CHAPTER XIV

Benefits of Big Business

BIG BUSINESS, COMPETITION AND MONOPOLY AND THE ADVANTAGES THEY OFFER.

The history of liberty is a history of the limitations of governmental power, not the increase of it. When we resist . . . concentration of power, we are resisting the powers of death because concentration of power is what always precedes the destruction of human liberties.

—WOODROW WILSON in 1912

The marvel of all history is the patience with which men and women submit to burdens unnecessarily laid upon them by their government.

—WILLIAM E. BORAH Speech in Senate

In some aspects “monopoly” is far less serious than it once was, for there are factors which are every day promoting competition.

A century ago there was generally far less competition in local trade than today, for the advance of civilization and the broadening of the reach of business have brought us closer together and introduced a competition unknown in the days of our grandparents. Formerly the small-town store had pretty much a monopoly in its field; today it must meet the competition not only of a dozen nearby cities but of chain stores and mail-order houses and often of concerns hundreds or even thousands of miles away. An English tailor sends representatives to the United States twice a year to solicit orders for custom-made clothes, and we know one fussy individual who orders all of his shoes from England and who even sent back a pair to have them stretched abroad! These are extreme cases, but with many other commodities the same condition holds. Seventy-five years ago the local butcher shop had the market practically to itself; then the railroad brought in competition from a distance to be strengthened and extended by modern refrigeration and today to be increased still further by air transport. Today we find in our local stores beef from South America, butter from Denmark, crab meat from Japan and mutton from Australia. Vegetables and fruits come often from thousands of miles away.
Aside from these conditions which have done much to increase competition, the development of new products and new processes has operated to give competition in many lines from goods of an utterly different nature. Aluminum and now magnesium are substitutes for steel and even for wood, when we buy magnesium ladders and wheel-barrows. Synthetic fibres are displacing silk, cotton and wool, and it looks as if before long these natural fibres may be largely displaced by man-made textiles. Electricity first competed with steam and now has often displaced it and made possible such things as the vacuum cleaner, which must have given pretty stiff competition to the broom manufacturers. Electricity, oil and gas, piped literally for thousands of miles, compete as fuels with wood and with coal.

All this rapid progress and development and the production of new products and processes, combined with rapid transport and improved methods of packing, canning and freezing, are fast bringing us into a common market where we must face the competition of all the world. If occasionally a big concern does seem to get the lion’s share of one particular market, this influence is counter-balanced a dozen times over by this greater and broader competition. We question if “monopoly” will ever be the problem that it has been.

Before dismissing the subject of big business there are points worth mentioning. The great corporations often get little credit for the invaluable services which they render, and we can ill afford to cripple these activities and lose their benefits.

The big corporation can do much which is simply impossible for little business—or for a host of little businesses—to undertake. For one thing big business can and does promote research, develop new inventions and even give us new industries. Many of the great corporations spend millions in experiment, research and development, and these undertakings go far beyond the scope of ordinary small-scale industry. The tremendous investment which great corporations sometimes make in these fields, while profitable to investors, is still more profitable to society as a whole.

We have spoken of the millions spent in development of electronic calculators, which make possible the solution of many mathematical problems which, for technical reasons, would otherwise be utterly insoluble. These problems, abstruse though they are to the layman, are often of very great practical importance. Upon them depend the principles of many inventions—
such things as jet propulsion, electronics, the smashing of the atom, aeroplane and submarine design, and many others.

To take a simpler and more familiar example, much of the development of the automobile has hinged on endless and expensive experimentation, and the whole field of plastics and new fabric is the fruit of years of costly research. It is true that such undertakings might be handled and financed by the government but this, lacking the spur of the promise of rich reward, will be far less efficient; and, if we can judge from past experience, it would be wasteful of time and money and permeated with corruption.

