

THE CONSERVATION OF BUSINESS—SHALL WE STRANGLE OR CONTROL IT ?

EDITORIAL BY THEODORE ROOSEVELT

IN my speech at Columbus I tried to develop two main lines of thought: first, that the people must govern themselves, that they have a right to rule, and that we must obtain social and industrial justice through genuine popular government; and, second, that (our aim must be to control business, not to strangle it.) In other words, just as we aim at the conservation of our physical resources, and at the conservation of the manhood, womanhood, and childhood of the people, so we must aim at the conservation, that is, at the wise control and development, of the business upon the existence of which the prosperity of the whole people so largely depends. In business we must conserve ideas, conserve efficiency, conserve "up-to-date" methods just as we conserve our forests, our streams, our natural resources.

The three great classes of the American community are the farmers, the wage-workers, and the business men, big and little. It is essential that all three shall prosper. It is essential that there shall be a more equitable division of prosperity than has been the case in the past. But there can be no division of prosperity unless the prosperity is there to divide; and therefore it is to our interest to shape conditions so that business shall prosper. Of course it cannot permanently prosper

per save on a basis of justice; justice to the business man from the people, and justice by the business man to the people—that is, to his competitors, his customers, and the persons who work for him for wages.

It is the extremes in life, wherever we find them, that cause mischief, and this is as true in business as anywhere else. Our people will no longer tolerate the unbridled, unregulated potential power that enables a group of men who find themselves in a strong position to put up prices and squeeze the consumer for their own pecuniary advantage. This is one extreme. Another and almost equally mischievous extreme is when a similar group of men, who find themselves in a position of great potential power, get to fighting among themselves and wreak their vengeance on each other, for personal prestige or gain, by so cutting and slashing prices as to bring failure in their wake, or else a serious reduction in wages—and either one brings misery and want to the toiler. The business question is strictly a moral question, and the complying in a technical manner with a technical point in a law so obscure that scarcely any two men agree as to exactly what it means, will never permanently satisfy the people, for it corrects none of the immoral practices of which the people complain.

We are giving about seventy-five per cent of our time to fighting among ourselves about ourselves, and only about twenty-five per cent in promoting our foreign commerce and trade, while such a formidable competitor as Germany is doing exactly the reverse. No man can travel through Europe and see the enormous strides that countries like Germany are making without realizing that our commercial supremacy is being challenged. Yet it is also true that no one can travel through Europe and through this country, and meet and talk with the business men everywhere, and not be deeply impressed with the superiority in energy, intelligence, resourcefulness, and general all-around executive ability of the men of our country as compared with those of any other country. I believe this to be especially true of the oncoming generation of business men—those who are just about to take the helm and guide the commercial destiny of this country in the immediate future. It is my belief from close observation that they have no equals anywhere; but they must be told in plain English what they can and what they cannot do. Once given an accurate chart, and they will speedily conquer the commerce of the world. But at present Germany has this accurate chart and we have not; and it is hard to overstate what this fact means in the way of handicap to us and of advantage to Germany.

My chief concern is with the welfare of the little man; but of course we must do justice to all. Otherwise we cannot get prosperity for any one. We must endeavor to encourage legitimate and honest business at the same time that we war against business crookedness and business injustice. The great mass of business is, of course, done by men whose business is either small or of moderate size, and these men are an element of incalculable strength to the Nation. The average American business man is honest, and is just as desirous of obeying the law as is any one of his fellow-citizens. Yet many of the middle-sized business men nowadays, when they come to make necessary trade agreements, are puzzled lest they may find that they have unwittingly transgressed the law; and they are unable to find out in advance what the law is. This is all wrong. There should be absolute clearness of the law, and there should be a competent administrative body to do for the world of industrial production what the Inter-State Commerce Commission has done for the world of indus-

trial transportation. It should be the policy of the Government clearly to define and punish wrong-doing, to give in advance full information to every man just what he can and just what he cannot legally do.

