

were conducted by men whose every-day life was one of bodily peril. As they rode to their meetings they were in danger of Indian attack. Not a week passed but some friend fell under the tomahawk. They were all subject to the call of the County Lieutenant or the militia captain at a moment's notice. The chief judge and the delegate representing the district in the Continental Congress were privates in the militia of their neighborhood, and continually served with their neighbors on scouts and guards. Not one of them but knew the perilous life of the frontier. Yet, surrounded by danger, beset with anxieties, remote from all contact with current events, they thought upon important topics and wrought out for themselves their own safety and that of their firesides, and a stable, well-ordered, and well-considered polity. With easy transition they passed from the frontier station to the halls of the Senate and to diplomatic missions. They had undergone a training as youths and men that gave them power and poise and courage.

The pioneers of Kentucky were, in brief, an intelligent, honest, and hardy race, strongly imbued with religious sentiment,

and trained in a rugged but manly experience. Their private virtues were hospitality, courage, fidelity; their public virtues were patriotism, love of order, readiness for the most arduous public service. What they did speaks in their praise. What they were so self-contained as not to do speaks an even more emphatic eulogy.

The fair fame of the State they founded has sometimes been tarnished by violence and lawlessness, and at times shame has come upon many for the wickedness of the very few. But he who will carefully search out the history of her populations and the antecedents of Kentucky's wrongdoers will discover in them a class different from the blood of the pioneers. He will find that the too frequent homicides of certain neighborhoods have an origin altogether different, drawn from an originally immoral class, and justifying the law of heredity.

But in those areas where the original and true pioneers made their lodgement, and held it, the stamp of their qualities may still be observed, modified by the lapse of years, but the same in essentials: the badges of a martial, hospitable, truthful, and self-reliant people.

## SOCIAL STUDIES.

### Second Series.

#### II.—THE GROWTH OF CORPORATIONS.

BY RICHARD T. ELY.

ONE hundred years ago the opinion was often expressed that corporations could not succeed, because the practical difficulties inherent in that form of organization of business were too great to be counterbalanced by any theoretical advantages which it might offer. In the note-books of his grandfather, who graduated at Princeton College about 1785, Major Richard Venable, of the Law School of the University of Maryland, finds it stated as a fact beyond controversy that corporations must fail in competition with ordinary private business concerns, because the stimulus of self-interest does not act with the same force on those who manage corporate enterprises as on those who conduct their own affairs in their own way for their own profit. This seems to have been a common assertion of lawyers, and was indeed occasionally heard proclaim-

ed from the bench as an axiom of political economy, much as it is now a favorite saying of many who love dogma rather than fact that public undertakings never succeed so well as private ventures. Adam Smith joins in the condemnation of corporations which was so general in his day. A few sentences from his immortal *Wealth of Nations*, published, it will be remembered, in 1776, will help us better than pages of explanation to understand the feeling of the time with respect to the corporate principle. "The trade of a joint-stock company is always managed by a court of directors. This court, indeed, is frequently subject in many respects to the control of a general court of proprietors. But the greater part of those proprietors seldom pretend to understand anything of the business of the company. . . . The directors of such companies, however, being



the managers rather of other people's money than of their own, it cannot well be expected that they should watch over it with the same anxious vigilance with which the partners in a private copartnery frequently watch over their own. Like the stewards of a rich man, they are apt to consider attention to small matters as not for their master's honor. . . . Negligence and profusion, therefore, must always prevail, more or less, in the management of the affairs of such a company. . . . That a joint-stock company should be able to carry on successfully any branch of foreign trade, when private adventurers can come into any sort of open and fair competition with them, seems contrary to all experience. . . . The only trades which it seems possible for a joint-stock company to carry on successfully, without an exclusive privilege, are those of which all the operations are capable of being reduced to what is called a routine, or to such uniformity of method as admits of little or no variation." The trades included by Adam Smith within this class were these: first, the banking trade; second, insurance from fire, from sea risk, and capture in time of war; third, the trade of working and maintaining a canal; fourth, the trade of bringing water for the supply of a great city. But Adam Smith held that even the possibility of success could not justify the creation of a joint-stock company unless the business which it was proposed to prosecute by a corporation was of more than ordinary utility, and at the same time required a greater capital than a private individual or copartnership could command. He knew of no trade except the four mentioned which combined all the circumstances requisite for the justification of a joint-stock company; and by way of illustration he cites several instances of failure. Manufacturing corporations, he held, "scarce ever fail to do more harm than good."

