GENERAL BANKRUPTCY

OR

SOCIALISM

FACTS AND FIGURES

Heretofore withheld from the public eye and showing the futility of any LEGISLATIVE "REFORM"

Having for its Object to Prevent PANICS AND THE FINAL COLLAPSE OF THE BANKING POWER

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From Competition to Concentration.

Before the advent of the prosperity period the economic ground had been well prepared for a further advance in capitalist concentration. In the five years' crisis that followed the panic of 1893, bankruptcy had cleared the way by driving out of business a vast number of inferior establishments, while new machinery and new processes had created in the leading branches of manufacture conditions of production which not only required considerable capital for successful operation, but precluded as suicidal all competition between powerful firms and corporations. In the still larger field of railway transportation the necessity of combined operation between trunk lines and their feeders was not less evident.

It were indeed logical to infer from these new conditions that, left to themselves, the vast establishments which are now trustified would, of necessity, have combined or amalgamated just as effectively, if not in the same financial trust form, as they did through the intervention of great financiers. But the financiers did not permit this golden opportunity of immense personal profit to escape their powerful grasp. Years before, when the concentration movement was still in its comparative infancy, they had taken hold of it and grafted upon it their own fraudulent method of trustification. Of this method a description will be given at its proper place in the following pages, together with a comprehensive statement of the banking operations which it involved and through which the present financial situation was brought about.

The Prosperity Period.

The revival of business took place in 1898. From that year dates the famous “prosperity period” which ended with the panic of 1907. As already stated above, capitalism entered that period with
machinery and processes of surpassing efficiency. The natural resources within its easy reach were of all kinds and inexhaustible. Let us further observe that the rate of wages had then fallen to an extremely low level.

Such conditions permitted at last of a large export of American manufactures in addition to the shipments of agricultural products, for which there had always been a great foreign demand. Hence the balance of trade in favor of the United States, which in 1895 had fallen to the puny figure of seventy-five millions of dollars, rose to six hundred and fifteen millions in 1898.

In the same year the war with Spain imparted an extraordinary activity to various great industries, such as iron and steel, arms and ammunition, military supplies, canned goods and meat packing, drugs and surgical instruments, etc.; all of which yielded handsome profits to contractors.

As a matter of course industrial activity imparts a corresponding motion to commerce and transportation. And let us add that as soon as the capitalist mill has thus resumed its special work of grinding human muscle and brain into profit the get-rich-quick spirit of speculation makes its appearance, hungry for a share in the blood-stained product.

Thus started on the prosperity road the capitalist machine went on increasing its speed in geometrical progression, regardless of limb or life. With the growth of wealth came a steadily enlarging demand for luxuries, many of which were not produced in this country and the high prices of which sensibly increased the sum of importation. Nevertheless, the balance of trade in the first four years remained well up in favor of the United States, showing a grand total of nearly 2,400 millions for the period 1898-1901, inclusive. In that same period the resources of the banking power were considerably increased by a flow of individual deposits which raised the total amount of such deposits from 5,100 millions in 1897 to 8,460 millions in 1901; also, by an addition of 240 millions to the “surplus” profits accumulated by the banks after paying dividends to their stockholders.

Let us further state that European capitalists, many of whom had, during the previous crisis, sold at a loss the American securities which they had bought in better times, were now in greater number and with larger money bags reinvesting in the stocks and bonds of the best paying American railroads and other well known American corporations. Even among the more cautious investors of France—enlightened at last by her greatest economists (who had themselves directly learned from our greatest financiers everything worth knowing concerning the solidity of our sky-scrappers)—there was a manifest disposition to risk a few hundred millions in American enterprise.
Evidently the conditions were ripe for the carrying out of great financial schemes, and in that year J. P. Morgan startled the world with his billion-dollar Iron and Steel Trust.

From this dazzling example of financial ability the concentration movement acquired an irresistible impetus in all the great industries, many of which were already well advanced on the road to trustification.

In finance as in war the command of transportation is a factor of immense power. He who owns or controls the avenues of exchange is practically the master of trade and consequently of industry also. Financiers of genius gave special attention to this department of the capitalist fabric.

To profit makers of all sizes in the mercantile class the banking operations through which the financiers were enabled to accomplish such wonders remained a puzzle beyond their capacity of penetration. Many of them who had previously denounced the trusts as the greatest evil of the age came to the conclusion that they were, after all, a blessing in disguise, for business was good and “all’s well that ends well.”

The occasional flurries in Wall Street were of no economic significance to them; nor, for that matter, to the professional speculators.

Vainly had Mr. Morgan, on one occasion, allowed these two words, “Undigested Securities,” to escape his discreet lips, thereby diagnosing from its first symptoms the mortal disease that would some day paralyze the heart of Capitalism, namely, its Banking Power. On and on went the soulless body, making hay while the sun shone, until a first stroke of paralysis stopped its motion on October 22, 1907.

**Economic Conditions in 1907.**

At the prices ruling in that year on the last markets the labor of this country was producing wealth at the annual rate of $36,000,000,000.