The small business man and the middle-sized business man must conduct their business under the law and must act justly. This is also true of the big business man. But in his case there is an added duty on the part of the Nation and the several States. There must be over big business a control and supervision by the Nation (or, if necessary, by the State) which are unnecessary as regards small business. The people of this country are not afraid of the mere size of a business enterprise provided it is honestly organized and honestly managed; but they are afraid of, and will no longer tolerate, exploiting the public for the promoters' benefit. Our laws to-day do not prevent over-capitalization or the flagrant abuse of power in exploiting the business of the people for the personal gain of a few; and yet they threaten vague disaster not merely to dishonest, but to honest, business men. There is urgent need that they should be made both more definite and more efficient. I do not believe in making mere size of and by itself criminal, but size does unquestionably carry the potentiality of so much grave wrong-doing that there should, by law, be provision made for the strict supervision and regulation of those great concerns that do an inter-State business.

It is idle to trust such regulation merely to the effort to prohibit all combinations, and thereby to restore the conditions of sixty years ago. Nothing can be accomplished in this manner. Nor is it wise to trust only to a succession of lawsuits for removing the evils of monopoly and the like. In theory the ultra opponents of corporations have embarked on a process of strangling business. This would of itself be bad enough. But it is rendered still worse by the fact that such a policy is necessarily ineffective. The effort to strangle big business has been successful chiefly to the extent of alarming all business, and has not been successful as regards thoroughly and adequately controlling the very kinds of big business which it is most urgently necessary thus to control.

The unwisdom of endeavoring to strangle business instead of controlling it ought to be evident, in the first place to those who consider the business situation as it affects the small business man whose welfare we must

always have close at heart; and in the next place when we consider the curious but perfectly evident fact that the worst big business concerns, and especially those which we usually associate in our minds with Wall Street, have now evidently come to the conclusion that they object to a policy of just and efficient control much more than they do to one of pretended (and impotent) strangulation.

When, four months ago, I wrote in *The Outlook* an article on "The Trusts, the People, and the Square Deal," Wall Street was inclined to favor the proposition of control, being at that time alarmed as to the workings of the Anti-Trust Act, in view of the recent Standard Oil and Tobacco Trust decisions. Obviously, however, Wall Street has changed its mind. It was prepared to support the policy of honesty and efficient control which I advocated rather than to see the ruin of both bad and good business. But the representatives of the worst kinds of big business have now concluded that the Standard Oil and Tobacco Trusts were not really hurt by the decisions—indeed, that they were benefited. These men care nothing for honest business or for the welfare of the general business community if it conflicts with the policy under which they hope to thrive better than under a policy of real control. Those New York dailies which are owned in or directly or indirectly controlled by Wall Street have shown by their recent utterances that they have made up their minds to fight the effort at just control of big business. Evidently they prefer a policy of pretense of destruction which they know to be chiefly sham rather than a policy of real control which would correct evils and yet promote prosperity. Of course there are exceptions. There are certain big business concerns so far-sighted as to see that in the long run it pays to be honest and that it will pay to trust to a policy of real control instead of to a policy of make-believe strangle. It is curious to see the worst of the big business interests, and the least wise extremist agitators, playing into one another's hands, and trying to preserve the present system of chaos in business law as preferable to a system of ordered supervision and control under which we would secure definiteness of legal policy for all business, and would guarantee to big business proper treatment as an incident to exacting proper behavior from it. The policy I advocate would tell for the permanent prosperity of

the entire honest business world; and it is opposed by the great New York dailies which speak for Wall Street, because they are concerned with general prosperity only secondarily, their prime interest being to prevent the efficient control of the big trusts that do wrong; and they would rather run the risk of sacrificing the general prosperity than see a thorough and real control of big business.

What has just happened in connection with the Sugar Trust is most instructive. During my Administration suits against the Oil and Tobacco Trusts were begun, under the Anti-Trust Act. At the time, in repeated messages to Congress and in speeches, I explained that the Anti-Trust Law was not sufficient; that only a little could be accomplished under it; that what was needed was effective supervision and control, by some competent administrative governmental agency, over these great corporations.

