CHAPTER II

Combination and Coalescence

I

We have, first, the enormous growth of industrial, commercial, and financial combinations. A crude idea of the extent to which concentration in manufactures had grown up to May 31, 1900, may be gained from Census Bulletin No. 122. In this report only those aggregations are considered which consisted of "a number of formerly independent mills which have been brought together into one company under a charter obtained for that purpose." Several of the new security-holding stock companies are included, but "many large establishments comprising a number of mills which have grown up, not by combination with other mills, but by erection of new plants or the purchase of old ones," are not considered, nor are gas and electric lighting plants, or pools, and "gentlemen's agreements."

The list contains records of 183 corporations, with 2029 active and 174 idle plants, an average of 11 active plants each. The actual capital invested in these corporations, exclusive of that for 56 of the idle plants, was $1,458,522,573, and the authorized capitalization was $3,607,539,200. These combinations employed 24,585 salaried officers and clerks, and an average of 399,192 wage-earners. The 1047 officers received an average of $6,825.28 yearly and the wage-earners, $487.32. There were 40 combinations in iron and steel, with 447 plants; 28 in liquor and beverages, with 219 plants; 21 in food and allied products, with 273 plants; 15 in clay, glass, and stone products, with 180 plants, and 14 in chemicals, with 248 plants. The gross value of the manufactured product of these combinations, as given by the census, was $1,661,295,364. Excluding hand trades, government establishments, educational, eleemosynary, and penal workshops, and shops with a product of less than $500, this total represented 14 per cent of the value of the manufactured product for the whole country.

The spring of 1900 was, however, but the mid-morning of the combination movement. Only 63 of these companies had been formed previous to 1897, while more than 50 per cent of them were formed during the eighteen months from January 1, 1899, to June 30, 1900. Since then the movement has swept forward like a great tide. The consolidations of manufacturing companies for the first five months of 1901 alone probably exceeded $2,000,000,000 in capitalization. The great steel "trust" (to use the popular term), an $88,000,000 tin-can trust, still other trusts in tobacco machinery, carpets, coal and coke, witch-hazel, glass lamps and electric glass fittings, ship-building, cotton duck, agricultural implements, and watches, had their birth during this period. More recently came the steel-castings trust, subordinate to the steel corporation, a recombination in tobacco, and very lately a new ship-building combination, a $120,000,000 harvester trust, and a cotton compress trust. The capital invested in manufacturing combinations is now probably two and one-half times what it was in May, 1900; and it is a reasonable guess that nearly one-third of the manufactured product of the country, outside of the petty trades, comes from the combinations.

Of the magnitude of some of these concerns the average mind can form but an inadequate idea. The figures expressing it are comparable with those of star distances, which must be transmuted into light-years to make them conceivable. A New York newspaper has recently made some computations on the great steel trust, which help to bring home to us a realization of its size and power. Its yearly net profits are now double the amount of the total revenues of the United States Government in the year Lincoln was elected. Its wage-roll carries on an average of the round year over 158,000 names — an army of employees larger by 45,000 than serves the National Government in every branch of its civil service, classified and unclassified, except only fourth-class postmasters. Its wage-payments for last year aggregated nearly $113,000,000, more by $13,000,000 than the huge annual city budget of Greater New York. Its annual production of steel is 10,000,000 tons, 67 per cent of the total production of the country; and its freight payments for the year 1901 amounted to more than $54,000,000.

During the same period financial, commercial, mining, and transportation trusts have also had their splendid inning. We read of an accident-insurance trust with a capitalization of $50,000,000, the great shipping trust, the $120,000,000 jobbing hardware trust, the Interurban Street Railway stock-holding combination, the beef trust, a $50,000,000 lead merger, a recombination in copper, and a universal oil trust. *Moody's Manual of Corporation Securities* for 1902 gives a list of 82 industrial and mercantile consolidations effected between January 1, 1899, and September 1, 1902, each of which is capitalized at $10,000,000 or more, the whole aggregating a capitalization of $4,318,005,646. Thirty-nine of these, with $1,232,-947,790 authorized capital, were formed during 1899; 7 with $186,110,400 capital, in 1900; 20 with $2,141,-197,456 capital in 1901, and 16 with $757,750,000 capital during the first eight months of 1902. The list is admittedly incomplete. "It embraces only the so-called gigantic combinations which have been forming in the past three and one-half years. A complete list, without regard to date of formation, and including both large and small," says this authority, "would probably aggregate 850 different-going combinations, and would easily foot up over $9,000,000,000 of capitalization. Including railroad consolidations, such a list would make a total of over $15,000,000,000 outstanding capitalization." As for the railroads, the formation of the Northern Securities Company, the recent assimilation of the Louisville and Nashville, and the "reorganization" of the Rock Island show the same drift. Five men, according to a recent statement of Interstate Commerce Commissioner J. A. Prouty, control all the railroads of the country; and Mr. John