It is often remarked that the "fathers of the republic" endeavored to create such institutions as would prevent the accumulation of wealth and power in the hands of a few individuals or families. The general aim was to make distinction personal. Each one, it was held, should have, so far as practicable, the same opportunities, and should make the best use possible of these. Hereditary titles were abolished because they confer marks of distinction due to the merit of one's ances-

tors, and not to one's own virtue. Primogeniture and the transmission of wealth by entailments were abolished, and the division of estates encouraged, in order, on the one hand, to prevent the absorption of any considerable portion of the national resources by a few; on the other, to make wealth the reward of one's own frugality, diligence, and ability. Yet these men who so jealously guarded the rights of the many passed no laws and created no institutions designed to defend the American people against artificial persons devoid of soul, gifted with immortality, and devoted to the sole purpose of gain. Surprise is expressed at this, and we find it difficult to understand the strange oversight when we read of schemes for the purchase of the municipal gas-works of Philadelphia by a gigantic corporation, hear rumors of avaricious syndicates whose covetous eyes are fastened on the water-works of that same city, and are occasionally aroused to indignation by evidences that private corporations are usurping the functions of government by maintaining armed bands of hirelings to shoot down rebellious working-men whom their own greed may have whipped into revolt. When, however, we learn that in the time of the Declaration of Independence it was supposed that corporations could never succeed in competition with individual enterprise, it becomes easy to comprehend the failure of "the men of 1776" to guard against present dangers. These dangers did not exist then. In thirty years, in the second half of the eighteenth century, only one corporation was formed in Massachusetts, and that was of an eleemosynary character. When Alexander Hamilton wrote his celebrated report on the establishment of the First United States Bank in 1790 there existed only three banking corporations in the United States. Some estimate that railway corporations own one-fourth of the wealth of the country, but they did not begin to exist until more than half a century had elapsed after the promulgation of the Declaration of Independence. Gas companies, which have been so fruitful a source of corruption in States and municipalities, did not exist at all in the eighteenth century, and not in large numbers much before 1830. Manufactures were carried on in the last century in insignificant shops by men of little wealth, and of no great social importance. The word manufacturer, in Adam Smith's *Wealth of*



*Nations*, did not mean a great proprietor, but a man who worked with his own hands—a humble artisan. The wealth of the civilized world was largely agricultural until this century, and great land-owning corporations were then of less significance than now—at any rate, of different significance. Three-fourths of our population was rural when our first census was taken, and the Physiocrats had in France recently advanced the theory that agriculture was the sole source of wealth.

The contrast with the present time is so marked that it is patent to all, and scarcely needs mention. Take the item of banks. Instead of three banking corporations, we have nearly if not quite a thousand times as many organized under national law, to say nothing about those organized under the laws of the various States. Instead of one charter in thirty years in one State, we find that in the single commonwealth of Texas eighty charters were granted in ninety days in 1885.

It is unfortunately not possible to state exactly how much money is invested in corporate enterprises in the United States. In England there is an office called the Registry of Joint-stock Companies, to which returns are made, and which is able to furnish accurate statistics about corporations; but this could be done only in very few, if any, of our States. This information is of importance, and the impossibility of ascertaining exact data is one among the evils of the absence of uniformity of statistical methods, and of the lack of publicity concerning corporate affairs prevailing in this country. However, data can be procured for certain classes of corporations, and a rough estimate sufficient for present purposes can be made as to the relation between our total wealth and that part of it invested in corporate enterprises. We have, for example, excellent laws for those corporations known as national banks, and to enforce them is the special duty of an officer called the Comptroller of the Currency. His last report shows that the capital stock paid in of national banks amounted to nearly \$550,000,000. For private purposes statistics of railway corporations are laboriously gathered together. It has already been mentioned that, according to some estimates, one-fourth of the property of the country, or a valuation of ten thousand millions of dollars out of forty thousand millions, belongs to them. This seems