In all the great branches of industry the productive capacity was insufficient to meet the demand. Orders ran months ahead of possible delivery.

Since 1900 the increase of population, chiefly by the immigration of adults in the proportion of sixty men to forty women, had supplied the American capitalists with a vast army of workers, skilled and unskilled, in the best physical condition. As consumers of necessaries (including lodging and transportation) these accessions to our numbers constituted an additional source of trade and income
to their exploiters of all kinds, fully equalling one quarter of the domestic market of England or France.

Profits were enormous: not only because the rapidity with which commodities found a ready sale increased the efficiency of capital in alternately converting money into products and products into more money, but because of the constant increase of prices consequent upon the depreciation of gold.

The unprecedented vastness of the profits was apparent in many ways. It was physically visible to all in the form of such tangible wealth as new buildings, new mills, new mines, new bonanza farms, additional railroads and other means of transportation by land and water, etc. It could be inferred by the man of figures from the net incomes of great corporations, even though grossly understated in their published reports; also, from the National, State and Municipal expenditures, showing the size of one of the bones which the capitalist class could afford to throw to its political watch-dogs. It could be seen by the critical but powerless moralist in the royal displays of plutocrats, in the riotous living of lucky speculators and vulgar parvenus and, to be short, in the reckless waste of the productive forces of the nation by the criminal luxury of those who controlled its economic motion.

Lastly—and this is of most importance for our present purpose—the prodigious increase of wealth, despite the enormous waste, was reflected in the stupendous growth of the deposit account in the banks of the country.

The "Banking Power" in 1907.

Leaving aside the money deposited in the national banks by the United States Government, the "Individual Deposits" (by which expression is here meant the amount of money to the credit of private persons, firms and corporations in all the banks) had increased from $5,100,000,000 in 1897 to $13,100,000,000 in 1907, or at the average rate of $500,000,000 a year.

If to this vast amount of individual deposits be added the capital and surplus of all the banks, amounting to $3,300,000,000 and the $550,000,000 in notes issued by the national banks, we find that the "Banking Power" on June 30, 1907, was about $17,000,000,000, or equal to one-fifth of the total wealth of the country in 1900 (exclusive of the wearing apparel, furniture and kindred personal effects in daily use among the people).

To all appearances, then, there was accumulated in the banks a purchasing power vastly more than sufficient to meet the requirements of further industrial advances if applied to the employment of productive labor.
The Railroad Question in 1907.

The most pressing demand at that time was for increased facilities of transportation. According to James J. Hill, one billion dollars a year for six consecutive years was needed by the railroads for such improvements as would enable them to perform their function satisfactorily.

To the financial writers of the capitalist press, who never look below the surface of things as it appears from day to day, Mr. Hill's statement did not seem alarming. Rather the contrary. With thirteen billion dollars of deposits in the banks, to which would no doubt be added another billion every year if prosperity continued, there could be no danger in sight. Moreover, the railroads themselves derived from their traffic and investments an annual net income exceeding $1,000,000,000. In the face of such available resources, what was a mere little billion, but a drop in the bucket of that prosperity which a judicious expenditure of it would help to maintain?

Among the sorely tried shippers and receivers of goods there was rejoicing, and likewise among the overworked railroad employees, who fondly took Hill's words for a promise of continued employment at a less rate of physical exhaustion and a higher rate of wages.

Yet the best paying railroad corporations could get no money by the usual process of issuing bonds. The strongest of all, namely, the Pennsylvania, had to cross the Atlantic and tap the coffers of "pauper" France to get the $75,000,000 it needed to construct its great "terminal" in New York City.

Right here, the question will no doubt be asked: "Why did not the corporations themselves accumulate the enormous profits they were making in prosperous years and so use them gradually as to keep up with the growing transportation requirements of agriculture, mining, manufacturing and commerce?" Before proceeding further we must answer this question.

The Trustification Process as Applied to Railroads.

It must be admitted that a portion of their large net earnings had been spent in increasing their rolling stock and making other improvements which could not be delayed. And note here, in passing, that of this necessity they cunningly took advantage. By falsely charging to their pitch-dark account of "operating expenses" a disbursement which was in fact an increase of wealth productive of increased revenue, they made it publicly appear that the cost of running their lines was constantly increasing; that their profits grew less as their business grew larger and that their tariffs should consequently be raised instead of lowered.
But the larger portion of their profits had been used in financial operations, looking to the absorption of other roads, so that the absorbing companies had actually become stock holding trusts.

Of these trustifications the object most apparent to the public was suppression of competition. Behind them, however, lay unperceived a far grander scheme—the grandest financial scheme that ever issued from the brain of capitalism.

With its surplus profits, each absorbing corporation bought from time to time some of its own stock, until a controlling fraction of the part remaining in private hands was held by a small group of great capitalists.

At the same time the absorption of other companies was going on. It had to be done by purchasing their stock. The large disbursements of money which cash purchases would have necessitated were avoided by getting the stockholders of the absorbed companies to accept in payment bonds of the absorbing corporation or guaranteed by it.