W. Gates, a financier who may be supposed to know something on that head, has more recently declared, according to a newspaper interview, that two men are really in control. "I believe that the time is not far distant," declared Professor Francis L. Patton, former head of Princeton University, in a recent address before the Presbyterian Social Union of Chicago, "when there will not be a thing that we eat, drink, or wear that will not be made by a trust." He might have gone farther and fared as well; for the theatrical trust determines what dramas we shall witness; the pulp trust, the typefounders' trust, the news trust, and the school-book trust exert a most direct bearing on what we read and what our reading costs us; and finally the undertakers' trust determines the style and cost of our burial.

II

The tendencies make not only for combination in specific trades, but for unification — for complete integration of all capital which is susceptible of organization. Capitalistic atoms of low valency — to use a term from chemistry, — such as those invested in some of the hand trades, custom and repairing and the like — may continue their course, but those of a high valency are sooner or later brought into association. From this fundamental grouping comes integration, the concentration of the material units which go to make up an aggregate. The lesser gravitates to the larger. It needs no modern Newton to proclaim that in finance, commerce, and industry, as in the physical world, all bodies attract one another in direct proportion to their mass. Distance provides a limitation, it is true, to the action of this law in the physical world; but less so in the economic world, for such is the perfection of our means of communication that they provide a more transmissible medium to capital than is the pervading ether to light and gravitation.

The separate trade trusts are not sufficient unto themselves, but move steadily toward unification. A glance at the directorates of the leading combinations shows many names repeated through a long list of varied industries. The combinations themselves reach out and acquire new interests, often distinct from their primary interests. In Pennsylvania coal is mined and railroads are operated by practically the same companies, and in Colorado and West Virginia nearly as complete an identity is discovered. The steel corporation owns coal lands, limestone quarries, railroads, and docks; it is allied with the great Atlantic shipping trust; it is related, not distantly, to the Standard Oil Company; and the beginnings of a public opinion trust are indicated, for already its chief magnate has acquired several newspapers and a prominent magazine. Bishop Potter's prediction, it would seem, is in fair way of fulfilment. "We must fully realize," he said to the Yale students last April, "the danger that mind as well as matter will be at some time in the future capitalized, and that the real thinking and planning for the many will be done by a mere handful." Beet and cane sugar are soon to be joined, we read; paper and lumber, if not already wedded, are at least on excellent terms. Oil and gas on the one hand, coal and iron on the other, have a "common understanding," and each of them holds morganatic relations with one or more of the railroads. All the great combinations recognize a growing community of interest; they tend more and more to a potential, if not an actual, coalescence; and in the face of popular agitation, legislative aggressiveness, or the formal demands of labor, they develop a unity of purpose and method. Their support is thrown, in general, to the same candidates for governors, senators, judges, and tax assessors. In brief, they tend to the formation of a state within a state, and their individual members to the creation of an industrial and political hierarchy.

III

The counter-tendency toward the persistence of small-unit farming and of small-shop production and distribution must not be lost sight of, nor must the great combinations be looked upon as necessarily a proof of individual concentration of wealth. That they generally so result is hardly to be disputed; but primarily, they mean the massing together of separately owned capitals, often small, for a particular use. There is every reason to suppose that the shareholders grow in numbers, and that they increase their holdings. So that while the magnates tend to become Midases, there is a concurrent tendency making for diffused ownership. The small investor is to be found in every stratum of society, and the number of shareholders in some of the great combinations reaches an astonishing figure. The "one touch of nature" which in Shakespeare's eyes made the whole world kin was the love of novelty; in our day it is the passion for investing in shares.