like too large an estimate. Probably one-fifth would be more accurate, while one-eighth is a low estimate. But without going into details, hardly called for in a study like this, it may be safely said that when we add the capital of manufacturing corporations, mines, insurance, telegraph, telephone, and gas-light companies, canals, street-car corporations, steam-ship companies, land-owning corporations and syndicates, and the various other classes of corporations, it will be found that it is within the bounds of moderation to estimate the wealth of corporations as one-fourth of the total value of all property in the United States. The most significant fact, however, is the rapidly *increasing* proportion of all the resources of the country which belongs to corporations. Hon. Abram S. Hewitt stated a few years ago that corporations were modern institutions, that private corporations did not exist fifty years ago, but that they now owned from one-third to one-half of the capital of the civilized world. This is not accurate in every respect, but it is important as registering the results of the observation of an active business man. Another authority has estimated that the wealth of corporations in the United States is increasing three or four times as rapidly as that of private concerns. While opinions like these are more or less uncertain, they are of value because in the main they harmonize with the results of all investigations which have been made.

It is interesting to notice the increasing importance of corporations in other countries, as it indicates a world-wide movement which is even more marked in America than elsewhere. According to an estimate made by the English *Economist* of November 6, 1886, the accumulation of capital in England between 1875 and 1885 amounted to nearly £1,000,000,000, of which £186,000,000 was attributed to "home railways," and £200,000,000 to other joint-stock companies, or nearly forty per centum of the increase belonged to corporations. If the amount invested in foreign corporations by English capitalists should be added, it would doubtless bring the per centum up to forty-five. A very considerable proportion of the increase consisted of money lent to local governments, to the general government, and to foreign countries. It is thus manifest that if the table printed by the *Economist* is correct, the capital of business organized on



a corporate basis is in England growing more rapidly than that of business organized on a private basis. Every observer of English economic life remarks on the conversion of private business enterprises into joint-stock companies as one of its most marked features. The *Economist* of October 30, 1886, says that there had been nearly one hundred such conversions during that year, and opens its article on "Recent New Capital Creations" with the remark, "Throughout the present year company promoters have been very active, and there are not wanting evidences that before long their activity may be considerably increased."

The former distinguished chief of the Prussian Statistical Bureau, Dr. Engel, has given us some valuable statistics of 1267 joint-stock companies in Prussia. The table which he prepared is sufficiently interesting to justify its quotation:

Date.	Number of Joint-stock Companies created.	Capital. Thalers.
Before 1800 .....	5	467,000
1801—1825 .....	16	11,454,265
1826—1850 .....	102	112,665,085
1851—July, 1870 .....	295	801,585,105
July, 1870—December 31, 1870.	41	59,024,150
1871 .....	225	375,952,533
1872 .....	500	543,095,542
1873 .....	72	205,780,500
1874 .....	19	146,073,200

Of the 1267 companies, 410 were formed before July 30, 1870, whereas in the four and a half years following 857 companies were created, or more than twice the number, manifestly a most enormous increase. In the single year 1872 more corporations were formed than in the first seventy years of the century.

The private corporation created for business purposes, although of great importance only in recent years, has existed for four hundred years or more. Some trace it back to Rome, but this is doubtless an error. The companies which bought the revenues of that republic, "the farmers of the revenues," called "*societates vectigalium publicorum*," to which reference is usually made, differed in essential particulars from a modern joint-stock company. The earliest home of the corporation engaged in the pursuit of gain appears to have been Italy. In the fifteenth century creditors of the state put together their claims—their bonds, as we should say—and used them as the basis of a banking business. The first one of these banking corporations was the Bank of Genoa,

founded in 1407. The seventeenth century is remarkable for the number of celebrated, indeed, one may say epoch-making, joint-stock companies for foreign trade, created in Holland, France, and England. The first of these great corporations for international trade was the Dutch East India Company, founded in 1602. Other companies followed in Holland, and the English East India Company, destined to play a rôle in the world's history, was established in 1599, and received a charter modelled on that of the Dutch East India Company in 1613. Other companies were soon formed, and some of them assisted in the development of the American continent. The London Company, the Plymouth Company, and the Hudson Bay Company may be mentioned. France followed in 1628 with the *Compagnie des Indes Occidentales*, and in 1664 with the *Compagnie des Indes Orientales*. Germany did not begin the creation of trading corporations so early, and there appears to be no record of any such institution before the foundation of the *Wiener Orientalische Compagnie* in 1719.

Banking corporations were created in the seventeenth and eighteenth centuries in Sweden, England, Germany, Holland, and elsewhere. Some of these banks were of vast national and international importance, but there were comparatively few of them. Burke tells us that in 1750 there were in England not more than "twelve bankers' shops out of London."