These bonds might be "watered"; that is, the indebtedness which they represented might be greater than the actual value of the property for the purchase of which they had been issued. But the interest they bore was less than the profits which the property could be made to yield under the management of the absorbing corporation, so that they could easily be redeemed at maturity by means of a sinking fund gradually made up from a part of that profit.

Thus were in the first place formed "railway systems" composed of lines closely connected, operating in the same geographical area and interdependent for their traffic.

Each system had become the property of one corporation. This corporation was owned by the small group of capitalists who had remained its only stockholders, and whose combined investments amounted to an insignificant sum as compared to the cost and actual value of the system which had become their corporate property.

Then came, through a similar process but far more extensive, the merging of several "systems" into one large "group" of capitalists. Such, for instance, "the Vanderbilt group" and "the Pennsylvania group," who each own several great systems besides jointly owning the Reading system, thereby controlling in the aggregate more than 40 per cent. of the total railroad traffic of the United States and representing already in 1904, according to the joint estimates of the Interstate Commerce Commission and the census office, an actual commercial property value of $3,700,000,000. Also, the Harriman group, the Hill-Morgan group, the Gould group, and lastly a few others of much less magnitude, obviously destined to be absorbed.

It falls under the sense, that at every step in the process which we
have briefly described, the financiers who directed the negotiations and operations which it involved were duly compensated for their services. To the available cash and bonds which might not be deemed a sufficient reward, was added a liberal amount of watered stock, especially issued for that purpose; so that in the end the trustified corporations found themselves in possession of immense properties but with a very small amount of that kind of assets, which, in order to be available for improvements, must be readily convertible into money.

The Trustification Process as Applied to Industrial Corporations.

In the trustification of industries the bond feature of the financial process was less and the stock feature more prominent than in railroad concentration. But in both cases the principle was substantially the same,—namely, overcapitalization based on inflated valuations and prospective profits. Billions of non-existent wealth were created on sheets of paper derisively termed "securities" and offered to unsophisticated investors in exchange for good money.

And now comes the next question: "What had become of the "Banking Power" with its $13,000,000,000 of deposits, besides the $4,000,000,000 of capital and bank notes? Why did it not, with a comparatively small part of its immense resources, provide the railway and other trusts with the money they needed to maintain the prosperity that had made it so great and upon which it depended to become still greater?

Alas! Poor Banking Power!

Let us dissect it. The individual deposits belonged almost entirely to two distinct classes, namely, the plutocracy and the middle class.

The deposits of the class here termed plutocratic consisted in part of profits set aside by corporations for the payment of interest to their bond-holders and dividends to their stockholders; also, of sums required for the purchase of materials, payment of wages, etc. As upon the whole their receipts from all sources were exceeding their disbursements, their deposits were rather apt to increase than to decrease. Another part consisted of profits realized by individual capitalists engaged in financial operations and waiting for opportunities of further enrichment.

Deposits of this class were in the most powerful national banks among those located in the central reserve cities where each national bank is required by law to maintain a cash reserve of 25 per cent. of its total amount of deposits.*

* The "country banks" must maintain a reserve of 15 per cent., but are permitted to deposit two-fifths of it (or 9 per cent.) with banks of "reserve" or "central reserve" cities.
The middle class deposits were scattered throughout the country in banks of all kinds, national and state, including in the latter the loan and trust companies, one of which—the Knickerbocker—gave by its failure on October 22, 1907 the signal of the panic.

They came from all sorts of people: from the well-to-do and even wealthy down to the struggling. In the banks of the country towns they came from farmers and town merchants. In the cities they came for the most part from persons and firms engaged in the distributive trade and in the branches of manufacture which, like clothing, for instance, are still in the competitive stage; also, in less proportion from builders, contractors, landlords, speculators, gamblers and politicians.

During the prosperity period the middle class had obtained a new lease of life. The farmers and the retailers in particular, had made more profit than they could use in extending their respective operations. Few of them were inclined to risk a portion of that surplus profit in speculative investments. They deposited it in the banks to be "safely" kept there until they could see better what they might do with it.

In the savings banks, there were numerous deposits belonging to working people, but they aggregated a small fraction (probably less than 10 per cent.) of the total amount in banks of this kind, and may therefore be deemed a negligible quantity as compared with the grand total in all banks.

It is an established fact that the wealth of the plutocracy is considerably more than twice as great as the total wealth of the middle class. From this it would a priori seem logical to infer that the national bank deposits ought to show a much larger aggregate than the total deposits in all the other banks. The very reverse is true. At all times the national bank deposits are in the aggregate about one-half only of the total deposits in the other banks. In 1907, of the $13,000,000,000 on deposit in all the banks $4,300,000,000 was in the national banks and $8,800,000,000 in the other banks.

