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ECONOMIC POWER IN THE UNITED STATES

The phrase, "power structure," is a cliché. "Power" may be defined as capacity, lodged in someone, to cause others to act against their will or preference. Economic power has either or both of two meanings. One is the capacity to inflict economic disadvantage as means of enforcing the powerholder's will. The other is capacity to gain profit or advantage by imposing economic pressure on others.

During the twentieth century, it has been assumed that economic power dominated all other forms of power--political, military and so forth in the United States and indeed throughout the world. The conception was essentially Marxian. "Das Kapital," besides elaborating the theory that all wealth is created by labor, included a powerful brief for this thesis. According to Marx, property-owners individually and as a class held economic power sufficient to control governments--indeed governments were little more than executive committees of the property-owning class. The intent of this essay is to examine that thesis in the light of present conditions.

Marx writing a century ago observed a situation giving some basis for his view. In Europe, and in the United States, the greatest item of property and ownership was land. Ownership of land does give power to the owner. The French proverb "Mille terre sans seigneur" was and still is pragmatically accurate. Agriculture was the chief form of production. The nineteenth century saw tremendous thrust of a new form--the growth of factories commonly owned by individuals or families. The push of the Industrial Revolution carried these to greater size, and continuously required greater accumulations of capital. At turn of the century, it was probably true that property in the United States was personally owned, divided between landholding and plutocratic ownership of natural resources--steel, coal, oil, copper and so forth--plus the manufactures based on them. It was the era of Rockefeller, Carnegie, Frick, Vanderbilt, Hanna, DuPont, Armour and their allies--later, perhaps their masters--the owners of banks like J.P. Morgan and Jacob Schiff. The manufacturing, supply and finance community had been able to insert themselves between farm owners and their markets. Unquestionably they had economic power--and used it. One can not, therefore, dismiss Marx's analysis of his own time.

Nevertheless I am not convinced that there was a "ruling class" even then. We must revert to the point a bit later because it bears on the situation today. It is easy to make a list or qualification of men holding or likely to hold power of any kind--as C. Wright Mills recently did in a familiar book, "The Power Elite". It does not follow that the group so identified does get together, sets up institutions, vests power in men, and thereupon rules. Professor J. H. Meisel of the University of Michigan has published an excellent small study, "The Myth of the Ruling Class." The class theory takes for granted that the statistical abstraction called "a class" does get together, pools its resources, organizes and exerts power. Factually, had one sought to find such organization, even in the plutocracy of 1900, the task would have been troublesome.

All the same, it would have been quite possible, and certainly the relatively few individuals involved (Carnegie is an exception because he did not believe in inherited wealth) had common interests and indulged in most matters the same reaction.

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Revolutionary turn in this picture began to be apparent in the decade between 1920 and 1930--and from then on has reached avalanche proportions. An odd institution--the American corporation--unobtrusively fragmented and altered the position of “property.” This, I think, was the greatest force for change. Presently paralleling it came the organization of labor, reaching full force after 1934 as a result of the Wagner Labor Act--and that force, of course, did not rest on property at all. Finally, the Federal government, influenced by but still independent of both, emerged as organizing factor--as it now is. How this came about is matter of history, which we do not here have time to discuss.

The salient points are, first, the immense increase in manufacture and processing operations and corresponding decline of the significance of landholding and agriculture. Today, farmers constitute less than 9% of the population, and farm products--essential as they are--are only % of American production. Second was the concentration in large corporations of all production and sales, agriculture included.

Farming aside, the business of the United States today is carried on by about 1,200,000 enterprises, big and little, from the giant General Motors to the owner of the hot dog stand at the corner. More than 80% of the business is done by the 1700 corporations whose shares are listed on the New York Stock Exchange. 500 of these produce and sell a good 2/3ds of all non-agricultural production of the country. Irrespective of function, the 500 largest corporations unquestionably take top place in the American economic scene.

Included in them are a diversity of function: The American Telephone & Telegraph Company (with assets of perhaps $25 billion), big banks like the Bank of America ($18 billion) in finance, General Motors and others, overshadow the scene.

If one regards these corporations as the equivalent of the individuals – the Rockefellers, the Morgans, Armours and McCormicks, and the like--the Marxian picture would seem to be valid. It is not. The evolution of the American corporate system as by-product changed the entire property relationship, creating the problem we have today.