Stock-jobbing and corporate swindling flourished at an early date. Laws were passed in Holland in 1621, 1624, and in 1677 to check speculation and to protect the public. In 1720 we have in France the disastrous failure of John Law's notorious *Compagnie des Indes*, better known as the Mississippi Company. A worse case of fraudulent inflation of values and a more terrible collapse has never been revealed by the subsequent history of corporations. About this same time joint-stock companies in England reached the conclusion of the first period of their history in a panic, in which the South-sea Company played the most prominent part. In 1720 its stock was selling at 1000, and it guaranteed an annual dividend of fifty per centum, which was a better promise than Law's company had ventured to make, for that engaged to pay only twelve per centum. A fever, a kind of insane epidemic of speculation, seized the people. This was



the time of the creation of "bubbles," as the unsound joint-stock companies of the period were called. Among the enterprises proposed were schemes for extracting silver from lead, for melting shavings and casting good boards out of the fluid, for the discovery of a perpetual motor, for making salt-water fresh, and for making oil from sunflowers. One promoter came forward and invited subscriptions for "an undertaking which shall in due time be revealed." Even he was able to decamp at night with £2000 as the result of one day's exertion. The news of Law's failure in Paris increased the suspicion already aroused in London, and alarm soon terminated in a panic which ruined thousands of families. It is worthy of notice that when the investigation ordered by Parliament into the affairs of the South-sea Company revealed fraud and corruption, the estates of the directors were confiscated, and used for the benefit of those who had suffered by the speculation. Would that this just course had always been pursued!

The reaction against corporations was so extreme in England that joint-stock companies, save such as should be chartered by royal grant or by Parliament, were forbidden by the "Bubble Act" of 1720, and it was not until 1855 that associations with limited liability could be called into existence otherwise than by special act.

While there is, then, a history of joint-stock associations of capital with limited liability, which may be traced back for four hundred years, and some features of which are still older, it is true that corporations devoted to gainful pursuits have only in very recent years assumed vast importance in the economic life of the world.

The question now arises: What are the causes which have led to such momentous changes in the organization of industry during the past fifty years? The answer is not difficult. Owing to discoveries and inventions, especially the application of steam to industry and transportation, it became necessary to prosecute enterprises of great magnitude such as could not be compassed by the resources of an individual or a combination of individuals in the ordinary copartnership. This applies especially to the means of communication and transportation. To provide these instruments of economic life has been gen-

erally regarded as one of the functions of government, municipal, State, and Federal. There were two alternatives. This might be done either directly, or the duty might be transferred to private corporations. There was in either case the same problem to solve, namely, the management of enterprises of unparalleled magnitude by delegated action. In one case managers would be chosen by the citizens to promote the welfare of the community. The electors would have the prosperity of their business interests more or less at stake, and would in so far have a motive to induce them either themselves to select good men to manage such important undertakings or to see that their elected agents appointed such men, as the case might be. The managers themselves would as citizens be interested in the success of the enterprises intrusted to them. On the other hand, there would be the danger of an abuse of public trust. In the case of the adoption of the corporate principle, the stockholders, in so far as their interests are not merely speculative, must desire to elect directors who will so manage their property that it will yield large dividends, while the directors, themselves stockholders, wish a return on their investment. On the other hand, as has already been pointed out, the interest of the directors is often not identical with that of the property which they manage, and they are, as experience demonstrates, oftener faithless to their trust than public servants, while the opportunities for their exposure and punishment are less favorable. They may wish to injure the undertaking in which they exercise control in order to buy shares at a lower price than they are really worth, or they may desire to sacrifice its future to the present for the sake of high dividends, so that the price of stock may rise unduly, thus enabling them to "unload" with profit on a too credulous public. Again, directors may find it to their advantage to neglect their interests as stockholders in a corporation in order to promote their interests as individuals or members of a firm engaged in some other enterprise. An example is seen in railway directors who give themselves special freight rates.

It is thus seen how similar was the problem in both cases. Whichever horn of the dilemma was grasped, it was necessary to learn how to manage great properties of a new kind by new methods; and as ex-



perience more and more confirms the general principle that all governments should perform their functions by agents directly under their control, it cannot be said that it was easier for men united in corporations to learn how to construct and carry on those vast undertakings of a public nature which have been handed over to them. But fifty years ago the Manchester theory of political economy was unfortunately in its ascendancy, and its one practical maxim inculcated the reduction of the functions of government to a minimum.