The Republican party, in its platform of four years ago, in speaking of the Sherman Law, declared as follows:

Experience has shown that its effectiveness can be strengthened and its real objects better attained by such amendments as will give to the Federal Government greater supervision and control over and secure greater publicity in the management of that class of corporations engaged in inter-State commerce having power and opportunity to effect monopolies.

However, no law was passed in accordance with this declaration. The suits against the Standard Oil Trust and the Tobacco Trust were nominally successful. For a moment Wall Street was much alarmed, and turned to my proposal. Then it plucked up heart, and inspired and entered upon a campaign of violent denunciation of me. The reason for the change is revealed with unconscious clearness by one of the chief newspaper supporters of the Wall Street policies, the New York "Times," in its issue of March 6, as follows:

STANDARD OIL PARTY MAKES ANOTHER COUP

PROFITS THIS TIME AT THE EXPENSE OF OUTSIDE OWNERS OF PRAIRIE OIL CO. SHARES

BIG DIVIDEND KEPT QUIET

NEWS OF IT NOT PERMITTED TO REACH NEW YORK UNTIL FOUR DAYS AFTER IT WAS VOTED

Stockholders in the former subsidiaries of the Standard Oil Company were bubbling with indignation yesterday over what they regard as a fresh outrage. The withholding of information, which has been the invariable policy of the thirty-

two subsidiaries controlled by the old Standard Oil party, has provided many opportunities to insiders in possession of the facts to make money at the expense of the stockholders at large. It will be recalled that while the Colonial Oil officials were refusing information in the early days of the dissolution to stockholders who bought fractional lots of that stock at around 500 to bring their own allotments up to full shares, developments inside the company made a vast difference in its current value, and the stock rapidly sold down to par or below. So complete was the case of those who had bought at the high price that in at least one instance an insider who had sold at the high quotations was compelled to cancel his contract when the buyer became insistent. Another case, in which the uninformed outside stockholders suffered, was that of the Standard Oil Company of Indiana, which, early in the stages of the Trust's dissolution, sold at \$1,400 a share and rapidly advanced until it sold at \$1,100. The outsiders didn't know that a big melon was to be cut, as it was only a few weeks ago, in the shape of a \$29,000,000 stock dividend.

The latest complaint is that of the Prairie Oil and Gas Company stockholders, who did not know until March 2, if they were New Yorkers, that the Directors had put the stock on a 28 per cent annual dividend basis by the declaration, on February 26, of a dividend for the quarter of \$7 per share. Notices of the dividend received in New York on March 2 were postmarked "Independence, Kansas," the headquarters of the company, at 3 P.M. February 28. The books closed for the registry of stock entitled to the dividend on February 29, two days before most of the stockholders knew of the declaration of a dividend of \$4 a share higher than that paid in 1911. Meanwhile the shares, which sold last week at \$235, rose to \$245 on Monday, and yesterday advanced to \$309. The increased dividend was only partly responsible for the rise, yesterday's advance and active trading being largely due to rumors that the company would give stockholders a right to subscribe to new shares, possibly in connection with the retirement of its outstanding bonds. Of these there were \$18,000,000 in December, of which it is reported \$1,000,000 or \$2,000,000 have been since retired out of earnings.

There are no accurate records obtainable of the daily sales of the shares of the former subsidiaries of the Standard Oil Company of New Jersey, and to what extent those informed about the affairs of the Prairie Oil and Gas Company may have profited at the expense of the confiding outside stockholders by reason of their foreknowledge of impending events cannot be learned, but shareholders who parted with their stock at the low prices were loud yesterday in their denunciation of the methods of the management. Of all the former subsidiaries of the Standard Oil Company of New Jersey that replied to requests from stockholders for information either as to earning power or assets after the dissolution, the only one which gave a frank statement of conditions was the Waters-Pierce Oil Company, which is managed by interests that have since proven inimical to the control of the old Standard Oil

Company. This control has been handed down through the dissolution by means of the pro rata distribution of the stocks of the subsidiaries held by the New Jersey company, which naturally brought to the dominant interests in the old trust a like share in the distributed stocks. The Pierce interests in the Waters-Pierce Company sought to restrain the voting of Rockefeller and other shares in their company at the annual election last month on the ground that it would continue through a group of individuals the control which the United States Supreme Court had found criminal as exercised by these individuals through the device of a holding company, the Standard Oil Company of New Jersey.

