



James Hill

JAMES J. HILL, "INDUSTRIAL AND RAILROAD CONSOLIDATIONS: THEIR ADVANTAGES TO THE COMMUNITY"

On one point Mr. Sage is undoubtedly right. There is in the community a general feeling of hostility towards the railroad and industrial consolidations that have been effected and towards those that are now under way.

This hostility is strong, but undefined. Much of it has come, undoubtedly, through the teachings of the newspapers and...through the speeches of political orators. It began when the "trust" came into being as the result of an effort to obviate ruinous competition. The "trust" was found a very cumbersome structure, and the law of the land declared it illegal. It was not a consolidation in any sense of the term, and differed entirely from the business scheme under which the consolidations of today are being effected and operated. Under the "trust" system the stocks of various and competing organizations were trusted in the hands of a few men, to whom was given absolute and unqualified power to do what they saw fit with the properties placed under their control. It was not on its face a healthy arrangement, and it met with violent opposition on all hands.

The new system in force today is neither illegal nor...harmful to the community. But the people at large have not yet learned to distinguish between the new and the old, and the odium attaching to the "trust" is visited on the consolidation. The old scheme left intact all the corporations it found in existence. In the nature of things, no economy in production could be effected. All the old officers of the individual organizations remained.

Certain plants were shut down to restrict the output, but this process affected only the workmen who were thrown out of employment. The high-salaried men continued to draw their pay, and large bonuses were paid regularly to the stockholders or owners of the plants that had been put out of business. Increased profits, therefore, could generally be obtained only by an increase of price for the product, which was saddled on the consumer. Under the new system, a different usage prevails. Operating expenses are reduced by combining a number of institutions under one management. Useless officers and unproductive middlemen are cut off. The systems of purchasing and distributing are simplified. Economies are effected by the direct purchase of material in large quantities, or, better still, by adding to the combination a department for the acquisition and control of the sources from which raw material is drawn. Thus, the Carnegie Company, which was the highest type of this system, took its iron from its own mines, made its coke in its own ovens, worked up its material in its own furnaces, and shipped the finished product over its own railroad or in its own vessels....

What has just been effected in the great [U.S.] steel combination is simply an enlargement of the Carnegie plan, and, when the value of the great properties combined is taken into consideration the capitalization of one thousand million dollars is not exorbitant. The Carnegie Company by itself was a colossal institution, so colossal that it dominated the steel market absolutely. But because it happened to be a single company, its tremendous proportions aroused no particular opposition. It was considered a fine healthy enterprise... and Mr. Carnegie and his partners were not looked upon in any sense as "trust" magnates.. While hostilities to many other concerns were raging at their fiercest, the organization of the Carnegie Company was not once impugned by the anti-consolidationists.

From all accounts, the workmen of the Carnegie Company were among the best paid artisans in America. The company could afford to pay high wages, because its men worked under the most perfect and compact conditions. Nothing was wasted, nothing of the earnings went to middlemen, who are mere leeches sucking sustenance from the business body without giving anything in return.

In the nature of things, a plant bought out or added to the Carnegie Company's properties became, by the mere fact of such addition, greatly more valuable than it possibly could have been under independent management and control. There was lopped off at once the item of executive expenses. There was no president's salary to pay, no vice-president's, no office force. The purchasing agents, with their salaries and commissions, became things of the past. The product was worked up in the most scientific and economical manner and put on the market under the best conditions.

The point, therefore, made by Mr. Sage, that a factory worth \$50,000 today is necessarily improperly rated at \$150,000 tomorrow, because it has been combined with others under one managerial head, has not all the force that might appear from the bald statement of the facts as Mr. Sage puts it. A property is not necessarily worth only what it represents in the way of real estate, building and plant. It is worth rather what it represents in earning capacity; and, if, under a combination, its earning capacity is trebled, because of the economy of production, it is not unreasonable to say that its value has been trebled, even though nothing tangible has been added to its material assets. Hard and fast rules do not apply to the value of anything. A piece of property worth \$1,000 today may be worth \$2,000 tomorrow, merely because some improvement has been made in the neighborhood which adds to the rental value of the property in question. Lands showing evidences of iron

deposits, which, ten years ago, could have been bought for ten dollars per acre, or even less, are now worth \$50,000,000. Not cost, but earning power, is the measure of value....

