



Russell Sage

RUSSELL SAGE , "A GRAVE DANGER TO THE COMMUNITY" Source: *North American Review* DXXXIV (May, 1901), pp. 641-646.

It is, perhaps, ungracious to sound a harsh note in a company so happy and well content as we are to-day in Wall Street....Why, then, give a danger cry, when perhaps no danger exists?

Because, to me, there seems to be something very sleight-of-hand in the way in which industries are doubling in value, as at the touch of the magician's wand. Here we have a factory—a good, conservative, productive investment which may be turning out anything from toys to locomotives. It falls into the hands of the consolidators, and, whereas it was worth \$50,000 yesterday, to-day it is worth \$150,000—at least on paper. Stocks are issued; bonds are put out; and loans are solicited, with these stocks as security. The man who owned the factory could probably not have borrowed over \$10,000 on it. Now, however, when the \$50,000 plant is changed into a stock issue of \$150,000 bankers and financiers are asked to advance \$60,000 or \$70,000 on what is practically the same property, and many of them from all accounts, make the advance.

Under these circumstances, a "squeeze" seems to me inevitable. The Clearing House is reporting, from week to week, an expansion of loans far beyond anything that was dreamed of heretofore. This cannot go on forever; yet, from all appearances, the era of consolidation has only set in.

A reaction must come as soon as the banks realize the situation. A property is not worth \$50,000 one day and \$150,000 the next simply because a company of men, no matter how big and important they are, say so.

It is truly remarkable, the increase which has taken place in requests for loans based on industrials. No one can even estimate the amount of money that has been advanced on securities of this class; but it is a conservative estimate to say that industrial loans are as ten to one compared with conditions a few years ago. This is apparent from the business offered at my office from day to day. The volume of money in the country is entirely inadequate to meet anything like the demands that are made on collateral of this class. In fact, we have gotten away entirely from the old idea of making the money of the country the basis of our trading. Instead, there is thrown into the business world, to be used as a trading medium, millions upon millions of new stocks, the real value of which is yet to be determined. As soon as this is thoroughly realized, we may look for trouble, pending a readjustment. This can be predicted with perfect safety....

The great success of the Standard Oil Company is always adduced by the believers in consolidation, whenever the scheme is attacked. It is true that this company has had enormous success, and that it has benefited the community. It has lowered the price of oil, bringing it down gradually from forty-five cents to seven or eight cents a gallon. Through its excellent management it has evolved methods for using all the by-products of crude oil and, first and last, has added many hundreds of millions to the wealth of the country. It has made its owners, the capitalists, very rich, and it has acted well by its employees and by consumers.

But if consolidation has produced all these things, it has also, in the case of this company, produced a feeling of unrest and disquiet, industrial and political, that threatens, sooner or later, to bring serious results. Every Legislature in the land, almost, has attacked it at one time or another. It has become a by-word among all classes, and is pointed to in every community as one of the dangers of the Republic. Over and over again, it has been the issue in political campaigns. Men who were its competitors have accused its officers of all sorts of practices. Congressional committees have sat in inquiry on it, States have risen against it, criminal courts in many parts of the country have had its alleged crimes on their dockets. Of course, the greater part of this agitation has been entirely unjustifiable. The charges of criminal aggression, when traced, have been found to emanate invariably from irresponsible sources. The complaints of practices have been voiced generally by men who were driven to the wall in trade competition, because they could not dispute the market with a concern so magnificently organized.

But the very groundlessness of most of the complaints ought to be viewed by conservative men as a danger signal. Such complaints, persevered in as they have been, show that the community opposes the idea embodied in this great monopoly, and that it is willing to seize on any pretext to make clear this opposition.

Is it desirable to add to institutions that cause such commotion and keep all the newspapers in the land, rightly or wrongly busy with denunciations? I doubt it. The chief owners of the Standard Oil business have grown so enormously wealthy that in their individual as well as in their corporate capacity they dominate wherever they choose to go. They can make or unmake almost any property, no matter how vast. They can almost compel any man to sell them anything at any price....

Surely that is not a desirable state of affairs, and a condition that breeds it ought hardly to be extended. And with all its vast wealth and domination to-day, the Standard Oil Company started out modestly enough. It

built up conservatively from small beginnings. It bought the properties it controls to-day at fair prices, and built them up by the application of close business principles, little by little.

But under the new order it is different. The consolidations of today begin at the very outset with capitalizations that cast all past experiences into the shade, and that almost stagger the imagination. The [U.S.] steel combination now forming... is to start off with a capitalization of \$1,000,000,000. This is more than one-half of the National Debt. It is one-seventieth of the entire wealth of the United States. The total money in circulation in the United States, according to the Treasurer's statistics, is \$2,113,294,983. It will be seen, therefore, that this company's issue of securities will represent practically one-half of the entire volume of money in America. In a year or two, if precedents count for anything, this capitalization will be very largely increased, and that in spite of the fact that stockholders in the Steel Company, which was the basis of the new combination, got three shares of stock in the new company for one in the old—scores of millions being thus added to the interest-earning securities in the United States, by merely the stroke of a pen. When wealth is created in that way, what security is there for the whole scheme? Not another furnace added to the plant; simply a lifting process, and what was one million before is three millions now. The great experience and strength of the men who produced this change will make us accept the new valuation, and that is all there is in it....

The great railroad combinations we have had thrust on us recently I consider only less dangerous than the industrial combinations, because they are based on sounder considerations. Their stocks and bonds have not, in general, been doubled or trebled, nor unduly inflated. But they are bad, nevertheless. They are sure to arouse the people. And the people, once aroused, are more powerful than the railroad combinations.... Farmers will consider themselves injured by rates, States will inaugurate inimical legislation, and there will be deep hostility to combined capital.

Sir Richard Tangye, the great English iron master and economist, gives us an unprejudiced view of what may come of the wholesale attempt to kill off legitimate competition. He says:

America will one day awake to the stern reality of the evil and when its terrible nature is fully realized some strong legislation must follow.

I believe if legislation does not step in and treat these men as it would treat other deadly enemies of the state, there will be such an uprising in the States as has not been since the accession of Abraham Lincoln to supreme power. ...

That something may come of Sir Richard Tangye's prophecy of retaliative legislation was made manifest during the last session of Congress. One of the leaders of the Republican party — the party that has always been the friend of capital, as it has been of labor — introduced a measure cutting off the protective duty on the products manufactured by the big steel combination. Nothing came of this measure, but its very introduction was a political straw that should exercise a restraining influence on the capitalists who are rushing pell-mell into the new system of "concentrated management" as they call it.

They had better remain content with the old-fashioned system of honest competition, under which we have grown great as a nation and prosperous as a people.