Another great advantage of large-scale business operations lies in the utilization of by-products, which is often impossible in small industries. The blood and tankage products of the slaughter-house are commonly wasted in the small-scale dressing of meat, but in the great packing industry nothing is wasted, and these incidental products furnish valuable fertilizer, making possible lower prices for meats. Indeed it is said the frequently dressed meats are sold for less than is paid for live stock on the hoof, the profits of the by-products meeting all expense and making profit possible.

Frequently very large-scale operations are essential if we are to save many of these incidental products. It is all but impossible to produce such substances as pepsin, adrenal, insulin, various hormones and other pharmaceuticals, essential to the practice of medicine, efficiently and economically, on a small scale. Of this we had an illustration in wartime when, for a while, controls and ill-advised fixing of prices resulted in curtailed operation of the great packing centers and "bootleg" meat production. In these small and less efficient operations it is impossible to prepare these very valuable products, and the result was a severe shortage of vitally important drugs.

There is another angle of this case of "big business," perhaps a bit fanciful but worthy of mention. Is it not possible that in big business we may find an answer to some perplexing questions? Is there not a chance that the great corporation, instead of being a great insatiable octopus sucking our lifeblood as sometimes pictured, may actually be a beneficent servant and the means whereby our people can unite to promote efficiency and a higher standard of living, and to provide broader economic opportunity for all? Is it not possible that through the machinery of the corporation, and the great diffusion of ownership which it makes possible, we have the makings of a cooperation which will do
much for our general prosperity? With a broader ownership of big business, and the increased number of stockholders, a far larger proportion of our people have a stake in big enterprise, and they will see the vital importance of protecting capital.

The AT&T is an excellent example of practical cooperation in ownership. This, the study of the holdings of the stock in the United States Steel, and the more general study made by the New York Stock Exchange already mentioned, show how widely diffused is the stock ownership. Remember too that many in extremely modest circumstances have some stake in corporations through ownership of stock by savings banks and insurance companies, and finally even the absolute pauper is often dependent upon religious and charitable foundations, which in turn rely on the income received from endowments invested in stocks and bonds. Is it not conceivable that, with the fast-growing trend in this direction, we shall soon have so broad an investment in securities that there will be far less cleavage into classes and far less opportunity for the rabble-rouser and the demagogue? Perhaps some day we will practically all of us be "capitalists" in greater or less degree. This may be just a dream, perhaps never to be realized, but it does seem to have a possibility, and in it we may find an answer to much social unrest and to the aspirations of dreamers and idealists.

Back of all the agitation for socialism, communism and kindred cults lies a perfectly understandable feeling of resentment at the inequality of things, particularly the inequality of opportunity. It is not reasonable to suppose that, as the numbers of our people who have investments in the great corporations increase, there will be far less of this discontent? Probably the only sound and substantial answer to these problems of communism lies in remediying the discontent and the injustices which provoke resentment. The socialist-communists want to "divide up," and those who have less than average of worldly goods hope to be in the receiving end under such a program; but, as soon as men acquire a nest egg or invest earnings, their attitude changes and they appreciate the necessity of respecting private property and of protecting capital. Instead of being a subversive factor these people will become a stabilizing factor. We believe that if broad stock ownership continues to expand, we may find a solution to the difficulties upon which communism feeds today. Then thought will center not on seizure and dividing up but on correcting weaknesses of our economic order, broadening oppor-
tunity and producing by evolution, not by revolution, a more nearly perfect economic order.

This we throw out as a suggestion, something to think about, for it seems probable that if the diffusion of ownership of our great businesses continues to be extended and if increasing numbers take the opportunity to share in the profits and benefits of the great corporations, we shall automatically do much to remove the causes of unrest and to insure a better way of life.

In line with these ideas we quote from a very excellent address delivered by Mr. Benjamin Fairless, the recent president of United States Steel. He discusses some angles of the case forcibly and amusingly and we quote, by permission, from Mr. Fairless:

"We have real and direct Public Ownership of our biggest and most important industries. That ownership is sold daily, in little pieces, on the stock market. It is constantly changing hands; and if the workers of this country truly wish to own the tools of production, they can do so very simply.

