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1932

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Recommended Citation

Willis, Hugh Evander, "Our Economic Problem: The Concentration of Wealth" (1932). *Articles by Maurer Faculty*. Paper 1268.
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OUR ECONOMIC PROBLEM: THE CONCENTRATION OF WEALTH

By HUGH E. WILLIS

How can we stop overproduction? How can we prevent unemployment? How can we cure this depression and prevent other depressions?

Our economic problem is the problem of how to change our capitalistic system so as to make it function harmoniously with law, religion, education, and other agencies whose purpose is the creation of an ideal social order. It is self-evident that our capitalistic system is not functioning as it should. Sufficient proof of this is found in our present period of depression, which is only one in a long series of periodical depressions; in unemployment; in bank failures; in the predicament of the farmers as a class; in the so-called overproduction; in our poverty, slums, and crime; and in the general failure of the specialized activities in our country to coöperate with each other. Of course, none of the other agencies for human progress are functioning perfectly, and their failure is partially responsible for some of the evils named above, but the problem discussed is essentially an economic problem, and the problem can be stated in terms of our present depression.

What is the cause of the present depression, and what is the cure for such depression? The answer of the writer is a simple one and can be given in a few words. The cause is the concentration of wealth in the United States, and the cure is the breaking up of this concentration of wealth. He does not contend that this is the sole cause nor the sole cure. There are other contributing causes, like our monetary system, our credit system, our stock exchange system, our banking system, our transportation system, our farm management, and the war with its after-effects, including reparations and debts. Each one of these and some other causes have had some effect in producing our present depression, and our great economic problem; but no one of them is the main cause, and without the main cause perhaps all of them together would not have caused this depression, or our economic problem. The primary cause of both of these is our concentration of wealth. The immediate cause of our depression, and of all of the evils incident to it, and of the failure to

solve our economic problem, of which the depression is only a consequence, is the great disparity between the producing power in the United States and the purchasing power. Producers are able to produce more than available consumers can consume. The great trouble with the farmers is said to be the overproduction of wheat and the overproduction of cotton, and the great trouble with the manufacturers is the overproduction of other commodities which come from our factories and manufacturing establishments. If we could find a foreign market for these commodities and produce perhaps the problem would be solved, but it begins to look as though the problem cannot be solved through foreign markets. Other great industrial nations are also looking for foreign markets, and more and more nations are going into the manufacturing and production business. If a domestic market of sufficient size could be found, the problem would be solved, but the only way to get a domestic market is to give the consumers in the United States sufficient purchasing power. The reason why they do not have this purchasing power at the present time is because of the concentration of wealth. Therefore, it is the thesis of this article that the primary cause of our great economic problem is the concentration of wealth, and the only way that this problem can be solved is by breaking up the concentration of wealth.

The writer comes to a discussion of this question with no prestige. He does not speak with a voice of authority. If he is able to convince anyone of the truth of his position it will be solely because of his argument. Perhaps he is overconfident in thinking that his argument may have the effect which he hopes it will have. The problem he is discussing is essentially a business man's problem. It is one which should be solved by business men who claim to have master minds—certainly so far as business is concerned—and are the great leaders in the business world. What have these master minds done toward the solution of the problem? Absolutely nothing. The situation is not one where they have a solution but have refused to give it to the world; but apparently the problem is one which these master minds are not able to solve. They have undertaken to speak on the subject, but when they have spoken their words have been such as to bring disillusionment to those who have been accustomed to look up to the great business leaders as idols and heroes. The head of one of our great steel industries gave as his solution for the problem the answer that as soon as the depression had got as bad as it could then the times would begin to improve. A repre-

representative of one of the greatest banking houses in the United States told us that as soon as the decline reached bottom then there would set in a movement upward. The great high priest of the business world has announced from time to time that prosperity is just around the corner. Similar statements have come from other great business leaders, both those connected with the government and those associated with private industry. If the great master minds of the business world can do no more than this towards solving the problem of our depression it may be suggested that everyone else should keep silent. Perhaps there is another alternative, and that is that the master minds have been overrated. At any rate, the writer consoles himself that he can make no greater spectacle of himself in discussing this problem than others have made of themselves. By speaking out instead of keeping silent, the writer at least will not get an undeserved reputation for wisdom which frequently in the United States is a consequence of keeping silent.