The Prairie Oil and Gas Company now has a stock capital of \$20,000,000. It was only \$10,000,000 when the Government investigation was made in 1906. It operates oil wells, but does not refining business. *The price of crude oil has advanced materially since the separation of the thirty-three co-defendant subsidiaries from the old Standard Oil Company of New Jersey.*

[The italics are mine.]

When such a state of affairs results from a successful suit under the Anti-Trust Act, it is small wonder that Wall Street regards the act with derision, and turns its batteries on me, for my proposals would result in a rigid control which would absolutely put a stop to these antics. There are two incidental facts in connection with the transaction which it is well to keep in mind. The first is that the Standard Oil Trust was (nominally) abolished by the Supreme Court, not because of its size, but because of its bad conduct; and apparently the "punishment" has fallen only on the consumers of the oil and the uninformed small outside stockholders, while the trust magnates have greatly profited. The second is that the company which has (as the "Times" says, for the benefit of favored insiders) just declared a dividend of twenty-nine millions is the company on which Judge Landis inflicted a fine of substantially the same amount. What an outcry that fine excited among the professional friends of privilege! What joy there was among them when a Court of Appeals overruled Judge Landis! This particular company was capitalized for one million dollars; the fine was set aside on the ground that it was excessive; and now a dividend almost precisely as great as the fine is declared. Seemingly the court was all-powerful to save the Trust from any punishment at all being inflicted on it, the Trust, for wrong-doing, but powerless to inflict any real punishment when it, the court, itself became convinced that the Trust really had been guilty of grave misconduct. Yet there are worthy people who become

panic-struck when these results of unaided judicial action are instanced in order to show the need of more direct control by the people of the things which are of vital concern to the people.

What our people want is that the evils of big business be eradicated and the advantages, the benefits, preserved. I believe that our country is ripe to-day for a straightforward, unflinching, common-sense treatment of the trust question. Of course it's a big question. But this country does not mind tackling big questions. We did not hesitate to take the Panama Canal Zone because up to that time no other people had been able to control yellow fever down there. We took the Zone fully realizing the awful menace of yellow fever, but believing that with our intelligence and energy we could stamp it out; and we did. We did not hesitate to take Cuba because of the unsanitary condition of Havana. We had the courage and the faith to believe that we could correct it; and we did. In just the same way our people realize that the trust problem is a big problem, but that they, the people, have the hard common sense necessary to solve it. It will not solve itself. *The people must solve it.* And they must solve it by insisting on a just and wise but thoroughgoing and efficient control. Let

our opponents of reactionary habit make no mistake. The people are demanding more voice in affairs industrial no less than in affairs political. Our opponents believe that the people cannot be trusted. We believe that they can be. Why? Because they have been educated, and because they are of the stuff that gives good results under education. We believe in real democracy for America because we have a profound faith in the moral, mental, and physical fiber of the average American man and the average American woman; and we believe that they have been educated, in the true sense of the word, as the men and women of no other nation have been educated.

We must achieve a permanent prosperity based on justice—a prosperity which must come by the wise and resolute effort to control business by law, and especially by administrative work under the law. We must not pin our faith only to a succession of lawsuits, which, under pretense of strangling big business, punish real offenders inadequately, or positively benefit them, as in the case of the Standard Oil Trust and the Tobacco Trust, and at the same time are a source of constant uneasiness and alarm to honest and upright business men, whose anxiety is to find out the law and then to live up to it.