howard Hughes. The latter held 78 per cent of the stock of Transworld Airlines, one of the biggest in the country. The company owed considerable sums to New York banks and insurance companies. A united front of the creditors, headed by Irving Trust, Dillon, Read and Metropolitan Life, succeeded (in 1960) in wresting control of Transworld Airlines from Hughes and in handing over the right to vote his stock to trustees appointed by Wall Street.

New York financial groups readily form a united front if it is necessary to force a recalcitrant outside multimillionaire to toe the line. But regional groups very seldom and timidly form alliances to resist New York.

California groups. Amadeo P. Giannini, the founder of the biggest California group, died in 1949 and his son Mario in 1952. Their estate did not include even 0.01 per cent of the stock of the Bank of America. But the bank is still in the hands of a group of Giannini's colleagues whom we shall conventionally call his "heirs". Their control is based on the big scattering of the stock.

In the mid-1950s the Bank of America was separated from the Transamerica Corporation which at one time was the holding company for the entire Giannini group. Neither the Bank of America nor Transamerica own each other's shares; they are also forbidden to have interlocking directors.

After the death of Mario Giannini, the Transamerica Corporation was headed by Frank N. Belgrano, Jr., who refused to toe the line of the Bank of America and proclaimed himself Giannini's successor. A struggle between the two factions broke out. Belgrano decided to create his own banking empire, standing in opposition to the Bank of America, but he failed. At the end of the 1950s, the commercial banks controlled by Transamerica were handed over to another holding company, Firstamerica, and Belgrano lost control. The conflict between Transamerica and the Bank of America is now no longer as keen. Transamerica owns only a few insurance companies and companies financing installment sales. Even if there is close contact between Giannini's former
While the battle for Giannini's "legacy" raged, another California group, headed by the Crocker Anglo-National and Wells Fargo banks in San Francisco and the Security First National Bank in Los Angeles, continued swiftly to gain in size and strength. Today it exceeds all the other California groups for size of industrial assets and each one separately for total assets. An alliance of the San Francisco Crocker, Bechtels, Zellerbatches, Fleschhackers and other millionaires forms the basis of this group; there is understanding about a division of the spheres of influence between the banks of Northern and Southern California and control over two investment banks—Blyth and Dean Whitter. Most members of this group are closely associated with New York.

Some 25 years ago the most popular slogan of California monopolies was to get rid of Wall Street guardianship. In 1945, Amadeo P. Giannini said: "The West has all the money to finance whatever it wants to. We no longer have to go to New York for financing, and we are not at its mercy." But Giannini's heirs are much less consistent and embittered enemies of Wall Street. Partly as a result of this and partly owing to internal wrangling in the ranks of the California plutocracy, Wall Street has been able temporarily to gain the upper hand over its formidable rivals.

The Minneapolis-St. Paul group. In 1929-31, all the big banks of the twin cities were united in two holding companies: the Northwest Bancorporation and the First Bank Stock Corporation. This formed the basis for the subsequent rapprochement among local millionaires (Bells, MacMillans, Heffelfingers, Danielses, Pillsburys, McKnights, Bushes, Sweets and others) and their flour mills, grain trading, lumber and other companies. The establishment of their own banking facilities enabled them to eliminate financial dependence on Chicago and also to gain control of some railways. Local companies in the electronics and engineering industry arose after the war. The assets of the group have grown substantially, but so far its influence is little felt beyond the Mid-West.

St. Louis group. organisationally, the alliance of St. Louis bankers and industrialists dates back to 1936 when the Civic Progress, Inc. was set up to restore the role of St. Louis as

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1 See M. James, B. James, Biography of a Bank, p. 476.
under outside control, of which they got rid in the 1950s. A group of big General Motors stockholders appeared in Detroit (2.7 per cent of the shares). After the sale of General Motors stock by the Du Ponts this group became a big force which, relying on the caste of top executives in the corporation, is able to participate independently in control over General Motors. The same group of stockholders, particularly the Fishers, Ketterings and Mott, have bought big blocks of shares of banks in Detroit, Flint, and other cities. A number of large local industrial and commercial companies are also connected with these banks through stock ownership, personal union and regular financial service. Some of these companies are controlled by wealthy families, for instance: Dow Chemical (the Dow family), Barrows Corp. (the Barrows family), Wyandotte Chemicals (Fords—no relation to the automobile magnates), and S. S. Kresge.