The plain truth of the matter is that we have not been living right socially. We have failed in social planning. We have allowed specialization to go on in industry until one class of people does one class of work and no other, and another class of people another class of work and no other, and so on, just as the cells in the human body have been specialized so that one class of cells does the work of bones, and another class of cells the work of muscles, and another class of cells the work of nerves, and another class of cells the work of the blood, etc., but without any social brain or spinal cord to coördinate the work of the various social classes as the physical brain and spinal cord coördinate the work of the human anatomy. The invention of new machines and means of production and the introduction of the methods of mass production have in recent times added further complications to the social specialization which has been going on, and have further helped to throw producing power and consuming power out of balance. It would seem that these things alone would have been enough to have taught us the necessity of some organization and superplanning. Yet, on the whole, our social life has remained as individualistic as it was in the days of the pioneer and the primitive farm, which was a unit complete in itself. Competition has continued the order of the day, in spite of the fact that the religion of the day is a religion of coöperation, and that reformers and teachers have been urging that further evolution of the human race depends upon the substitution of coöperation for competition. The system might work poorly. It might cause suffer-

ing and hardship. But so long as it continued to work the proponents of the system had little concern. Now that there is a threatened breakdown of the system those who would not think of reforming it because it ought to have been reformed are thinking of reforming it in order to save it from destruction.

Capitalists are at last beginning to realize that there is a danger that the capitalistic system may be the cause of its own destruction if something is not done about it. They have too long taken it for granted that the capitalistic system had always endured and would always endure. It is not a very difficult matter to think back to the time when there was no capitalistic system and forward to a time when it may cease to exist. The feudal system and other systems have arisen and fallen. No system is likely long to endure if it does not tend towards social progress. How many more periods of depression, each one worse than its predecessor, could our capitalistic system pass through and endure? Capitalists themselves are beginning to realize that their manufacturing plants are of little profit to them when they are lying idle, that their wealth does not produce an income for them when it cannot be invested, and that it is in vain for them to accumulate riches which they wish to devote to the production of more wealth if no one else has wealth enough to buy the things which they want to produce. The only result of such a system will be a crash in which all will go down together. Capitalists have talked very glibly in the past about less government in business. They did not ask for less government in business so long as government was giving a tariff for the protection of their manufacturing establishments, or donating rights of ways for railroads, or building concrete highways for the use of automobiles, or establishing moratoriums and other schemes for the aid of bankers. But whenever the government thought of doing anything for the laborers, or for the farmers, or for the consumers in general, the cry has always been, "Less government in business." Then they have wanted no more superplanning, but have wanted to go back to the primitive conditions of individualism and *laissez faire*. Now capitalists begin to see that it is just as important for the government to look after other classes as it is to look after the capitalists, and that some general organization and superplanning is necessary for the salvation of capitalism. If such a change in our governmental organization is not made, capitalism is doomed. It will go the way of the feudal system and will be supplanted by some other system better calculated to succeed.

That our concentration of wealth is the primary cause of our economic problem and that the breaking up of this concentration of wealth would cure such problem is easily capable of proof. There is no problem about our being able to produce enough. The rich can produce. Our problem is a problem of not being able to consume enough. The rich cannot consume as much as they can produce. The farmers in our country are both a class of producers and a class of consumers. They have the capacity to consume a small part of their own products and a great deal of the products produced by others. Their purchasing power of the latter is estimated at twenty per cent of our total purchasing power. During our period of depression they have continued to produce, but they have not continued to consume. Nevertheless, it has been estimated that on the average every farm in the United States could at the present time spend \$3,000 which it is not now spending for things which are needed or could be used on the farm, in the home, or in other farm activities. But the farmers do not have this money to spend. If some way could be found to give them this money, probably the purchasing power of the farmers alone would be enough immediately to cure our present period of depression.

There are four men in the United States, the wealth of each one of whom is estimated to be as great as that of five million of the poorest people in the United States. Suppose that in some miraculous way the wealth of one of these billionaires should suddenly be transferred from him to these other five million people. The purchasing power of these five million people would be incomparably greater than the purchasing power of this one billionaire. Where he would buy a dozen suits of clothes and a hundred dresses, these five million people would buy five million suits of clothes and ten million dresses. Where he would own two palatial homes, they would own a million modest homes, and where he would buy three or four automobiles, they might buy a million automobiles. Probably this amount of wealth distributed among five million people would not be enough to cure our present depression, but if the wealth of our four richest billionaires were thus distributed it probably would be enough alone to cure our present depression. But there are other consumers with unsatisfied wants who would buy if they only had the money to buy.