What occurred here? Briefly, the institution of the corporation as prime instrument of mass production ended the role of the personal owner. In 1900, J.D. Rockefeller 1st for all intents and purposes <u>was</u> Standard Oil. By 1920, no Rockefeller had comparable power. By 1960 the grandsons have position enabling them to express their ideas but no one of them can give an order or perhaps even exert appreciable influence. Forceful illustration occurred in 1928 when the Rockefeller family disliked the policies of the then President of Standard Oil of Indiana, Colonel Stewart. They requested his resignation; he refused and the Board of Directors backed him up. Nelson Rockefeller then undertook to mobilize proxies of enough stock to displace him. All the Rockefeller holdings aggregated less than 20% of its outstanding shares; they were forced to go into a proxy fight reputed to have cost about $1 million and only then were able to cast a majority of shareholder votes. In 1966, it is by no means sure they could win such a fight. What happened, of course, was that in these corporations for varying reasons the powerholdings of their founding fathers had been divided--among their heirs, by sale to pay inheritance taxes, for all manner of motives. The corporation had, as Marx prophesied, accumulated capital. Ownership had become dispersed among thousands or even millions of shareholders. A.T.&.T. has more than 3 millions. General Motors perhaps 3/4th of a million. And so on through the list. Personally owned--family owned--large corporations still exist like fading buffaloes on the Western Plains. Their number annually fails. Concentration of production in corporations gradually goes on--dispersion of ownership of their shares goes on even more rapidly. A decade ago it was estimated that there were about 6 million shareholders of corporations listed on the New York Stock Exchange. Last year the number was estimated to be about 22 million--direct or through mutual funds. The rate of increase seems to be rising.

A second separation of ownership from management--where the power obviously lies--arises from rapid increase of social funds--chiefly pension trusts. The assets of these now approximates $80 billion and about half are invested in shares of our corporations. Beneficiaries of these funds--present or future--number in the vicinity of 40 million--perhaps more. Pension funds automatically increase, as labor and employers annually contribute. A few years ago it was estimated that they would “level” out at a figure of around $125 billion. We are clear now that this was an underestimate. Twenty years hence, their assets are likely to be nearer $200 billion, of which roughly half will be--indeed must be--in the stocks of American companies. It is not an unfair estimate to say that directly as shareholders or indirectly as participants in mutual funds and pension trusts about 60 million Americans hold the final beneficial interest in the industrial system.

Whenever more than a few hundred--probably more than a few dozen--individuals own a property, they can act only by delegating management power to executive officers. Small numbers can still choose those officers and exert pressure on them. By the time the number reaches into tens of thousands, and unquestionably when it reaches to hundreds of thousands or even millions, no owner has anything to say about the running of the enterprise. Wise corporations have courteous public relations departments who will entertain him kindly if he asks questions or makes suggestions. As for having power--well, he has a vote. In practice, this means that he can sign a proxy to vote for the slate of directors and officers the management chooses to nominate. Once in a while there may be a contest--they average, according to Mr. J.H. Livingston of the “Philadelphia Inquirer” about once every thirty-three years. In really large corporations--say, A.T.&.T. or General Motors--no stockholder can do anything. The management nominates itself and its chosen successors; these are self-perpetuating power mechanisms. As corporations move from small to large, power is lodged in their administrative officers and can not be effectively challenged.

What occurred here was the splitting of property into two diverse elements. The physical productive assets--land, machinery, processes, research, sales and so forth--belonged--belong--to the corporation. It is made productive by an organization--the corporation's employees. Both respond to and produce goods and services, at direction of the managing officers. This is "active property."

Beneficial ownership rests in powerless stockholders. It gives to its holders expectation that they will receive dividends from time to time at the management's discretion, and that the market value of the property can be realized immediately on a stock exchange. In essence, the passive owner has a dividend plus capacity to turn the share into cash at a market quotation.

Contrast this with the property situation dealt with by Marx. Or, if you like, that of a farm owner today. Then the things as well as the value belong to the owner. He can work with them, produce with them, collect any profit. He is both manager of the enterprise and possessor of its fruit. Now the myriad owners can not and do not manage--the managers do not and can not own. Power is in the executive office and the hierarchy below it. Power is scattered throughout the country.