An independent association of Detroit banking and industrial monopolists is only in the making so far. The orientation of the Ford Motor Company on New York, the subordination of Chrysler to the Humphrey-Hanna group and financial control of Morgan banks in General Motors hamper the consolidation of this new group. But strong mutual economic gravitation, for example, of Detroit and Cleveland, may turn this association into one of the most powerful in the Mid-West.

9. Composition of the Financial Oligarchy: a Recapitulation

In the first chapter we traced the general evolution of the finance-capitalist and his manager. This evolution inevitably leads to a division of the monopoly bourgeoisie into the millionaires and the top managers serving them. We ascertained the social origin of the managers and revealed their subordinate position in relation of the financial oligarchy proper. But the more detailed analysis of banking monopolies, the forms of finance capital and especially of the financial groups

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1 Chain Banking..., pp. 237-38.
in the United States enables us to add some features to the general set-up of the country's ruling top group.

To begin with, it is clear that economic power is concentrated not in the hands of an abstract finance-capitalist and an abstract manager, but in associations of finance capital. Leadership in these associations is exercised by definite combinations of millionaires and managers. Under such circumstances, an executive with a relatively small fortune of his own might head a financial group, while other men holding a subordinate position in the given group might be very rich people, at times even multimillionaires.

This millionaire-manager combination, seemingly paradoxical at first glance, assumes the most diverse concrete forms.

In the Morgan group, for example, during a certain period of time, neither the Morgan family nor the families of its partners have produced a man capable, without infringing their own financial interests, to lead the head bank of this group. That is why Henry Alexander, a professional top executive, was made president of the Morgan Guaranty Trust. Finance-capitalists who are in the leadership of this group had to treat him as an equal and in many cases follow his directives because it was he, and not they, who personified the supreme interests of the given group of tycoons.

The Kaiser concern offers another example. The Kaisers are multimillionaires who undoubtedly run all the affairs of the concern, are full dictators in "their own house", including their own corporate bureaucracy. But in financial affairs they for more than 10 years had to heed the opinion of the head of the First Boston Corporation, George Woods, whose fortune is a mere fraction of their own and who in social origin and source of income is a typical chief executive. Why? Because the Mellons and, indirectly also the Rockefeller's and Boston millionaires, have entrusted Woods with managing one of the largest U.S. investment banks.

From time to time a similar situation might arise in any financial group. Most of these groups are alliances of many banks, corporations and wealthy families. Some of them, naturally, hold a leading place and others are in a subordinate position. Originally, this is determined by the capital of the respective families, banks or companies. If, however, the spokesman of big capital is not the owner himself, but his trusted agent, his manager vested with full powers, there is no reason why the finance-capitalists of this group should refuse to obey him. The same holds true of a set of managers. As far as the people are concerned, it actually makes no difference to them whether the multimillionaire is at the helm or hired executives.

This is not a managerial revolution, and for many reasons. A manager may head a financial group today only if there is no suitable candidate from among the plutocracy itself. Here an analogy with a medieval monarchy can be drawn. If the throne was occupied by a nitwit or an infant, regents ruled the state. The same is true of the financial oligarchy. If the families heading a financial group do not produce a leader from their own midst, the group is ruled by "regents", that is, chief executives.

But the position of the regents is always temporary. Henry Alexander, an executive, was managing the head Morgan bank. But breathing down his neck was Thomas Gates, a rich Morgan partner who had gone through a long political and economic school. The offspring of other Morgan families are also "carefully reared". When Henry Ford I died, Harry H. Bennett, the chief of Ford's private police who ruled in the last years of his master's life, became "regent". But no sooner had Henry Ford II matured than Bennett had to give up the helm.

The National City Bank, in our opinion, furnishes a classical example. From the early 1920s and up to the end of the 1950s, no Stillman-Rockefeller ran the bank. Regents alternated—Vanderlip, Mitchell, Rentschler and Shepard. This was the period when one set of executives after another ruled both the bank and the group, and the millionaires obeyed them. But then James Stillman Rockefeller came on the scene. He is generally considered a rather average bank-cr, but a capable executive. He was made to climb the banking ladder rung by rung so as to compensate by diligence for the lack of special talents. He enjoyed no advantage over his rivals, except the fact that his family, together with its allies, held a big block of the bank's shares. As soon as James Stillman Rockefeller finished his "schooling" he ascended the "throne" which had been vacant for 30 years. Something similar happened to David Rockefeller in the
Chase Manhattan Bank, and to many other representatives of the plutocracy.