When too many consumers are without purchasing power, producers are unable to find a market. As they are unable to find a market for their products, they have to stop production. As they

stop production they throw laborers out of work, and this only adds to the number of consumers who lack purchasing power. This process goes on until the slower purchasing process gradually takes up the accumulated goods and production can begin again. So long as depressions do not become too intense the capitalistic system can weather them and continue, but there is liable to come a time when the situation of the consuming class will be so critical that the depression period cannot be weathered. But even if this were not to happen, it would be better for producers and consumers alike to plan so as to prevent depressions and keep the orderly social process continually functioning.

Is it possible so to plan our social organization as to make it thus function? It is believed that it is. All that it will be necessary to do is to establish the proper balance between production and consumption. If we are to rely upon domestic markets, and for the purposes of this article it will be assumed that we shall have to rely upon them, the producing power of those who want to produce goods should be no greater than the purchasing power of those who want to consume goods. How can this be accomplished? By breaking up the present concentration of wealth in the hands of a few who for the most part are producers, and thereby distributing it into the hands of the many who for the most part are consumers.

How can this be done? The best way to answer this is to discover first how the present concentration of wealth came to pass. After having discovered how our concentration of wealth was caused, then we can resort to just the opposite remedies to undo the excessive concentration of wealth and to prevent its occurrence in the future.

What have been the causes of the concentration of wealth in the United States? How has individualism and the little social planning we have done resulted in such concentration of wealth rather than in a greater distribution of wealth? The reasons for the concentration of wealth which we have had in the United States are many. Some of these reasons are governmental reasons and some are individual reasons. Perhaps the greatest reason is our tax system. Our tax system has not been just or equitable. Taxes in reality have to be paid out of income, and the United States Supreme Court has held that it is constitutional to levy taxes according to ability to pay. Yet, for the most part, taxes in the United States have been paid by those least able to pay. Two per cent of our population own 65 per cent of our wealth. Do the people who own this part of our

wealth pay 65 per cent of the taxes in the United States? To ask such a question is to answer it. They pay only a small part of the taxes in the United States. By and large the taxes which should be paid by the rich are not paid by the rich but are paid by the poor. Take the situation in Indiana, for example. It is estimated that the wealth in Indiana is about two billions of dollars. One-half of this, or one billion of dollars, represents land and tangible personal property. The other half, or one billion of dollars, represents intangible personal property. Practically all the intangible wealth in the state has been escaping taxation. As a result, the owners of the tangible wealth have had to carry the burden of all of the property taxes. Even a great many tangible forms of personal property have escaped taxation, so that the great bulk of property taxes has fallen upon the farmers and the owners of city lots and homes. Because of this concentration of the tax burden, the rate of taxation has been around 4 per cent. In other words, year after year the farmers in Indiana have had to pay 4 per cent, not on their net income, but 4 per cent on their total wealth. In recent times this has meant 100 per cent of their net income and sometimes more than this. If the owners of intangible wealth were compelled to pay a corresponding tax, they would pay about 100 per cent of their net income as taxes. No wonder the farmer has been depressed during this period of depression, and no wonder those who have been escaping taxation have been able to accumulate more wealth while the farmer was losing wealth all the time. In recent years Indiana has resorted to some excise taxes for revenue for the state government. One of the most successful of these has been the gasoline tax. This tax of course is not entirely borne by the farmers and the owners of city homes and lots, but man by man they are paying just about as much of this tax as other people in the state. No one would contend that the rich men are paying as much more of the gasoline tax as they are richer than other men. In the case of the United States government, the tariff has been one of the great sources of revenue. A protective tariff is one levied principally for the protection of our industrialists, but those getting the protection of the tariff are not the ones who pay the tariff. The tariff is paid by the consumers all over the United States, and there is not a great deal of difference between what the poor man and the rich man pays to his government. At least the difference is not comparable to the relative abilities of men to pay. The greater portion of the revenue derived from taxation by the United States government is spent on its army, navy, and military

establishment, but there is no contention that those who profit from such establishments pay a larger portion of the tax which produces the revenue for such purposes than do other people. Of course in recent times the United States government has relied upon income taxes and the estate taxes for much of its revenue, and these have been graduated to some extent, in former times more than at the present time; but no one would contend that the income taxes and estate taxes have been high enough so as to equalize the tax burden and make the rich man in the United States pay as much for the support of his government in proportion to his wealth as the poor man is paying. The people who have been thus favored by our system of taxation of course are those in whose hands our wealth has become more and more concentrated. No wonder there has been a concentration of wealth with such a system of taxation! This cause alone would have been enough to have produced tremendous concentration of wealth if there had been no other causes for it, but there have been other causes.