And for good reasons. In the first place, the great financiers and their respective groups of capitalists do not keep on hand or in banks more unproductive money than they may deem sufficient for the carrying out of such profitable schemes as opportunities may induce. They know that even so little as one billion concentrated in the hands of a few mighty financiers is infinitely more powerful than ten billions divided among numberless individuals unconscious of their common interest and therefore incapable of organization. Throughout the prosperity period they showed that they even knew much more than that. They knew that with this concentrated
power not only they could avail themselves of the resources of the great national banks, which they practically owned, but they could also, to a large extent, draw upon all the other banks in furtherance of their schemes of trustification, including the conversion into money of the watered bonds and stocks which they had received in payment of their services. And they did draw to the greatest possible extent.

In other words they made the individual money of the individualistic middle class accomplish the remarkable feat of advancing the collectivist capitalism through which the middle class itself is to get its death blow.

They did this in two ways, as follows:

1. By getting the banks to invest in "securities."
2. By using the speculators, who are to the financiers what the hunting dog is to the hunter. The Wall Street speculators and their kind throughout the country loaded themselves with stocks and bonds, upon which they borrowed from the banks most of the money required to pay for the purchase price thereof.

Stimulated by the growth of cities other speculators loaded themselves with real estate, which they paid for in part with money borrowed from the banks.

On June 30, 1907, the investments of the banks and their loans on stocks, bonds and real estate footed up as follows:

<table>
<thead>
<tr>
<th></th>
<th>National Banks</th>
<th>Other Banks</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investments</td>
<td>1,625</td>
<td>3,161</td>
<td>4,786</td>
</tr>
<tr>
<td>Loans on &quot;Securities&quot;</td>
<td>1,702</td>
<td>2,983</td>
<td>4,685</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>3,327</strong></td>
<td><strong>6,144</strong></td>
<td><strong>9,471</strong></td>
</tr>
</tbody>
</table>

Observe that the grand total of about 9,500,000,000 made up of investments in and loans upon speculative values which could not at any time find purchasers in any quantity relatively appreciable, represented 72 per cent. of the $13,100,000,000 on deposit, returnable to their individual owners on call or on short notices.

It is expected as a matter of course, that the banks will attend to the needs of industry and commerce in the regular course of production and distribution. It is, in fact, their only legitimate function. If at any time they cannot perform it a crisis inevitably follows.

This function is performed by discounting the notes given by purchasers to sellers of merchandise, also, by advancing money to reliable firms upon their own notes. Such discounts and loans are not secured by "collaterals". They are deemed sufficiently secured by the fact that they represent merchandise which will be resold and paid for by the time the notes shall have come to maturity. In 1907,
the total reported under this head was about 6,100,000,000, divided as follows:

<table>
<thead>
<tr>
<th>Type</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>National banks</td>
<td>$2,977,000,000</td>
</tr>
<tr>
<td>Other banks</td>
<td>$3,117,000,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$6,094,000,000</strong></td>
</tr>
</tbody>
</table>

From these figures it appears that the amount of banking resources engaged in speculation was greater by 3,371 millions (or 55 per cent.) than in commercial operations.

### Cash in Bank.

The reported account of cash in bank on June 30, 1907, stood as follows (in round millions of dollars):

<table>
<thead>
<tr>
<th>Type</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>National banks</td>
<td>$722,000,000</td>
</tr>
<tr>
<td>Other banks</td>
<td>$392,000,000</td>
</tr>
<tr>
<td><strong>Total all banks</strong></td>
<td><strong>$1,114,000,000</strong></td>
</tr>
</tbody>
</table>

#### Proportion of Cash to Individual Deposits in 1907.

Since the close of the Civil War the proportions of cash in bank to individual deposits had never been so low as in the two years, 1906 and 1907. In 1865 it was over 31 per cent. On the eve of the panic of 1873 it was 15.3. On the eve of the greater panic of 1893 it was 11.2. In 1906 it fell to 8.3 and practically remained at that low point until the panic of 1907, despite the heavy cash deposits made by the national government in the national banks.

On June 30, 1907, this proportion was as follows, in the national banks and in the other banks respectively:

<table>
<thead>
<tr>
<th>Type</th>
<th>Proportion</th>
<th>Bracket</th>
</tr>
</thead>
<tbody>
<tr>
<td>National banks</td>
<td>16.7% or $1 to $6.06</td>
<td></td>
</tr>
<tr>
<td>Other banks</td>
<td>4.4% or $1 to $22.40</td>
<td></td>
</tr>
<tr>
<td><strong>All banks</strong></td>
<td>8.5% or $1 to $11.76</td>
<td></td>
</tr>
</tbody>
</table>

### Collapse of the Banking Power.

The powerful banks which belonged to the mighty financiers and their respective groups of capitalists were of course in excellent condition. But they were comparatively few in number and tightly shut against all those that had become sick, by taking as investors or money-lenders, too great a dose of the water issued from the financial tank.

The inevitable crash was delayed, however, until the 22nd day of October, 1907, by the blind confidence of the depositors, chiefly of the middle class, who continued to pour money into the coffers of rotten banks, and, as already stated, by the cash deposits of the
Roosevelt, the Banks, and Speculation.