All this, however, does not negate the fact that at times and in many cases managers and sets of managers enjoy colossal economic power. It rests on the same foundation as the power of the finance-capitalists—disposal of huge masses of fictitious capital, their own to some extent but mostly belonging to others. The possession of such power makes the top executives a part of the financial oligarchy, just as the multimillionaires are. Disposal of the capital of others and the use of economic power for profit-making obliterate the difference between them for a time, as long as the executives efficiently exercise this power.

It follows from the nature of the financial oligarchy’s economic power that its scale is by no means proportional to the size of the personal fortune of those who wield it. This holds true not only of top managers whose wealth is relatively small, but also of the part of the monopoly bourgeoisie which, though possessing millions, still lags far behind the Very Rich enumerated in Chapter II. The overwhelming majority of the U.S. monopoly bourgeoisie belongs to this category. These are active entrepreneurs whose personal enrichment for various reasons did not go beyond a definite level. Here, too, are the heirs of old fortunes which were broken up by natural causes.

The latter category belongs to the wealthiest part of the old aristocracy and is the bearer of its traditions. What is even more important, this part of the monopoly bourgeoisie has behind it the experience of several generations who participated in the economic and political dictatorship of the financial oligarchy.

This relatively large category enjoys certain advantages in the battle for economic power. Its most favoured professional spheres are law and investment banking. Since most leading firms of this kind are partnerships a scion of an “aristocratic” family becomes a partner in the business. Here he undergoes a dual schooling: he learns how to swell his personal fortune and also gets to know the inner workings of monopoly domination and control. The most capable of them make up the reserve from which major financial groups choose their leading personnel more readily than from the ranks of hired managers. These men who have a fortune of their own undoubtedly enjoy greater influence than the hired managers. Moreover, they also have “advantages” over some of the super-rich plutocrats.

Their main “advantage” is that they belong to the inner circle and have a natural striving for blocs and coalitions. The break-up of the fortunes of the old families did not result in their ousting from power because they resisted this tendency by pooling their forces. A new multimillionaire who amassed $500 million may wield incomparably less power than 50 men who own a capital of $10 million each but are welded together by an alliance to which everyone brings, in addition to his capital, connections accumulated over decades, collective monopoly experience, and so on. In brief, this financial “aristocracy”, thanks to its key position in the system of monopoly alliances, is able to dispose of incomparably bigger capital of others (for each million dollars of their own capital) than some of the members of the super-rich plutocracy.

In summing up it may be said that the economic power enjoyed by representatives of different segments of the monopoly bourgeoisie depends above all on the place they hold in the main financial groups. Or, to put it differently, the financial oligarchy, that is, the group of people whose economic power is based on the disposal of colossal masses of fictitious capital, is limited to that part of the monopoly bourgeoisie which holds a leading position in the main financial groups of the given country. The financial oligarchy draws its personnel from among the finance-capitalists proper, the financial aristocracy and the top managers. The weight of these three components is determined at each given moment by the concrete circumstances, but in all cases the might of all the three rests on the colossal capital of the multimillionaires, which is the foundation of all the main financial groups.

These groups are engaged in constant struggle. Each one intrinsically strives to dominate the other or at least to prevail in an alliance of equals. In the early period of U.S. monopoly capitalism these battles resulted in the establishment of the dictatorship of the Morgan financial group. But in present-day conditions when monopoly capitalism has grown into state-monopoly capitalism, when the role of the state in the capitalist economy has risen to an unusual extent,
battles between financial groups for economic power necessarily involve struggle for political power, for predominance in government institutions, and so on. The coalescence of the monopolies with the state furnishes a broad basis on which this struggle is fought in the United States and other capitalist countries.

In present-day conditions the capture of key positions in the central state machine affords the monopolies opportunities to dispose of colossal material and money resources. In brief, in a contemporary capitalist country state power becomes the highest expression of the economic power of the financial oligarchy.

Economic domination of the financial oligarchy is not tantamount to its political domination. But the latter without the former cannot be sufficiently strong, while the former without the latter shows that the coalescence of the monopolies and the state machine has not gone far enough. But even in the United States where both these prerequisites are available, where the machine of government has served the monopolies for decades and the domination of the latter in the economy is beyond doubt, the political power of the financial oligarchy is constantly threatened by restrictions on the part of other classes of society, and at times is actually restricted. But the general tendency is for the economic power of the financial oligarchy to be gradually transformed into political power.