Another reason for the concentration of wealth in the United States has been the failure in the regulation of businesses affected with a public interest, known as public callings. Some great fortunes in the United States came from rebates from railroads. The rebate evil has been stopped. But other evils still inhere in these businesses. These public callings include most of the biggest businesses in the United States, such as the railways, the telephone and telegraph companies, the gas companies, the electric light companies, and our steamboat companies. According to the law of public callings, all of these companies are only entitled to what is reasonable compensation. This should mean a return of perhaps 4 per cent or 5 per cent net on their original investment, but through decisions of the United States Supreme Court they have been allowed to obtain 8 per cent on their reproduction costs, which has been often twice the original investment. Taking advantage of these decisions the public calling men have indulged in high finance, so that instead of getting 8 per cent they have got as high as 100 per cent, or even 200 per cent, on their reproduction costs. They have done this by selling bonds for 4 per cent and preferred stock for 6 per cent and giving to the common stockholders the difference between 4 and 8 and 6 and 8 per cent in addition to their own 8 per cent, and then have increased the return to the common stockholders by organizing one holding company after another and financing each holding company in the same way by selling bonds and preferred stock, so that finally

the owners of the common stock in the last holding company are able to get almost any return that they desire. They have got as high as 100 per cent and 200 per cent, but could have made it a thousand per cent just as well. Such returns as this of course have helped tremendously to concentrate the wealth of the country in the hands of a few of these public utility magnates.

Another cause of the concentration of wealth is the failure on the part of our social control to protect other classes in our society who are in need of protection. Farmers have already been referred to. Employers of labor have sometimes been able to obtain large fortunes by keeping down the wages paid to their employees and keeping up the hours of labor required of them. Bankers and other loaners of money have been able to add greatly to their accumulation of wealth through the increase in the value of the dollar after loans have been made and before they have been repaid. Failures of banks also in causing loss to many and profits to a few indirectly contribute to the concentration of wealth.

So far as individuals are concerned, I suppose it could be accurately said that the cause of the concentration of wealth in the United States is the fact that most of our people are actuated by the profit motive instead of by the motive of service.

What is the remedy for this concentration of wealth? In this discussion we can only consider social remedies, and therefore we cannot consider what would be the consequence of a voluntary lowering of prices, or a voluntary limiting of profits to the owners' capacity to consume, or changing business voluntarily from the basis of the profit motive to the basis of service. Individuals might do these things, and if they would that might be a cure for the concentration of wealth, but it would hardly be feasible to compel them to do this by law.

Before taking up the main cure for the concentration of wealth, it may be best to refer to a few minor cures which would be of some help in remedying the situation. Already we have begun some social planning in the direction of preventing bank failures. We could reform our monetary system, either by inducing the world to go off from the gold standard on to a gold and silver standard, or by some other plan of stabilization. We could do for other classes in need of assistance what for years has been done for the business class. The farmer is in need of relief. For example, an increase of our population by a hundred million people; or either a further deflation of retail prices on finished goods or an inflation of farmers'

prices on raw goods. But such an addition to our population could not be obtained all at once; and a deflation of prices on finished goods would involve a deflation of capital accounts and more receiverships, while an inflation of farmers' prices would involve price fixing with its questions of constitutionality and economic feasibility. The writer is of the opinion that the reform of our system of taxation would be of the greatest assistance to the farmer, but there are some other things (besides tariff protection) which might be done for his relief. The buying power of laborers could be increased by shorter hours and fewer days of labor and higher wages, with various forms of insurance, like old-age insurance, unemployment insurance, and liability insurance, to prevent the destruction of the buying power of those thrown out of employment and to increase the buying power of those given employment. The law of public callings could either be reformed or administered so as to prevent the evasions of the law which have occurred in the past. If this should not be enough to prevent the concentration of wealth in the realm of public callings, government ownership and operation of some of the enterprises might be substituted for private ownership and operation.