In 1901 Mr. Roosevelt unexpectedly became President of the United States. This was the great year of trustification. One of his first duties must have been to watch the process through which the schemes of the financiers were carried out. He was not without some banking knowledge. He had at his command the whole machinery of investigation placed by law under the direction of the Comptroller of the Currency. By looking at the figures already collected by that official during the McKinley administration he could, in fact, see at a glance that instead of promoting the legitimate operations of production and exchange the Banking Power was fast becoming a reckless engine of speculation, and that the government itself, by pouring public money from the National Treasury into the banks, was merely helping the speculators.

No doubt he was already well informed as to those matters before he entered the White House. At any rate it is an established fact that he was fully aware of what was going on in financial circles when he became President, but that, fearing to antagonize the financiers, he immediately set himself to the task of helping the banks in their vicious course instead of warning them of its dangers to the people, and demanding from Congress such legislation as might be necessary to prevent them from persisting in it.

Under McKinley's administration the deposits of the Treasury in the national banks had risen from 16½ millions in 1897 to 99 millions in 1901. Under Roosevelt's they rose to 147 millions in 1903 (which was the year of "undigested securities"), and to 180 millions on August 22, 1907 (or exactly two months before the panic). In December of the same year, while the panic was still raging, they reached the astounding figure of 260 millions.

So far was Roosevelt ready to come to the rescue of the speculators that he did not hesitate in ordering his Secretary of the Treasury to issue Panama bonds in advance of the time when the proceeds of this issue would be required, thereby endangering the ability of the government to meet its obligations. As this desperate scheme did not succeed, he "saved the country" by adding the Tennessee Coal and Iron Company to the diamond crown of Trustifier-the-Great.

After the Panic. (From 1907 to 1910.)

At first, the prices of commodities, and in particular those of necessaries, fell to some extent, but afforded still a very large margin
of profit to farmers, manufacturers and merchants. As there had been no overproduction but rather the contrary during the whole prosperity period, there was at the time of the panic no accumulated stock to be disposed of at a loss, and the production on a less scale than formerly had no difficulty in adjusting itself, in kind and quantity, to the respective purchasing power of the different classes into which capitalism had divided the population. Soon, therefore, the prices advanced, slowly at first, then sharply, until they are now in many kinds of merchandise higher even than they were in 1907.

Observe, in passing, that this was the first time in the history of capitalism that prices were constantly rising in the midst of a crisis.

Of course, the purchasing power of the plutocracy had not been reduced, and that class continued in its wasteful habits of luxury. Of the middle class the purchasing power had at first been somewhat affected, but with the recovery of prices its ability to consume was fully restored while its further ability to accumulate surplus profits, though less than formerly, became again an important factor.

The whole burden of the crisis fell upon the wage-working class. Its purchasing power, even at its highest, is always very small as compared with the total product of the country. It had been steadily reduced by the rise of prices in the later years of capitalist prosperity. It was now further reduced by enforced idleness.

With the revival of "confidence" and profits the individual deposits, which had fallen from 13,100 millions in 1907 to 12,784 millions in 1908, resumed their ascending movement. They rose to 14,025 millions in 1909 and to 15,283 millions in 1910, showing each year an increase of about 1,250 millions.

The Banking Situation in 1912.

Strengthened by such material evidences of blind confidence, did the banks become wiser?

NO!—The demon of speculation possessed their metallic souls.

In fact they had to persist in their vicious course in order to avert, not a "foolish panic" this time, but a tumbling down of the whole financial structure.

The individual deposits rose to the stupendous amount of 17,024 millions in 1912, showing an increase of 3,924 millions as compared with 1907.

The whole of that increase should have been used in restoring activity throughout the existing mechanism of production and exchange, thereby relieving from intense misery vast numbers of working people though by no means ridding them of their fetters in wage servitude.
But none of it was so used. All of it and more was used in speculation. The increase of speculative loans and investments from 1907 to 1912 was 4,090 millions, or 166 millions more than the above stated increase of deposits during the same period.

**On For "Reform"!**

In what precedes we have seen that at the height of the panic the pouring of public money into the great national banks had the desired effect. It had befooled the suspicious depositors into the belief that the banking fabric was sound to the core. It had even shamed them into a confession that by giving vent to their "groundless" fears they had started a "foolish panic".

The fact had been well concealed from them that the very same speculative operations which had brought about the failure of the Knickerbocker Trust and a few other institutions of credit had been the chief banking feature throughout the country.

They did not know that seventy-two per cent. of the enormous purchasing power represented by the total amount of individual deposits lay frozen and hanging over the bottomless pit of speculation, ready to fall out of sight under the pressure of any untoward event, economic or political, domestic or foreign, that might disturb the capitalistic atmosphere.

The financiers and their close associates among the directors of great national banks were, of course, fully aware of the magnitude of the crash which the situation threatened. It was of the highest importance to them that the depositors be kept in their blissful state of blind confidence until means had been devised to unload upon bona fide investors, chiefly foreign, a substantial amount of undigested securities.