Further, this passive property is now the dominant form in which property is held. The Census Bureau from time to time makes up statistics as to wealth-holding in the United States. Personal property holdings are divided into "financial assets" and real estate or things. About 2/3ds of individual property consists of bank and savings accounts and insurance policies; and direct or indirect holdings of securities. Roughly half of their financial assets--a 3d of the total--consist of shares of stock. The other block of financial assets are, of course, debts either of corporations or of the Federal government. The remaining block--tangible property held by individuals--consists chiefly of homes and automobiles. Most of this is, as we say, "passive." It is not property used in production. Individually owned farms still constitute an appreciable item though even these are beginning to yield to the corporate form. What it all comes to is simply this. Productive property is owned by corporations; passive property by individuals. Individuals hold about 2/3ds of their property in the form of claims on corporations and about half of that is represented by shares of stock.

Parenthetically let me say that I do not consider distribution good. 1% of the population of the United States owns about 25% of all personally-owned property in the country. Probably 1/2 of 1% of the population--a million individuals--own about 20%. Income-wise the ratio is a bit better because we have income taxes. The top 1% collect about 15% of the personally received income--that is, around $85 billion-out of a total personally received income of perhaps $575 billion. This is not equitable--or socially just. But it does not suggest that the top 1%, because of its wealth, has dominant "economic power."

Where then did the "economic power" come to rest?

There was no central repository. The dominant power of finance--big banks and investment banking houses--died in the crash of 1933. When commercial banks and investment banks alike closed their doors, or were paralyzed, their capacity to dominate commercial corporations through the use of credit clearly ended. Financial power and its economic controls went direct to Washington.

Financial power never came back. The Federal Reserve Board acquired and now has residual power over commercial banks. It is over-statement to call banks merely substations of the Federal Reserve System.

They do have decision-making power. But in their larger aspects, they must abide by the policies of the Federal Reserve, exercised through its capacity to increase or decrease the supply of money, to increase or decrease the lending power of the banks, to influence or possibly determine what credit should be used for.

This was supplemented by a second and singularly important development. Increasingly, and especially since World War I corporations began to generate their own capital, chiefly by saving the depreciation allowed on their assets and by withholding from dividend distribution a part of their earnings. Between 80-90% of the capital of industrial corporations is internally generated--only the remaining fragment (though it may be important) is raised by selling bonds and a tinier fragment by occasionally selling stock. Only rarely is the banker or money lender able to influence the decision of corporations, especially the large ones.

Power over the manufacturing and producing corporation likewise presently passed to Washington, as part of the controls set up during World War II. When in 1946 wartime controls were relaxed, it reverted to the corporations themselves. But these though relatively few--the few hundred we have noted--did not and do not act together. Nor do they have common interests save in specific trades. Industry by industry there is a factor of common desire. In each industry there is normal desire to raise prices--but agreement on common action is prohibited under the Federal antitrust laws. The fabric industries commonly dislike price rises in raw material industries. The only common interest is a general desire to keep taxes low and to resist demands of organized labor. This is not enough to bring about coalescence of corporate managements and their development into a powerholding group. There are, in point of fact, a congeries of trade associations or organizations of industries. These do have powerful lobbies seeking or opposing legislation in Washington. Each is limited in its objective.

Individual corporations really do have a great measure of power--as will presently appear, subordinate to overall control by the Federal government. The General Electric Corporation has plants which furnish principal occupation of employment in some 19 cities. General Motors not only has widespread plants, but through its dealer systems exercises a country-wide influence--as does its two chief rivals, Ford and Chrysler. Purchase by the Big Three motor companies cover substantial portion of the country's production in many lines. Aggregated, their operations affect the degree of growth (or recession) of the entire American economy. In somewhat less measure, the same is true of the vast electronics and electric power companies. Yet the planning does not lie in any single hand. General Motors does not consult Ford; Ford does not consult Chrysler. Consolidated Edison does not coordinate its plans with those of Cleveland Edison or Southern California Edison. We can identify a comparatively small oligarchy of powerholders--the corporate managers. They do not jell into a ruling group. Even where they exert most influence--through their lobbies and Congress--one competent observer, Mr. Douglass Cater, formerly editor for "The Republic Magazine", and presently White House assistant to President Johnson, reports ("Power in Washington") that there are plenty of lobbying and corporate pressure groups and they have power. But he observes