"*The Free Trade Advocate and Journal of Political Economy*," devoted to the science of Political Economy," edited by Condé Raguét, was started in Philadelphia in January, 1829, with the motto, "*Laissez nous faire*." The first number of *The United States Magazine and Democratic Review*, published in 1838, bears the anarchistic motto, "The best government is that which governs least." Then followed the triumph of free trade in Great Britain in 1846, and in the rush of material prosperity which ensued, the policy of do-nothingism for government seemed assured. What high hopes attended the introduction of free trade in Great Britain! Englishmen thought that all the world would follow their example in less than a generation, and Richard Cobden, the great apostle of free trade, believed that the conditions of perpetual peace had been established. The argument was simple. Peace will be in the interest of nations which have large international dealings with one another, and they will follow the course prescribed by enlightened self-interest.

Then our States had tried some experiments in internal improvements, including railway construction, and had encountered, very naturally, grave difficulties. So in the enthusiasm for *laissez faire*, which it was held was certain to usher in an era of peace and wealth, we abandoned the attempt to perform many public functions which corporations were only too anxious to assume. We concluded that "the way to improve administration was to abolish it." As Professor Henry C. Adams well says in his treatise on the *Relation of the State to Industrial Action*—the profoundest study in the English language on that subject: "The advocates of non-interference have treated government as the old physicians were accustomed to treat their

patients. Was a man hot, he was bled; was he cold, he was bled; was he faint, he was bled; was he flushed, he was bled; until, fortunately for him, he passed beyond the reach of leech and lancet. This has been, figuratively speaking, the form of treatment adopted by the people of the United States for their local governments, and it has worked its natural result of feebleness and disintegration."

Thus did we transfer to corporations our railways, and in general all the chief means of communication and transportation, save the Post-office, upon which the covetous eyes of promoters have been fastened, happily in vain. Even our municipal water-works were occasionally handed over to corporations, gas supply was, as a rule, intrusted to them, and street-car lines without an exception.

Well, corporations succeeded no better at the start than our States, and they have in the management of railways, gas-works, and street-car lines never attained the proficiency of many branches of the public service. Yet they were admirably situated for the promotion of their own welfare, even if not to the same extent for the advancement of the public weal, and they had every opportunity for a long career of experimentation. Private adventurers, to use Adam Smith's expression, could not come into any sort of competition with them; the only kind of competition which could affect them, that of other corporations, was generally totally absent, sometimes legally excluded, and seldom worked otherwise than spasmodically at intervals; and they were further intrusted with enormous powers, and gifted with extraordinary privileges by government. Moreover, as they were not equal to the tasks they had undertaken, they received enormous gifts from the public, including over two hundred millions of acres of land, and more than one hundred and eighty millions of dollars in municipal bonds, and to these was frequently added exemption from the burdens of taxation. Adam Smith said of trading corporations that they rarely if ever succeeded without an exclusive privilege, and often failed even with one. This was the case with our great corporations. They frequently failed even when favored by a practical monopoly. Still, after great loss and suffering on the part of many, and waste of national resources, men are learning how to work advantageously to-



gether through corporations. Progress has been made in the art of the administration of economic interests by delegated authority. It has been found possible, in many cases, to interest managers in the permanent welfare of corporations, and large resources have purchased the best brains, which have often more than counterbalanced a weaker stimulus of self-interest. Men have also in time been raised up by corporate enterprises who thoroughly understand how to manage them, just as the English co-operative stores have trained up a generation of able managers, to which fact their success is largely due. The habit of combination has become stronger, and the spirit of individualism, each man for himself, is being crushed out. Co-operation of one kind or another is taking its place among the employers and great leaders of commerce and industry as well as among laboring-men.

The success of corporations in every field is the result of this evolution. Adam Smith said that manufacturing corporations were almost invariably a failure, as has already been stated, whereas Arnold Toynbee, in his excellent work *The Industrial Revolution in England*, published in 1884, remarks that in the recent depression of the iron trade the iron-works of Dowlais, managed on the joint-stock system, "alone remained successful amid many surrounding failures, and that because they had the ablest man in the district as manager." A German student, Dr. R. Van der Borght, concluded, in 1883, as a result of statistical investigations, that brewing was not a suitable industry for a joint-stock company, but the success of the brewing corporation Guinness and Company, with a capital of £6,000,000, has recently attracted attention in England, and given a decided impetus to incorporation. It is difficult to say in what department of economic life in our own country corporations are not successful. The undoubted truth is this: failures and disasters of one kind and another occasionally stem the tide perceptibly, but, on the whole, corporations continue to absorb an increasing proportion of the national resources.