There are a few men...in the community who can advance good reasons for their opposition [to industrial consolidations]. They are the ones who have been caught between the upper and the nether mill stones; they are the middlemen and the small competitor who was unable to meet the larger concern in open market. To them, consolidation has been a distinct injury. This is apparent, and, under our social and business system inevitable. The aim in business, as in politics, is to do the greatest good to the greatest number; and the greatest number...is apparently benefited by the consolidations. Almost every improvement that helps the masses brings injury to individuals here and there. The building of a railroad into new territory puts the owner of the stage coach out of business. Trolley cars that have sprung up all over the country have done grave damage to the local hackmen and livery stable keepers. But the community which is brought into touch with the outer world by a new railroad, and the village or town that gains the advantage of cheap and quick transportation by means of the trolley car, are benefited so much more than the stage owners and hackmen are injured, that the balance is easily in favor of the improvements.

In all such improvements the chief beneficiary is the workingman. The only asset he has to sell is his time. He cannot afford to pay a quarter for a hack ride, but when the trolley comes and he gets a quick ride for five cents, it is a good business investment for him....

The workingmen benefit also in another direction, where the concern for which they work is backed by ample capital and has the benefit of concentrated management. They are assured the use of the most perfect machinery. A big concern can afford to make improvements and put in the latest machinery, because such improvements and machinery necessarily add to the productiveness of the plant at a rate that will soon make good the expenditure. The smaller concern, while it realizes this fact, is unable to avail itself of the latest appliances, because it has not the necessary capital to invest.

Another advantage of prime importance to the workingmen is that they may easily participate in the profits of these enterprises by investing their savings in the shares of the more solid and prosperous concerns. Over \$2,400,000,000 are deposited in the savings banks of the United States, largely made up of the savings of the wage-earners, and this represents only a portion of their accumulations. With these vast resources at command, the workingmen of the country might, in a few years, acquire a large interest in the concerns in which they are employed. The opportunities thus afforded for safe and lucrative investment will enable them to share in the profits, and thus unite the rewards of capital and labor.

The consumer is assured of lower prices when a big concern is the producer, because such a concern must have a steady market for its output in order to keep its machinery busy. The loss of a day is a large item. Therefore, in self-defense the big concern must keep its prices within the figure that will secure the greatest number of purchasers.

Moreover, if the result of these industrial consolidations is to steady and relatively reduce the prices of their products, the gravest of the speculative popular objections to them will be obviated and public opinion will speedily recognize the benefits to the people at large of this new and improved machinery of production. The very motive of self-interest, even the law of self-preservation, dictates a policy which is as necessary to the lasting business prosperity of these concerns as to that popular approval without which they cannot permanently endure.

This is the theory of the new business consolidations, and their promoters, judging by the results attained so far, believe that it will work out—that it is a good policy and a wise one for everybody. Should experience prove that it is not a good condition for the people at large, it will very soon be upset. Politically, the scheme has never been passed upon as yet; and, if it proves a good scheme, it may never be a distinct issue in politics. If the prosperity of the country (much of which, I believe, is due to the consolidations and economies effected so far) continues, the people will be content to let well enough alone. If, however, it is shown that we are on the wrong track, and that consolidations are harmful to the people in general, as has been so frequently stated, the question will undoubtedly be settled at the polls....

There is one thing that the people who deal lightly with the new business scheme, and who want to sweep it aside as a menace, forget. We have reached a stage in our national development where business must be done on a different plan from that which served us well half a century ago. In 1865, when the [Civil] War closed, we had thirty-five millions of people; today we have over seventy millions. That is, we have doubled our population in thirty-five years. If we are advancing at the same rate...we will have over one hundred and fifty millions in 1935. In other words, we are adding at the rate of one and a half to two millions a year to our population. Thirty-five years ago, or even ten years ago, horse-cars served admirably the purposes of urban transportation. Today, we could not possibly get along without the trolley. And as it is with physical conditions,

so it must be with economical conditions; we must keep pace with the times. We have reached a period where the old-fashioned methods will prove inadequate, if the masses of the people are to continue in the enjoyment of the prosperity to which they are entitled. There are too many people to be fed, housed and clothed to permit of the wasteful system which would maintain a horde of idle middlemen. People in this country live better today than they ever did before in their lives. This is due, I believe, very largely to the improved methods of production. There are fewer drones in the hive, fewer people who share the results of work without doing any work themselves....