With this end in view they "admitted" that the banking system was in sad need of "Reform"; not, of course, a reform in its use of the billions confided to its care, but a reform in the machinery through which it made these billions serve its own purposes; that is, a "Currency and Cash Reserve Reform." Whereupon a "Monetary Commission" was appointed by Congress, having for its object to make a "profound study" of that subject and finally submit a bill embodying the fruit of its labors.

It was well understood that this Commission would accept the plan already formulated by the most expert financial engineer in the Senate—namely, Mr. Aldrich—and that its real work would consist in securing the enthusiastic approbation of other financial experts throughout the country.

Mr. Aldrich knew that the performance of work of this character
would inevitably consume much time. As the necessity of providing against another panic was immediate, he introduced a bill intended to prevent such an occurrence and drawn upon lines that might facilitate the adoption of his plan in its complete form.

The Emergency Currency Act.

On Decoration Day, May 30, 1908, the Emergency Currency bill became law. Its plain object as we shall now see, was to convert into currency the "securities" which the banks and the speculators had bought of the financiers and could not sell to anybody.

Nothing is impossible in this age of chemistry. Gold is extracted from the waters of the ocean, why not from the water of trustification.

This act provides for the formation of national currency associations by any number of national banks not less than ten, with aggregate capital and surplus of not less than $5,000,000, and located in contiguous territory. With the approval of the Secretary of the Treasury any such association may issue to its members additional bank notes to an amount determined as follows:

First.—Ninety per cent. of the market value of the State, County and Municipal bonds which the national bank members of the Association to whom the bank notes are issued shall deposit as security.

Second.—Seventy-five per cent. of the cash value of such other securities as may be approved by the Secretary of the Treasury and likewise deposited with the association.

Third.—Seventy-five per cent. of the cash value of commercial paper similarly deposited.

But—and this "but" is of great significance—while there is no limit to the amount of bank notes that may be issued on the deposit of collaterals other than commercial paper, the issue on such paper is limited to 30 per cent. of the unimpaired capital and surplus of the bank that applies for additional circulation.

Suppose, for instance, a bank with $50,000 of capital and surplus and $400,000 of individual deposits. It might invest say $200,000 in "securities", deposit them with the association of which it is a member, and get $150,000 of additional bank notes. To the extent of the $200,000 thus invested this bank would contribute to the operations of the financiers and speculators interested in the corporations that had issued or were issuing these securities. But if, acting "conservatively", it confined itself to the discount of commercial paper and needed additional circulation to meet the growing requirements of industry and commerce within its geographical field, it could only get $15,000 of additional bank notes.

Under this act a number of associations have been formed in
various parts of the country and many more might be formed if the
danger of a panic became apparent.

While no call for emergency currency has yet been made by any
banks, a stock of it to the full legal amount of five hundred millions
is stored in the reserve vault of the Comptroller of the Currency,
ready to supply the demand for it.*

The Aldrich Plan.

Nearly four years elapsed before the Aldrich plan came before
Congress in the form given it by the Monetary Commission.

A grander scheme of plutocratic dominion had never been con-
ceived.

It placed the whole Banking Power of the United States in the
hands of that financial upperclass which, by driving it to the verge
of bankruptcy, had already made itself the absolute master of the
arteries of commerce and all the great industries.

The Commission's bill provided for the organization of a "Na-
tional Reserve Association", capitalized at $200,000,000 and located
at the seat of the national government.

The membership of this association was not limited to national
banks. All the state banks and loan and trust companies could also
be admitted, thus practically making one association of all the banks
in the country.

Each bank member was to contribute to the capital of the associa-
tion in proportion to its own capital.

The whole country was divided into fifteen districts, in each of
which a city was to be selected for the location of a branch of
the association.

The privilege now enjoyed by the national banks to issue bank
notes was to be withdrawn from them and transferred to the associa-
tion, whose notes were not to be fully secured by United States bonds,
but half secured by a gold reserve of 50 per cent.

The same percentage of gold reserve was to apply to the balances
due by the association to its member banks. The obvious purpose of
this provision was to concentrate in the National Association all the
funds which the banks cannot use in their respective field of opera-
tion and are now depositing in the strongest banks of the three
"Central Reserve" cities (New York, Chicago and St. Louis) which
must keep a lawful money reserve of 25 per cent., or in the forty-

*In the month of June of the present year 1913, while the European holders
of American securities were unloading them at a loss upon the New York Stock
Exchange, the New York banks declined the offer of the Secretary of the Treasury
to apply a piece of this emergency shinplaster to the wooden leg of Wall Street.
They evidently feared that their acceptance of it would precipitate the panic instead
of averting it.
seven “reserve” cities, which must also maintain a reserve of 25 per cent. but are permitted to deposit one-half of it (or 12½ per cent.) with approved agents in the three Central Reserve Cities.