One branch of economic life seems comparatively free as yet from their activity, and that is commerce. The great mercantile establishments of the world are still conducted on the individual basis. Yet even here a conclusion must not be

too hastily drawn, although the necessity of quick, alert, and uncontrolled action is such that commerce, in the shape of either wholesale or retail trade, seems less adapted to the joint-stock principle than any business not purely speculative. In England co-operative undertakings have made very serious inroads on the domain of the mercantile community. We have the great English Co-operative Wholesale Society, Limited, in Manchester, with two branches, and sixteen purchasing and forwarding depots in five countries. When it celebrated its "coming of age," its twenty-first anniversary, in 1884, it reported ownership of several manufacturing concerns and of four steam-ships. Its sales, growing rapidly, had amounted to £38,604,674, and were then at the rate of £5,000,000 per annum. Scotland also has its great co-operative wholesale house, while 962 societies in England in 1882 sold goods valued at £22,854,434. The conditions are just beginning to become ripe for co-operation in the United States, and this form of industry and commerce is only in its infancy with us. But recent investigations have shown that it is growing, and sales of co-operative stores in New England now amount to over \$2,000,000 per annum.

Agriculture—another great national interest—is still pursued on the individual basis almost exclusively. We have some live-stock-raising corporations of importance, and a few prosperous co-operative agricultural communities in the communistic settlements in various parts of our land; there are one or two co-operative agricultural colonies, not communistic, which have recently started, and still share the uncertain fate of all new enterprises. These are, of course, comparatively unimportant, and it is still too early to say whether they point to any future national movement at all or not. It may be that corporations will yet play a rôle in agriculture, yet it seems altogether probable that the individual farmer will for many years keep the field to himself.

Again we have to call attention to the significance of this industrial revolution in the midst of which we are living. I have spoken of it as the crushing out of individualism in the sphere of economic life, or, as we sometimes term this life, industrial society. Perhaps it would be more correct to speak of it as the crushing out of isolation. At any rate, this opens



up the whole question of the chance of the individual. How is the individual affected? Our first answer is apt to be: "Unfavorably. Individuality is likely to disappear, and civilization to deteriorate. It is one part of the all-pervading leveling tendencies of our age, which will never cease to attack superiority until all elevations are removed. Society is becoming more and more one dreary plain, from which all peaks and mountains have disappeared."

Yet I venture to believe that this first answer is erroneous. It is doubtless true that the single individual is of less importance to the world than formerly. It is true that the single individual must put himself in connection with others, and work with them, if he would accomplish anything. This is even so in science. Professor Justin Winsor, to give the world a satisfactory history of America, seeks the co-operation of historians in every part of the country. To write a treatise on political economy, twenty-five of the best scholars in Germany combined the results of their acquisitions. American historians have found it desirable to co-operate in the American Historical Association; the political economists thought it advantageous to form the American Economic Association; and the students of modern languages followed with the Modern Language Association. If these societies are not legal corporations now, it is not improbable that they will become incorporated in a near future. The supremacy of the individual is disappearing. We have now no more Platos and Aristotles; it is probable that in industry, commerce, and transportation our Vanderbilts and A. T. Stewarts will hereafter disappear. Already the railway system which is in many respects the best administered of all in the United States—I mean the Pennsylvania system—is not identified with any single person. But this does not mean a levelling down; it means a levelling up. One tree does not project its head above all the other trees in the forest, because it is a magnificent forest full of tall trees. The evolution of the race has reached that point where the supremacy of the individual is neither needed nor desired. What we seek now is not the chief, but the brother. We have a Father in heaven, but grown people who have attained to the stature of our nineteenth-century civilization do not want

paternalism. We crave fraternalism, and without it we would perish. Here again we arrive at our democracy, in which we rejoice.