"They do not have to seize the government by force of arms. They do not even have to win an election. All they have to do is to buy, in the open market, the capital stock of the corporation they want to own, just as millions of other Americans have been doing for many decades. So why should they do it the hard way? Well, the other day I took out a pencil and paper and did a little simple arithmetic, the results of which may be as amazing to you as they were to me. The fact remains that, at today's market prices, the employees of United States Steel could buy every share of the outstanding common stock of the Corporation just as easily and just as cheaply as they can purchase a moderately good automobile.

"It seems unbelievable, but it is quite true. We have approximately 300,000 employees, and together, they could buy all the common stock of the Corporation by purchasing just 87 shares apiece. At today's prices, those 87 shares would cost them a total of less than $3,500. And, at today's wages, the average steelworker earns that much in approximately ten months.

"By investing $10 a week apiece—which is about what our steelworkers gained in the recent wage increase—the employees of U. S. Steel could buy all the outstanding common stock in less than seven years; and—except for the relatively small fixed sum that is paid in dividends on the preferred stock—our workers would then be entitled to receive all of those so-called "bloated profits" they have heard so much about. But here, I'm afraid, they would be in for a disappointing surprise. At current rates,
the total dividend on their 87 shares would amount to only $261 a year.

"But in order to control U. S. Steel, these workers would not even have to purchase 87 shares apiece. Sixty-two shares of common stock would give them a voting majority in the Corporation's affairs. That would cost them less than $2,500, at the present market; and an investment of only $5 a week would turn the trick in less than ten years. Then they could elect their own Board of Directors, fire the present management, and run the business to suit themselves.

"Before they become too overjoyed at this prospect, however, I think they should be warned that they still would not be their own bosses, of course, for the true bosses of every American business are its customers, and unless those customers are satisfied as to quality, quantity and price of the product, there will be no business and there will be no jobs. But as long as the new owners of the company could keep the customers happy, they could run the show exactly as they pleased.

"Now perhaps I should make it perfectly clear that I am not advocating that our employees go out and buy control of United States Steel. I don't think that would be good either for the workers or the Company; and from the standpoint of the national interest, I think it is far better that our key industries should be owned—as they are now—by a broad and representative cross-section of the whole American public . . . by the workers in many different fields of enterprise, by the consumers of all kinds of products, by school-teachers and businessmen and widows and pensioners—in short, by the average American.

"But still I can't help thinking how interesting it might be if our workers did own the Company—if each of them went out and bought his 87 shares of common stock.

"There would be that happy day when a delegation from the mills walked into the office of the new president of the company. I can hear the spokesman saying: 'Boss, the boys want a little raise—about the same as they got from Ben (Fairless) last time—let's say about $500 a year as a starter.' And the new president of course would reply: 'Why, sure, sure. Give the boys whatever they want. All they've got to do is pay it to themselves.'

"Then he would grab his hat, and go out for a quiet afternoon. Ah, yes, I'd like that kind of a deal myself.

"But I feel a little sorry for the new Treasurer of the
Corporation—he starts going over the books with the boys to find out where the next raise is coming from.

"If the new Treasurer is a very persuasive fellow, perhaps he could convince those hard-headed delegates that they can pay themselves a $500 wage increase out of the $261 they get in dividends. But, if he’s as smart as I think he is, he probably won’t mention the subject at all, because way back in my mind there lurks the horrible suspicion that the boys are not going to be too happy about the size of those dividends in the first place.

"Being logical men they are going to expect, I think, that their dividends should increase along with the cost of living, just as their wages do. And who can blame them for that?

"Then too, they are going to discover that—as owners of the Company—they are getting only part of the profits, and that the rest of these so-called profits are being reinvested in the business to maintain and expand production, to give the nation the steel it needs, to make their own jobs more secure, and to create new jobs for the rising generation.