It was also provided that the notes issued by the association would be legal tender to the same extent as those of the national government. The object here in view was the gradual replacement of government notes by bank notes, thus making the paper money system of the United States similar to that of the great European countries.

The most significant provision of the bill was reserved for the end of it. It was not, like the preceding clauses, a scheme of plutocratic reform. It was a scheme of capitalistic salvation. Senator Aldrich had fully realized that the Banking Power was fast sinking into the mire under the weight of its undigested securities. A reformed body is no better than an unreformed one when it is dead.

By the final clause of that document provision was made for the organization of American banks with branches abroad that would be the fiscal agents of the national government. Their special function would be to promote the interests of American commerce in foreign countries and, in particular, “to buy and sell American securities”; in other words to unload upon foreign capitalists a substantial portion of the enormous mass of watered stocks and bonds which the banks of this country could no longer carry.

The Pujo Committee and its “Money Trust”.

The Monetary Commission’s bill had been thoroughly advertised as the embodiment of the combined wisdom of all the financial experts of America and Europe. On the eve of its presentation to our national Solons a last blast of trumpet came from the Treasury Department. Said Secretary MacVeagh in his report: “It would be a vast disappointment to the country if anything should be permitted to obstruct or postpone consideration and action.”

Yet, what should not have been permitted actually permitted itself to happen. Somewhere in the wilds of Texas the monetary consciousness of the middle class awakened and the cry, “Money Trust”, startled the House.

The Pujo Committee was appointed to find the money trust. Its astute counsel, Mr. Untermeyer, upon whom devolved the task of conducting its proceedings, found very little that all sorts of people, even among the ignorant, did not already know in gross if not in detail. He was very careful to avoid finding what the people—and especially the working people—should have known and did not know.

He found, for instance, that Mr. Morgan, in co-operation with great private bankers and great national banks, had acted a decisive
part in the trustification of many railroads and industries, representing in the aggregate a capital of twenty-five billions of dollars. Without knowing Mr. Morgan’s exact size, everybody was aware of his gigantic stature as a trustifier.

But this large amount of capitalistic concentration effected by Mr. Morgan and his group of bankers did not of itself show the existence of a “money” trust. In the first place very little money is used in the course of such vast operations. Again, the banks do not keep more unproductive money in their vaults than is safely required to meet the ordinary demands for actual cash in normal times. Nor do they keep unproductive to themselves the enormous amount of purchasing or credit power transferred to them (not in money, but in terms of money) by their depositors. Upon the use they make of those deposits depends, however, not only the safety of their depositors, but the maintenance of industrial and commercial activity—and here’s the rub.

Had Mr. Untermeyer directed the statistician of the Pujo Committee to analyze—as we did—the figures given in the printed reports of the Comptroller of the Currency, he would have found that the banks had lavished upon speculators the vast resources at their command, to an extent that threatened general bankruptcy. They had not cornered money; they had misappropriated the funds of their depositors. Between the trustification of money and the misappropriation of capital there is a wide difference.

Such a revelation, however, could not be thought of by the committee. The banks are republican in republican districts and democratic in democratic districts. The “statesmen” of both parties had been equally secretive in banking matters. The Pujo Committee was, in fact, an object of suspicion to the democratic and republican leaders alike. It was feared that in the course of its investigation a ray of light might inadvertently be cast on the financial situation, and Mr. Pujo thought it best to postpone its hearings until after election.

He then showed very forcibly that what he wanted was only to find a “money trust”. With this end in view he appealed to President Taft for an order to the Comptroller of the Currency, directing that official to supply the Committee with certain particular data which it required for the performance of its special task; namely, the names of the largest borrowers and the amounts borrowed by each of them. Mr. Taft refused to comply with this request, and Mr. Pujo could not prove that there was a money trust in favor of the great speculators, to the detriment of the smaller gamblers.

Exit the Pujo Committee. It were superfluous to state that its chairman was not re-elected to Congress.
Enters President Wilson.

The new President must have been fully aware of the financial situation when he entered the White House.

He has not to this day ventured on frankly letting the nation know what that situation is.*

In a message brimful of glittering generalities he imperatively demanded from Congress its immediate acceptance of the "reforms" contemplated in his administration bill. Why these reforms were necessary and how they would operate for the return of capitalistic prosperity he did not undertake to say. "Reform and don't delay" was the sum and substance of his sophomoric address.

Quick as a Congress may or may not desire to be, reform is slower and events are quicker. While this Congress was discussing the administration bill events were daily occurring that showed the futility of attempting to prop up the Banking Power with a thin stick of deceptive reform.

Alarming as the financial situation was when President Wilson delivered the message above referred to, it rapidly grew worse since then. The flow of individual deposits, which, in the fiscal year ending June 30, 1912, had still been fairly running into all kinds of banks, had been this year showing a marked tendency to decline in the national banks, while in the banks subject to the supervision of the State of New York there had been withdrawals to the enormous amount of $145,000,000 up to June 14, 1913.