Petty industries and small-unit farming persist, despite the movement toward combination. The recent census gives the number of manufacturing establishments in the United States as 512,726, an increase of 44.3 per cent. This is a larger percentage of increase than is shown for any other of the fifteen items in the census summary of manufactures, except capital, children's wages, and miscellaneous expenses. Doubtless many of these establishments belong to the trusts; but with all allowances the numerical growth is remarkable. The undeveloped sections show the greatest increase, but even industrially settled States, such as Massachusetts, Connecticut, and Rhode Island, reveal marked gains. Professor Ely has pointed out several branches of industry in which small-shop production is increasing. Some investigations which the present writer made two years ago in two branches confirm this tendency. It is pronounced in the notion trades and in the manufacture of women's ready-made wear. In the latter the industry has been revolutionized, the large houses being menaced with disaster and some of them with extinction. In dry-goods distribution the tendencies are confused and puzzling. While the number of general jobbing houses in New York City has decreased from thirty-five to five in twenty-five years, the remaining ones growing to enormous proportions, the number of smaller houses distributing special lines has either maintained its own or has grown. In Baltimore and St. Louis small jobbing houses persist in the face of the larger houses. In the retail trades, even in New York, despite the creation of a number of mammoth general stores, the dullest observer will note the continuance of thousands of small grocery, dry-goods, and furniture stores, confectionery and butcher shops; while custom and repairing work is still done in the little tailoring and shoemaking shops that speak a sort of defiance to the great emporiums. Through convenience of location to the community of customers about them — often, too, by the giving of credit — many of these little shops and stores furnish a social service that cannot be performed by the larger stores, which are mostly to be found massed in the central shopping district.

Something of the same nature is to be found in agriculture. Though the great estates are increasing in size, so also is the number of small holdings increasing. Nearly every State and Territory shows an increase in the number of farms, while the majority show a decrease in average acreage. The great stock-grazing farms of the West and the unproductive "gentlemen's estates" of the East help to make the census figures misleading. It is probable that in every State real farming is done on a smaller average acreage than ever before.

Even independent capital in trading and manufactures shows an unexpected persistence. An interesting article in a recent issue of the New York *Journal of Commerce* puts the capitalization of the great trusts for the twelve years ending with 1901 at \$6,474,000,000, of which it marks off \$2,000,000,000 as "spurious common stock," that is, stock not representing real capital in any form. Not more than \$300,000,000 of new capital, it maintains, had been thrown into the consolidations. This would leave \$4,474,000,000 as the sum of values already established by previous investment. On the other hand, it maintains that actual records show that in seventeen months from the beginning of 1901, in the four States of New York, New Jersey, Delaware, and Maine, the aggregate capitalization of newly organized companies with a capital of \$1,000,000 and upwards is \$1,969,650,000; and it calculates that for the whole country, including the large and small corporations, "the national industrial capital (exclusive of that for transportation appliances) must have increased approximately \$5,000,000,000 since the end of 1900." Several rather obvious demurrers might be made to the conclusions reached, but they need not now concern us. With all possible discounting, strong proof is given of the aggressive persistence of independent capital.

IV

Such facts, however, do not carry on the surface their real import. Independent capital persists as a force, but the units that compose it melt like bubbles in a stream. These companies are but the raw or "partly manufactured" material out of which the great combinations are made. Formation, growth, and absorption into a trust are generally the three terms in their life-history; or if, through ill environment or spirited warfare waged against them, they fail to get secure footing, they soon slip back into the slough of disaster. The fate of independent tobacco factories, sugar and oil refineries, railroads, independent companies of one kind or another, is constantly before us. If they are worth having, they are more or less benevolently assimilated; and if they are not worth having, they are permitted to struggle onward to the almost inevitable collapse.

Neither do small holdings in agriculture mean economic independence. As the late census reveals, they mean tenantry. The number of farms operated by owners is decreasing; tenantry is becoming more and more common, and so is salaried management of great estates. Of the 5,739,657 farms of the nation, tenants now operate 2,026,286. Owners operated 74.5 per cent of all farms in 1880, 71.6 per cent in 1890, 64.7 per cent in 1900. The tendency is general, and applies to all sections. Since 1880 tenantry has relatively increased in every State and Territory (no comparative data are given for the Indian Territory) except Arizona, Florida, and New Hampshire. Since 1890 it has increased in Arizona. In twenty years it has increased 49.4 per cent in Florida, though the unloading of "orange groves" and other tropical paradises on the too susceptible Northerner has increased ownership by a slightly greater ratio; while in New Hampshire, where 2857 farms have been given up in the last twenty years, tenantry has decreased by but five-tenths of 1 per cent since 1890, and but six-tenths of 1 per cent since 1880.