But what is the basis of true individualism? It is not isolation, for that means barbarism. Is it liberty, freedom of movement? Doubtless the largest practicable amount of liberty for the free development of all our faculties is of the utmost importance. Yet perfect freedom is a complete Utopia. Let the anarchist dream of it. We shall never see it. Restraints too are useful within certain limits. Obstacles to wrong-doing may be welcomed. Perhaps the highest ideal is perfect freedom to do the right thing in every case. We are told, however, that co-operation either through some public body or through some voluntary agency involves curtailment of individual rights. Is this so? The writers of the day seem to forget that freedom is limited by the laws of nature, and that subjection to them in a state of isolation is often worse than human slavery. I must eat to live. This is a terrible and inexorable law. It may chain me in subjection to the most inhuman master. Am I free? No human statute compels me, but the laws of my physical being transcend the enactments of legislatures. I form a co-operative society for productive purposes. With my fellows I agree to certain rules and regulations. These did not exist for me before, yet I am a thousand times freer. I have gained a control over nature. Her laws bear less heavily upon me.

Take another case. Here is a little boy hard at work in a factory eleven hours a day. His body will be dwarfed, the growth of his mind will be stunted, if this continues. Certain men meet in legislative assembly and decree the release of the child. They say that the child has rights, and they take measures which secure for him opportunity to develop his body in play and his mind in school. Now he will become a sturdy, vigorous man, with trained intellect, able to maintain himself among men. Has the law of man increased or diminished freedom? So, as I take it, through co-operation by means of governmental agencies and through voluntary working together in corporate and co-operative enterprises, we are gaining a control over the forces of nature for all men such as never existed before. We are thus opening the way



for a more remarkable growth of individuality than this world has ever seen.

Again, this material economic life of ours, this production of goods, this buying, selling, and getting gain, it must ever be remembered, is not an end in itself. It is but a means to an end. It is the basis of our higher life, and is to be valued merely as such. The noblest development of our being, the grandest triumphs of freedom, must be sought in other domains. The entire life of a people has been divided into eight departments or territories, if these expressions may be used. They are the following: first, language; second, art; third, science and education; fourth, the family life; fifth, social life; sixth, the religious life; seventh, political life; eighth,

the economic life. Now we observe such a measure of freedom, of opportunity for individuality, in the seven higher spheres of life as never could exist before. The eighth is merely basic, its purpose is to subserve most effectively the other spheres of life. That it accomplishes, on the whole, better than formerly. If the amount of freedom appears to diminish with progress, the appearance is deceptive. Some measures which we now advocate, as the abolition of child labor, restriction of the labor of women, inspection of factories, sanitary regulation, and the like, may lessen the amount of theoretical liberty; but they increase control over nature in the individual, and promote the growth of practical liberty.

### ON KEEPING BIRDS.

BY W. T. GREENE, M.A., F.Z.S.

WHO was the first person that put a bird in a cage? and what was the motive that prompted him or her to do so? In all probability it was a woman, who, moved by a feeling of tender pity for the sufferer, rescued some poor victim wounded in the chase, or maybe by a bird of prey; and the first cage was doubtless a slight affair, rudely built of rushes, or perhaps of willow rods, by loving hands, to shield the injured prisoner from further ill; but soon the desire to possess a bird of one's own must have taken possession of other people, and led to the native songsters' being trapped and caged; for Venus, we are told, had her doves, and Lesbia at least one sparrow.

Yes, it must have been a man that first caged a canary or a nightingale, in order to enjoy the pleasure of listening to its sweet notes in full security at home, without the necessity of dangerous rambling through dense woodlands infested by beasts of prey; and if so, I am not prepared to affirm that he did wrong, but on the contrary am exceedingly obliged to him for setting me an example I do not hesitate to follow, although I might not have had the moral courage to have taken the initiative in the matter, and been the first to cage a bird, which at first sight appears a questionable thing to do; but, after all, is it treating birds unkindly to put them in a cage? On the whole, I think not. See what they suffer when they

have their liberty out-of-doors: the rain drenches them, the wind buffets them, the cold of winter benumbs them, and when the ground is mantled in a garb of spotless snow, many thousands of them die of hunger, or become so weak from prolonged fasting that they fall an easy prey to rapacious birds and beasts; while in a cage their every want is anticipated and provided for, and in the society of the beloved lady who watches over them with tender care they find more than compensation for the doubtful boon of liberty that they have lost.

So true is this that I have known of more than one poor bird that actually died of grief when it no longer beheld the dear familiar form of the owner who had caressed and fed it.