Then came the bankruptcy of the great railway system extending from St. Louis to San Francisco. Not only did this put an end to the hope of our financiers that there might be a broader market in Europe for American securities but it precipitated upon Wall Street a mass of American bonds and stocks previously held by European investors.

Close upon that disaster came the forty-million-dollar failure of a great Pittsburg National bank. A typical "accident" this, and now more ominous than the suspension of the Knickerbocker Trust Co had been in 1907, for it is the first tangible effect of a condition which has been steadily expanding and intensifying since the last panic and may suddenly paralyze the whole Banking Power throughout the country.

* Mr. Wilson's Comptroller of the Currency has strictly followed the policy of his predecessors in delaying for six months the publication of the all-important figures that reveal the amount of loans to speculators. In his semi-annual summary statement of the condition of the national banks on June 4, 1913, he gave in a block the total amount of their "Loans and Discounts", but omitted the classification thereof into two items—namely, (1) "Loans on Securities"; (2) "Discounts of Commercial Paper and Loans (presumably commercial) without security." This classification will not appear until the end of 1913. Nor shall we until then get from him any information whatever concerning the banks other than national.
Futility of “Reform”.

Once more be it observed that all the so-called reforms which have been proposed since the panic of 1907 had only in view to extinguish with paper money any incipient fire that might otherwise cause a widespread conflagration. To that same scheme Mr. Wilson is perforce but vainly applying his inventive faculty. No one, indeed, could undertake to extinguish the fire that is smouldering beneath the whole financial surface and is from time to time, here and there, giving outward evidences of its growing intensity.

The cash reserve mechanism is of necessity to be reformed also, for it is an essential part of that scheme. It does not deserve a moment of serious consideration as a guarantee of security. In normal times it is actually superfluous and remains practically motionless. In emergencies it is instantly paralyzed.

Conclusion.

In the natural course of capitalist development the Banking Power obtained supreme command over the activities of the nation.

In that elevated position it lost all sense of economic responsibility, public duty and moral principle.

For the purpose of illicit gain it diverted the immense wealth in its keeping from the beneficent channels of production into the maleficent channels of speculation.

Its infamous treatment of the industrious class whose labor created all that wealth and all the machinery used in the production of it, will remain forever a blot on the records of industrial progress.

Through its directing agents in the railways, as in the mines, works, mills, factories, etc., under its control it has made the servitude of that class more and more intolerable, its existence more and more miserable, with a sole view to the increase of dividends and the rise of stocks.

Unscrupulous in all its methods, it has corrupted the public powers and made them the instruments of its despotism.

In its rough ride over the nation, it has, however, reached a point where it must fall under the weight of its iniquities.

Nothing can save it from the consequences of its misdeeds. Its collapse is inevitable.

Shall the people—the working people—allow themselves to be buried in the ruins of the banking structure?

In their own hands lie the means of their own salvation.

The last day of the Banking Power should be the last day of the Capitalist System and the first day of the Socialist Commonwealth.
### Amount of Resources engaged by the Banks in Speculative Loans and Investments, and Proportion thereof to Individual Deposits in 1907 and 1912

<table>
<thead>
<tr>
<th>Year</th>
<th>Loans on Bonds, Stocks and Real Estate</th>
<th>Investments in Bonds, Stocks and Real Estate</th>
<th>Circulation of National Banknotes</th>
<th>Capital, Surplus and Undivided Profits</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1907</td>
<td>$4,674,800,000</td>
<td>$4,782,700,000</td>
<td>$2,386,000,000</td>
<td>$1,235,900,000</td>
<td>$13,099,600,000</td>
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<tr>
<td>1912</td>
<td>$5,047,200,000</td>
<td>$4,417,900,000</td>
<td>$2,651,000,000</td>
<td>$1,482,700,000</td>
<td>$16,983,300,000</td>
</tr>
</tbody>
</table>

### Composition of the Banking Power in 1897, 1907, and 1912

<table>
<thead>
<tr>
<th>Year</th>
<th>Capital, Surplus and Undivided Profits</th>
<th>Circulation of National Banknotes</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1897</td>
<td>$1,725,000,000</td>
<td>$196,600,000</td>
<td>$1,921,600,000</td>
</tr>
<tr>
<td>1907</td>
<td>$3,335,800,000</td>
<td>$547,900,000</td>
<td>$3,883,700,000</td>
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<tr>
<td>1912</td>
<td>$4,176,900,000</td>
<td>$708,700,000</td>
<td>$4,885,600,000</td>
</tr>
</tbody>
</table>

### Proportion of Speculative Loans and Investments to Individual Deposits

<table>
<thead>
<tr>
<th>Year</th>
<th>Proportion to Individual Deposits</th>
</tr>
</thead>
<tbody>
<tr>
<td>1897</td>
<td>79.62 per cent.</td>
</tr>
<tr>
<td>1907</td>
<td>72.32 per cent.</td>
</tr>
<tr>
<td>1912</td>
<td>79.04 per cent.</td>
</tr>
</tbody>
</table>
The banking situation in 1912 as compared with 1907.