> "it would be difficult to document the thesis that an elite really rules on matters of national consequence***the growth of giant organizations has not brought cumulatively greater power to the individuals who head them. On the contrary the best evidence is that power within each of these groupings has become less coherent.***The swaggering tycoons of business and labor unions no longer exist to dictate their demands to the subservient politicians.***Unless defined to include a congeries so diverse and transient as to lack meaning, [C. Wright] Mills' concept of a sinister

> and cynical power elite hardly seems applicable to decision-making in Washington today."[1]

Oddly in one respect such "elite" as does exist comes down on a side undreamed of in Marxian theory. Modern corporations live by mass production and mass selling. Distribution of wealth rather than concentration serves their needs. They want more customers. It is a fascinating fact that industry generally supports President Johnson's effort to abolish poverty. A prominent Washington business service hails his last recommendation--to raise Social Security benefits--as harbinger of better business to come. Since the corporate institution allows for accumulation of capital (in its enterprise) and distribution of wealth (through its shares) and expects larger income as the poor emerge into the middle class, their position is logical. Their only worry is lest taxation unduly cut into their profits.

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While all this was going on nevertheless, economic power was concentrated in Washington. In a recent volume, "The American Economic Republic," I traced the organization and increasing strength of the Federal government as it slowly moved--or was moved--into the picture. The first volume of a recent study, "The Emergent American Society," (Yale University 1967) traces the gradual but steady centralization of trade unions, trade and professional organizations, as the United States became one gigantic community with power of the segments of society concentrated at the national level. Contemporaneously a dominant Federal government evolved. It has already taken over vast areas of decision--formerly left either to the "invisible hand" of a free market or to the dominant corporations and trade organizations able to control the market. Nearly half American production is controlled as to the output, or price, by Federal or local agencies. All transport, by land or air, most agricultural products, electrical

[1] Cater, Douglass. <u>Power in Washington</u>. p. 247

energy, and natural gas, fall under price control. Oil, sugar, are controlled by regulation of the import-output and supply. Domestically, many metals are influenced through operation of government stockpiles. In finance, interest rates, we have had reason to know, are controlled by the Federal Reserve Board.

Even the remaining "free market" sector--steel and motors--is no longer sacrosanct. President Kennedy fought a winning battle against price rises in steel without benefit of statute. His Economic Advisory Council undertook to lay down guidelines controlling increase of price and wages generally. Statutory organization does not here exist; political battlefield does. The outcome is by no means certain but I am inclined to agree with the President of Inland Steel Company when he observed at the heighth of the controversy with President Kennedy that great corporations must accept the interest and point of view of the Federal government as a fact of life. For it must be remembered that in 1946, the Congress of the United States adopted a solemn declaration of policy and with it a vast grant of power to the President. It declares that it is "the policy and responsibility" of the Federal government to use all practical means

> "to coordinate and utilize all its plans, functions and resources for the purpose of creating and maintaining, in a matter calculated to foster and promote free competitive enterprise and the general welfare, conditions under which there will be offered useful employment opportunities, including self-employment, for those able, willing and seeking to work and to promote maximum employment production and purchasing power."[1]

Maximum employment, production and purchasing power takes in practically the entire ambit of economic activity. To this must be added an unstatutory, unspoken but generally accepted bit of unwritten law which the Federal Reserve Board presses to its heart. The objectives of the Employment Act of 1946 must be accomplished without, or at least with a minimum of, inflation.

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[1] 15 USCA 1021

Federal management of the national economy is today a fact--partly through specialized regulatory agencies, partly through combined fiscal monetary and credit policy. Examination would show that in greater or less degree, a fraction of the decision-making power as to credit supply, conditions of work, terms of employment, capacity to enter a market, has slowly been transferred. When Marx wrote, they were the aggregate of powers of individual or family owners. At the turn of the century, they were largely held by a few organizations that financed capital to the nascent industrial corporations. Today ownership of all these organizations rests in the hands of many millions who are, however, impotent to take decision. Organizationally power lies in the hands of some hundreds of hierarchies staffed by more or less professional administrators. From them in turn has been taken increasing blocks of decision-making power as the Federal government moves in to give effect to the policies indicated by President Roosevelt in 1932 and codified in the Employment Act of 1946.