Charles R. Flint

CHARLES R. FLINT, "INDUSTRIAL CONSOLIDATIONS: WHAT THEY HAVE ACCOMPLISHED FOR CAPITAL AND LABOR"

While Mr. Sage's article has little value as an exposition of facts that exist, it has this merit: Coming from a man who is as wealthy and as prominent as he is, who controls one **of** the great fortunes of America, the paper offers an excellent vehicle on which the general popular ignorance regarding the question of industrial consolidations may be carried to **the** public marketplace and exhibited in the stocks.... Out of every ten thousand men in the community, there is hardly one who would not state it as a hard and fast proposition that the industrial enterprises of the country that have been brought together under the present system of consolidation are all outrageously over-capitalized, and that their stocks present about the most hazardous investment conceivable....

As a test of what is really behind the industrial stocks that are being dealt in on the Stock Exchange and on the curb, I have gone into the figures of forty-seven among the most prominent companies.... Industrials, almost without exception, are worth a great deal more, judged by their earning capacity, than they are selling for in the open market. Some of these industrials are earning over 25 per cent a year on their market values, and the average for the entire forty-seven is 13.6 per cent.... Even more astonishing than the earnings on the market value are the earnings on the par value. A very popular impression exists that industrials are composed principally of water. The best answer to this is that the forty-seven companies [analyzed for this study showed] an average earning rate of 7.44 per cent on their total capitalization at par.

Choosing between two evils, Mr. Sage says, if we must have consolidations, the danger lurking in the consolidation of railroads is perhaps not as great, "because," as he puts it, "they are based on sounder considerations. Their stocks and bonds have not been doubled or trebled or unduly inflated." In other words, Mr. Sage concludes that railroad stocks rest on a sounder basis than do industrials.

Even if this statement were accurate, though it is not, it would call for this commentary, that scarcely one of the great railroads of this country whose shares are now quoted at favorable prices on our Exchanges, has not undergone the process of reorganization, growing out of the fact that they were injudiciously organized. And while the common stock of many of these great industrial corporations may be said to have been issued not to represent tangible property, nevertheless, it represents a fair equivalent for tangible property, namely good will or earning power long established, which, for obvious reasons is as rightfully a matter of valuation as the manufacturing plant itself.

...[R]ailroad properties even as they stand today in their reorganized form are not nearly so good an investment as are the industrials, and their only hope of improvement lies in the extensive application of the principle of consolidation which has done so much for the industrial stocks.... If the consolidation movements now on foot by Mr. Hill and Mr. Morgan and the other great railroad men are carried out, railroad values will undoubtedly be much improved. As they stand today, they rank, as earners, about half as high as the industrials..... [Analyzing] thirty-seven railways, including the best properties in the market, they show an average rate of earnings on their market value of 4.85 per cent, and on their par of total capitalization of 4.85 per cent. On the face of it, this would show a very substantial situation so far as the railroads are concerned, placing them as a whole almost on a level with government bonds. Unfortunately, however, the average is more a matter of accident than of anything else, as the earnings fluctuate from 2 per cent, on the market value up to 8 per cent, and from one-half of one per cent, on the par value up to 16 per cent.

Surely, on this comparative showing, there is no better investment anywhere than is offered by the industrial stocks of today. The cold figures dispute absolutely the charge of general overcapitalization, so freely made by people who have but a superficial knowledge of the situation....

To pretend that the industrials, or "trusts," as people are fond of calling them, constitute a political or economic menace is absurd. Instead of concentrating the wealth of the country in the hands of a few people, the consolidations have had exactly the reverse effect. Where, under the old conditions, there were a hundred stockholders, there are to-day a thousand or two thousand. Never before was there such a wide distribution of manufacturing interests. The great bulk of the stocks is held, not by the very rich, but by the moderately well-to-do. The control under the new system is not vested, as it was under the old, in the hands of a few abnormally rich men, but it rests with the majority of stockholders, whose numerical strength is growing every day. The danger to the community today lies not in the centralization of manufactures, in industrial consolidations, but in the centralization of wealth in the hands of a few men. This centralization was made possible by the old conditions of individualism. Unfortunately, the new economic ideas which prevail today arrived so late that they have not proven sufficient, up to this time, to check the accumulation of great fortunes by individuals. As the new scheme works itself out naturally, such accumulations will in the future, be rare. As it is, legislation may be necessary to cope with the evil as we find it today. What would Mr. Sage say to a law limiting individual fortunes?