Key positions in the economy of the United States, as shown earlier, are held by the financial oligarchy. Even if political power is not wielded by direct representatives of the oligarchy, the government can undertake serious economic measures either by going against the will of the financial oligarchy or by relying on it, or doing both simultaneously. If the government does not seek to abolish the foundations of the financial oligarchy’s economic power, the most it can do is temporarily to restrict some of the most adverse aspects of monopoly rule. This is how the Administration of Franklin D. Roosevelt acted in one of the periods it was in office. Its actions were supported by the petty bourgeoisie and the working class. But even that Administration could not employ coercive measures against a part of the financial oligarchy (for example, the Morgans) without resorting to the support of another part (for example, the Harrimans, Kennedys and even the Rockefellers). It did not strive to abolish the economic domination of the financial oligarchy and inevitably became the government of the financial oligarchy.

The economic power of the financial oligarchy rests, specifically, on commanding most of the country’s money capital. The bank assets controlled by the main financial groups (New York and regional) are twice as large as the annual budget of the U.S. Federal Government. Disposal of these money resources makes it possible to control the political machine: the bosses of the Republican and Democratic parties and government officials. This does not mean that 100 per cent of the country’s politicians are corrupt, but in this capitalist environment where the dollar is worshipped there are always people who succumb to corruption.

The command of money gives the financial oligarchy control over the mass media (press, radio, TV and so on), which in the United States are a business just as trade in tobacco or oil-lot speculation. By the way, the capital of most publishing houses and radio broadcasting stations is so small that it is quite simple for the monopoly giants to capture control over them. Even from a purely commercial angle it is impossible to publish a newspaper or operate a radio station at a profit without the sale of advertising space or time to advertisers, i.e., corporations. That is why the mass media in their majority are the mouthpieces of monopoly capital.

The bribing of political parties and possession of the propaganda machine give the financial oligarchy important facilities for capturing political power, but they do not guarantee it. These forms provide only indirect control over the state machine, and under state-monopoly capitalism this is not enough. In this age, owing to the coalescence of the state machine with the monopolies, the latter secure direct control by placing their men in most governmental agencies which have a bearing on the economy. These agencies become a component of the monopoly structure of the economy.

It would seem that now the political power of the financial oligarchy should be fully guaranteed, but this is not the case. The machine of a contemporary capitalist state is big and cumbersome. Capture of positions in one part does not ensure control over the entire mechanism. The financial oligarchy owns the propaganda machine, is able to bribe politicians and government officials in the centre and the periph-
ery, but it cannot bribe all the people who, notwithstanding all the restrictions of bourgeois “democracy”, elect the legislature. The people do not have much of a choice, but without formally abolishing democratic procedures, the financial oligarchy cannot fully guarantee itself against undesirable “accidents”.

The financial oligarchy has strong allies in the struggle for political power. These, first, are groups of bourgeois politicians, who, through demagoguery and play on national and racial antagonisms, control political power in their particular areas. These cliques frequently are supported by local middle capitalists and both of them turn the municipal budget into their common pork barrel. They accept bribes from the financial oligarchy, too, but they do not sell themselves outright because they look upon their position as a means of endlessly extracting money from all who are ready to pay them tribute. In the past, alliances of such local cliques succeeded in capturing central political power in the country (the last time under President Harding). Such governments, of course, did not express the political power of the financial oligarchy, although some monopolies gained huge advantages. Generally speaking, before state-monopoly capitalism developed in full measure, that is, prior to the 1930s, the U.S. financial oligarchy reconciled itself to such political regimes, preferring them to a government inclined towards bourgeois reformism. But now it tries to prevent this because the White House has become too important an economic and financial centre to allow government policy to be reduced to ordinary bribe-taking. However, these local cliques have sufficiently wide representation in U.S. Congress, not to speak of state legislatures and municipal councils.

Another ally is the local oligarchic cliques of Southern planters who in many cases coalesced with local bankers and with oil millionaires in oil-rich states. This is a far cry from a financial oligarchy in its “pure” form. In this alliance landowners, descendants of the slave-owners, prevail politically. The coalition of these cliques is so strong that it yields political power in the South and compels the financial oligarchy to share it with power in Congress and in the Administration.