So, too, with petty industries and the small retailers. M. Emile Vandervelde, in his sterling work, "Collectivism and Industrial Evolution," has well shown how "small trade is the special refuge of the cripples of capitalism." It is the particular refuge "of all who prefer, in place of the hard labor of production, the scanty gleaning of the middleman, or who, no longer finding a sufficient revenue in industry or farming, desire to add a string to their bow by opening a little shop." But it would be a mistake, he continues, to suppose that these miniature establishments, which the census officials characterize as distinct enterprises, can be generally regarded as the personal property of those who carry them on. "A great number of them, and a number constantly increasing, as capitalism develops, have only a phantom of independence, and are really in the hands of a few great money lenders, manufacturers, or merchants."

Though M. Vandervelde argues on the basis of these phenomena as observed in Belgium, France, Germany, and England, the same conclusions are applicable in the United States. Our national census figures are practically useless as illuminators on the subject, and one must get his data from the observation or investigation of himself or others. It is generally known that small industries the product of which is more or less ingenious or artistic manage to survive; that those the product of which is common or usual are sooner or later extinguished; and that the petty retailers represent so many heterogeneous elements that it is impossible to predicate anything of them as a class. Of these latter there is a moderate number who, by furnishing a needful social service, make profits; there is a large and constantly changing number who, through ease of credit, manage to obtain stock without capital, and who almost invariably succumb; there is then a larger number whose little shops are run by women and children, the husbands and fathers working at some trade or office job, and hopefully expending their weekly earnings in the vain attempt to "build up a business"; finally, there is a class, the numbers and relative importance of which it is impossible to estimate, whose businesses are owned, directly or indirectly, by other men or by companies.

V

Many of these so-called independent concerns find it possible, and some of them find it fairly profitable, to continue. But the more the large combinations wax in power, the greater is the subordination of the small concerns. An increasing constraint characterizes all their efforts. They are more closely confined to particular activities and to local territories, their bounds being dictated and enforced by the pressure of the combinations. The petty tradesmen and producers are thus an economically dependent class. Equally subordinate — and for the most part subservient — are the owners of small and moderate holdings in the trusts. The larger holdings — often the single largest holding — determine what shall be done. Generally, too, the petty investors are acquiescent to the will of the Big Men. But occasionally, as in the case of the transfer of the Metropolitan Street Railway stock, they rebel, and it becomes necessary to suppress them. At the meeting which determined this action, the protesting minority were emphatically ordered to "shut up"; when they still objected, the presiding officer declared, "We will vote first; you can discuss the matter afterward," and the vote was promptly taken. The head of an American corporation, moreover, is often an absolute ruler, who determines not only the policy of the enterprise, but the personnel of the board of directors. It was a naïve letter which a well-known New York financier recently wrote to his "board of directors" on the occasion of his retirement from the presidency of a great trust company in favor of a retiring Cabinet minister. He had been looking about, he explained, for some time for a competent successor. Now he had found him and had chosen him. Of course the formal action of the board would be a welcome detail; and, equally a matter of course, it was promptly given. One of the copper kings recently testified in a legal action that he "didn't want to call the board of directors together to obtain authority to buy adjacent properties." He went ahead, did what he pleased, and let the board discuss the matter afterward. If there was ever so much as a question about it, it was but a profitless interference.

VI

The tendencies thus make, on the one hand, toward the centralization of vast power in the hands of a few men — the morganization of industry, as it were — and, on the other, toward a vast increase in the number of those who compose the economically dependent classes. The latter number is already stupendous. The laborers and mechanics were long ago brought under the yoke through their divorcement from the land and the application of steam to factory operation. They are economically unfree except in so far as their organizations make possible a collective bargaining for wages and hours. The growth of commerce raised up an enormous class of clerks and helpers, perhaps the most dependent class in the community. The growth and partial diffusion of wealth has in fifty years largely altered the character of our domestic service and increased the number of servants many fold. The professions, too, have felt the change. Behind many of our important newspapers are private commercial interests which dictate their general policy, if not, as is frequently the case, their particular attitude upon every public question ; while the race for endowments made by the greater number of the churches and by all colleges except a few State-supported ones, compels a cautious regard on the part of synod and faculty for the wishes, the views, and the prejudices of men of wealth. To this growing deference of preacher, teacher, and editor is added that of two yet more important classes, — the makers and the interpreters of law. The record of legislation and judicial interpretation regarding slavery previous to the Civil War has been paralleled, if not surpassed, in recent years by the record of legislatures and courts in matters relating to the lives and health of manual workers, especially in such matters as employers' liability and factory inspection. Thus, with a great addition to the number of subordinate classes, with a tremendous increase of their individual components, and with a corresponding growth of power in the hands of a few score magnates, there is needed little further to make up a socio-economic status that contains all the essentials of a renascent Feudalism.