But the great remedy for the concentration of wealth in the United States, in the judgment of the writer, will have to be found in the reform of our taxation system. Some way will have to be found to make pay the taxes those who are able to pay the taxes. Some way will have to be found to take the burden of taxation off from the laborer and the farmer and the poor consumer and put it upon the rich man in the United States. If the farmers and other owners of real property who have been carrying the burden of taxation in many states for fifty years or more were entirely relieved from taxation for the next fifty years, and the owners of intangible wealth were compelled to carry the entire burden for the next fifty years as the farmers have for the past fifty, there would be no farm problem in the next fifty years. This alone would be enough to put the farmers on their feet, and if they were put on their feet their buying power might be enough to put everybody else on their feet. Of course, while it would be fair to do what has just been suggested, it would not be feasible to do it. The owners of intangible wealth are too strong for any such reform to be put over on them. As a matter of fact, it would not be feasible to tax intangible wealth as such at all. The next best thing would be to catch the owners of intangible wealth who have been escaping taxation by some other form of taxes. Highly graduated income taxes and inheritance

taxes come the nearest to being a substitute for taxes on intangibles. Of course it would not be possible to make these taxes high enough so as to make the rich men of our country carry for the next fifty years a burden comparable with the burden which they have made the poor men carry for the last fifty years. But if a compromise was struck, and the real estate taxes were appreciably decreased, and the income and inheritance taxes appreciably increased, this would help immeasurably to correct the present concentration of wealth and to prevent its continuance in the future, although it is now probably too late to accomplish all that should be accomplished in this direction. Excise taxes, including a general sales tax, will probably also have to be resorted to. While they bear on the poor man harder than they do on the rich man in proportion to his ability to pay, they do not bear on him as hard as our property taxes. The new people on whom the burden of taxation would fall would of course rebel. But the burden is here. Someone will have to carry it. It would be better for our social order, and in the end for the rich themselves, if they were made to carry at least their share of the burden as judged by their ability to pay.

If the remedies which have been above suggested were resorted to, it is believed that they would gradually tend to break up the present concentration of wealth in the United States and to distribute some of the wealth from the few people who now have the greater part of the wealth of the United States to the great mass of people in the United States. If this were done it would re-establish the balance between the ability of the producers to produce and the ability of the consumers to consume. This would be enough to save capitalism, and to work a permanent instead of a temporary cure of our economic problem. It is not necessary to resort to socialism, or communism, or bolshevism in order to cure the evils which we have in our present system. All it is necessary to do is to socialize our capitalistic system. If it were so socialized it would not only continue to function without danger of its causing its own collapse through the periodical failures of consumption to meet production; but it might produce greater wealth than ever before, and it would be shorn of its present harsh, unjust, and irritating features and made a real economic instrument for a better social order in the United States.

The discussion in this article will be briefly summarized. This can be done by naming, one by one, in their chronological order, first, the causes, and second, the cures for our economic problem.

We start with the proposition that there is something wrong with our capitalistic system which is preventing its functioning as it ought to and is threatening its destruction. One of the chief causes for this situation is the lack of balance between consuming power and producing power in this country. The cause for this second situation is the concentration of wealth in our land. The causes of the concentration of wealth are lack of social legislation, ineffective regulation of big business, and unfair taxation systems. The reasons for these last phenomena are low intellectual and moral standards among our people, even among our leaders. Consequently, it may be said that in the last analysis the causes for our economic problem are our low intellectual and moral standards. In order to solve the problem, we should reverse the order just given and inaugurate one specific reform after another in the reverse order. (1) The intellectual and moral standards of our people should be raised (at least among the political leaders), so as to put our intellectual life on the level of reason, rather than on the level of instinct or habit, and thereby introduce better social planning; and so as to make the goal of our economic system the common good, rather than the goal of selfish individual advancement (which, in the long run, defeats even itself). (2) In harmony with these new standards of intellect and morals, our tax system should be overhauled so as to make people pay according to their ability to pay on net income; our businesses should be regulated to prevent bandit-like schemes of high finance; and various forms of social legislation should be passed for the relief of laborers, children, and the aged. (3) With the introduction of these reforms, the unsocial concentration of wealth in this country would gradually be broken up. (4) With the breaking up of the concentration of wealth, consuming power would tend to balance producing power. (5) And, then this, with a few other forms of social planning, would stop unemployment, stabilize our banking systems, re-establish the prosperity of the farmers, start anew the wheels of manufacture, stop panics and depressions, and give permanence and continuity to the processes of our economic order, and thereby socialize and save our capitalistic system.