The third ally is the Pentagon militarist clique. Most of its chiefs are not members of the financial oligarchy; their power is rooted in the disposal of colossal state property (armaments, in the first place) and command of a big army. As state-monopoly capitalism developed, this clique also began to exert influence on the economy through the system of military contracts. But appointment of direct representatives of the financial oligarchy to leading positions in the Department of Defence reduces its role. There are many ways and forms in which the monopolies bribe the top brass, and they are well known. But it would be an oversimplification to claim that the militarist clique is merely an obedient tool of the financial oligarchy. The last 20 years in the history of the Pentagon are filled with clashes between Wall Street placemen heading the Defence Department and top brass. The militarist clique brooks no interference in the sphere it regards as its own domain. Moreover, it wants itself to determine “its” part of the Federal budget. This makes it a natural ally not only of the war-industry monopolies, with which it is most of all linked in the business world, but also with the oligarchic cliques in Congress who are ready to support its claims on the principle “you scratch my back...”.

Thus, while economic rule in the United States is in the hands of the financial oligarchy, in the political field it relies on three extremely reactionary forces: local cliques of corrupted politicians, the oligarchy of Southern racist planters and the Pentagon militarist clique. In practice, this alliance resolves to the following arrangement: the financial oligarchy as the leading force gets control of the Federal Government, while each of its three allies receives the sphere it dominates as its “slice of the pie”.

In the struggle for political power the financial oligarchy does not act unitedly; its internal rivalry brings to the foreground now one now another group. To gain the opportunity to dispose of the government’s colossal resources it manoeuvres, entering into all kinds of blocs and coalitions. If promises and even real concessions to the petty bourgeois or the working class are needed in order to win supreme political power, the tycoons are ready to do so. This, for
example, is how the Kennedy Administration acted, relying on some Wall Street and other financial groups, on the one hand, and on part of the trade unions, farmers’ and other organisations, on the other.

Whatever the concrete combinations underlying the U.S. Government in recent decades, representatives of the financial oligarchy have invariably figured in them to a greater or lesser extent. The President must not necessarily be one of them. Roosevelt, a New York millionaire (of the old aristocracy); Truman, a mid-Western petty-bourgeois politician; General Eisenhower; Kennedy, son of one of the country’s biggest real estate owners; Johnson, a Texan professional politician who made a fortune of several million—such is the sufficiently variegated picture. But this kaleidoscope of changing chief executives merely conceals the continuity of the financial oligarchy’s political power. Voices dissatisfied with the Administration always resound from the ranks of the financial oligarchy. And this is natural, because a businessmen’s government cannot satisfy all the businessmen, the entire financial oligarchy. There are always enough members of the latter ready to shout that the Administration betrays their interests. This merely signifies that in power is one faction of the monopoly upper crust. The less it considers the interests of the “opposite” factions, the greater the number of the dissatisfied. But the class foundation of the political regime, the class trend of its policy, remains unchanged.

People, who themselves are not part of the financial oligarchy, are capable of pursuing a policy suiting it. Advancement to leading posts in a monopoly state does not automatically place a politician into the rank of the financial oligarchy. Neither Truman nor Eisenhower, nor Johnson belong there, but James Forrestal and Harriman, the Dulles brothers and George Humphrey, Thomas Gates, Robert Lovett and Lewis Douglas, Dillon, George Ball, George Woods definitely are part and parcel of the financial oligarchy.

Not every representative of Big Business in the government is a member of the financial oligarchy. This statement applies to men like McNamara, former president of Ford Motor, Dean Rusk, former president of the Rockefeller Foundation, and ex-Defence Secretaries George Wilson and Neil McElroy. Their position in the leadership of the main financial groups is not sufficiently high. Such people are valued as good executives who are needed in the government too.

The striving of the financial oligarchy for direct administration of the state is one of the most characteristic tendencies of American imperialism in recent decades. That the multimillionaires, who formerly looked upon Washington as a “second-rate city”, are now craving for political power, that members of the money “aristocracy” readily turn from a corporation lawyer or investment banker into a member of the Administration or an adviser to the President, is above all a result of the development of state-monopoly capitalism. But that is not the only thing. They are lured by the prospect of deciding the destinies of millions of people, dictating their will to other countries, the possibility of controlling nuclear weapons; they are also driven there by anxiety for the future of the social system which secures them wealth and a seat among the high and mighty.

Such is the logical consummation of the historical evolution of the capitalists in the age when the system of private property and exploitation is increasingly eroded by its general crisis.
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