There is no danger, either to the community or to business, in such consolidation as has been effected in the case of the steel trust. Its capitalization is based on solid properties. That it runs into a thousand millions is not a cause for apprehension, but rather the reverse, for it typifies the acme of scientific business. If its securities equal, as Mr. Sage points out, nearly one-half the amount of money in circulation in America, the country has cause, not to fear, but to rejoice. Money, when based on sound considerations, as our currency is today, is but an expressed form of wealth. Stocks and bonds of the new steel combination, represent quite as much an expressed form of wealth as the currency. They supplement the money in circulation, and, always provided that they are not the mere output of a printing press, serve as tokens of valuable property. Such stocks and bonds are quite as important an item in the wealth of a country as its currency. As the business system of a country expands, the need, relatively, of money grows less. Instead of the actual interchange of gold and silver in commercial transactions, there comes a system of credit. The amount of business transacted on credit in the United States today is over two thousand times as great as that transacted in exchange for gold and silver. As soon as the volume of trade mounts into great proportions, it is impossible to transact it on the basis of an actual exchange of currency. Instead, every means of exchange is utilized. Drafts and checks are the chief mediums now known in the commercial world. Actual money is scarcely ever passed from hand to hand. It is idle, therefore, and absolutely valueless, as an object lesson, to set forth the proportion that any bond issue or stock issue bears to the amount of money in circulation. We have passed the point here in the United States where such a statement carries any weight, and we have passed it because we have grown to such enormous proportions as an industrial nation. Not so very long ago, it was different. Then, a dollar in cash was more important, and it went further because it had more to do....

We traded in times gone by in a measure on the basis of the money in circulation. The result was often disastrous. It left the country in a position where the close-fisted moneylenders had the market at their mercy whenever the notion seized them, or whenever they felt that there was a situation, real or imaginary, that warranted a demand for extortionate interest rates. This condition was a severe handicap to our merchants and manufacturers.... Now, owing...to an economical and conservative administration of their affairs for the past ten years, they are in a stronger financial condition, and comparatively free from the domination of the money-lender. And, as in the case of individuals, so it is in the nation. Instead of depending upon the good-will of the money-lenders of Europe, instead of trembling, as we used to do, for fear that they would call their loans, we have now reversed the situation. We are no longer borrowers from, but lenders to, Europe. Consequently, the money market has few terrors for us. From a debtor nation we have grown to be a creditor nation, and this is due very largely to the fact that we are conducting our business affairs over here on the most scientific and advanced basis, thanks to the industrial consolidations....

Viewing the matter from every standpoint, the business man is benefited when he operates as a member of a combination instead of as an individual. His property is in the shape of stocks and bonds which he can market at a moment's notice, instead of in the shape of a plant, on which it would be impossible to realize anything like its value at a forced sale. In case of his death, or disability, he leaves to his family a property that runs along uninterruptedly. The death of any one individual has little, if any, effect on the general business prosperity of the combination, and the tokens of interest held by the family of a deceased stockholder continue to bring their return just as steadily as though the man himself stood at the helm. In the case of an individual corporation, no matter how well organized or how well established, business failure is almost inevitable when the head of the corporation dies....

Another great advantage is that a combination can generally arrange to run its best factories on full time. The saving in production in this one item alone—that is, where a factory is run on full time instead of half time—is from 4 per cent to 8 per cent. Overproduction, which is one of the most prolific sources of panic, can be largely prevented under the present system and that without throwing any great body of workingmen out of employment....

All these advantages redound directly to the benefit of capital, but indirectly they redound to the benefit of the consumer. They lessen the cost of production, and the consumer is bound to receive his share in this saving.

Labor is immeasurably benefited by the new conditions. The tendency under natural laws would be for wages to gradually decline to the level of the wages paid in other countries, but the industrial combinations have sustained the wages of the American wage-earner. Today, the tendency is to a minimum of profits and a maximum of wages. Any concern whose profits become abnormal at once invites competition. Naturally, these profits are reduced, and the consumer, who is the workingman, reaps the benefit. If the profits are not sufficiently abnormal to invite competition, the workingman again comes to the front, for he demands a larger share of the earnings in the form of increased wages. In either case, then, the wage-earners, as the great body of the community, reap the greatest advantages that come out of more economical production....

America is now at the front in the race for industrial supremacy. The main factor that has placed her there is the system of consolidation which Mr. Sage warns us against. It has won us the lead in less than ten years' trial. Surely, such results do not argue for a restriction, but rather for the continuance and enlightened development, of the system.