"They will also have a right to expect that the market value of their stock should rise as the amount of their investment increases. And so, of course, it should; but since it doesn’t, they will conclude, I am sure, that they are not getting a fair profit, and they will insist not only on higher wages, but on higher dividends as well. Which means, of course, higher prices. But right here, unhappily, they run into the stern realities of competition in the market place. And nowadays, of course, they also run into a little matter of government price controls.

"So they go back over the books once more in a final effort to find some money somewhere and they run across an item headed ‘taxes.’ Now that’s when the lid blows off.

"The boys discover that for every dollar they are getting in dividends, the Company is paying about six dollars in taxes to federal, state and local governments. Well, I leave it to you to imagine all of the colorful language that would greet this discovery.

"And at this point I can see the Treasurer putting in a five-alarm emergency call to the Union company president. The conversation, I suspect, would go about like this: ‘Look,’ he would say, ‘the boys are pretty sore. They want you to get right down to Washington. They want you to tell those fellows down there that they’ve got to lower taxes. And they’ve got to cut out a lot of this spending, too. Defense is all right, but this boondoggling and payroll padding has just got to stop!’
"Then the Treasurer would go on to say, 'And by the way, while you're down there, you'd better tell Congress to toss those price controls into the ash can. Yeah, that's right. The boys can't afford them either.'

"I can't help feeling that if the workers in America ever did own the tools of production, all of us would quickly learn a few very fundamental and very simple economic truths that have somehow escaped a great many of our people.

"We would learn that this endless conflict between owner and worker is the sheerest, unadulterated folly; for when we fight over profits, we are fighting over peanuts.

"Of the total sum which the workers and the owners of U. S. Steel divided up between them last year, more than 92 percent went to the workers, while less than 8 percent went to the owners. Yet that small share which went to the owners was the total 'rent' we paid them for all the billions of dollars worth of plants and furnaces and facilities we used in making steel. And without these facilities, of course, our men would not have made any steel at all.

"Let the workers take one-tenth of everything the owners received for the use of these tools, and what would they get? Peanuts, as I have said. Less than a dime a day. But let them go whole hog and grab all of the owners' share . . . let them wipe out all of these dividends completely and forever . . . and what happens? They would destroy the Company, destroy their jobs, work infinite harm upon a vast segment of our national economy and wipe out the savings which more than 275,000 of their fellow Americans have invested in our business. And for what? For the price of about three cartons of cigarettes a week apiece!

"No, my friends, American workers will never improve their standard of living by grabbing the meager share which the owners get from our present economic pie. They will only do it producing a larger pie with a bigger share for everyone.

"If we produce more goods we shall have more goods to divide among ourselves. If we produce fewer goods we shall have less to divide and less to live on. For no matter how many billions of dollars we may have in our collective pocket as a nation, we cannot buy more than we have produced; and the dollars themselves mean nothing. They are only paper, and we cannot eat them, wear them, or build a house of them.

"And there we have the simple economic truths of the matter. To live better we must produce more; but production is the re-
result of teamwork; not of conflict. We cannot produce by fighting each other and hating each other; for by doing that we destroy ourselves. And we shall only achieve our fullest measure of production when we begin to understand that the interests of the worker and owner are not antagonistic, but identical...that under our American system of enterprise it is impossible for one to prosper while the other suffers.”

QUESTIONS

Does big business restrict or create employment?
Is it safe to assume that stockholders have larger incomes than salaried workers?
Should industrial policies be framed to favor one group over another?
Does industry have more or less competition today than a century ago?
How do business consolidations, by further research, benefit employment?
What benefits does consolidation render to society that are impossible on a small scale?
Does the creation of big business necessarily benefit particularly the wealthy man and injure the poor man?
Considering the large holdings of stocks by endowments of schools, colleges, churches, hospitals, libraries, etc., do the really poor benefit by stockholdings and by the progress of big business?
Is it desirable that stockholding and stock ownership be as widely diffused as possible?