There is no animal with which I am acquainted, not even that "friend of man" the dog, that forms so firm, so devoted, so tender an attachment for its master or mistress as the bullfinch—the naturally shy and wood-loving bullfinch, that almost dies of terror when first caught, but becomes more readily reconciled to captivity than any bird I know.

A word, however, to my readers here: do not buy one of these too charming birds unless you have leisure and love enough to make it your companion, to keep it on your study table or in your boudoir, talk to it, whistle to it, feed it with tidbits, and teach it to love you.



## SOCIAL STUDIES.

BY RICHARD T. ELY.

Second Series.

### III.—THE FUTURE OF CORPORATIONS.

THE importance of a proper regulation of corporations by the State, which is the only possible power capable of such regulation, must be apparent to every one who has read the two previous articles in this series. The manner in which one-fourth part of the national resources is managed is a matter of most vital concern to every inhabitant of the United States. The solidarity of interests is such that all must be affected thereby. A humane, discreet, and honest administration of this enormous property will contribute very perceptibly to the prosperity of our country, while a dishonest, wasteful, and soulless management of corporate interests must exercise a baleful influence upon our entire economic life, and upon those other higher spheres of national life to which it should minister. But we have not as yet said enough. It is not merely the fact that one-fourth of the resources of the country now belongs to corporations which should excite serious thought; it is the drift of things which is of the most importance. The corporate principle is daily extending. What is to be the outcome of this?

The best thinkers on economic topics seem to be more nearly unanimous than ever before in the opinion that co-operation is to be the ultimate solution of the industrial problems of our day. This view was held, it is well known, by the Christian socialists of England thirty-five years ago, and at that time they had mapped out pretty clearly the form of co-operation which they thought future society would adopt. Among them were some of the most gifted Englishmen of this century, who have demonstrated long ago that they were not mere visionaries, but that, on the contrary, they far excelled in practical wisdom their detractors. Many of these early Christian socialists, now old men, after a life rich in experience, still maintain their former opinion about co-operation. Mr. Thomas Hughes, for example, writes: "I still look to this movement as the best hope for England and other lands."

John Stuart Mill frequently gave ex-

pression to somewhat similar views, although he doubtless held that public authority would play a more important rôle in future industrial society than did the Christian socialists. He sympathized—at any rate in his later days—to greater extent with the state socialists of the Continent. Perhaps the result of recent studies in economics is best given by Professor Henry C. Adams in these words: "The co-operative principle is the one to which the wages system must give way; but what particular form industrial organization will take, no one can say."

The world has ever been restless under any social system which tolerated a separation of labor and capital; for although the things for which these words stand may, as the trite saying has it, be allies, not enemies, the same has not always been true of those who furnish capital and labor; nor can any honest man say that their interests are precisely identical. The point of divergence of interests is so sharp, and the ultimate separation so wide, as to give a good deal of support to the doctrine that their enmity lies in the nature of things. They have not always been so separated as they are to-day. In the Middle Ages production was carried on under the guidance of men who owned their tools, and employed them with their own hands. Capital was not an important separate factor, for it was, as a rule, united with labor in ownership. Still earlier, and also still later, we have slavery, which united labor and capital in the same hands, namely, the hands of the master, who owned labor precisely as he owned capital. Both were chattels. The arguments urged for this union by the ablest advocates of slavery were powerful. Again and again they pointed out the impossibility of permanently harmonious social relations should labor and capital be supplied by two distinct industrial classes. They were never satisfactorily answered on this point. But their conclusion was nevertheless unwarranted. The first stage in the evolution of industrial society finds labor and capital united, and the stage of evolution to which we must come will



also witness their union, but there will be this radical difference: in the one period of evolution they are united in the hands of the capitalists; in the other, they will be found in the hands of the laborers.

As John Stuart Mill says, this must be brought about by a development of the partnership principle. No one, as already stated, can tell exactly what form this will take, but some things seem already clear. Corporations will play an important part in this development, as they gradually become more democratic in their tendencies. Corporations and co-operative enterprises will become more and more nearly assimilated until they can scarcely be distinguished. President Francis A. Walker, in his Treatise on Political Economy, dwells on the importance of industrial leadership, and believes that co-operative enterprises have not a great future because the captains of industry are not in their employ. Every word which he says about the importance of the services rendered by leaders in the economic world is true, but there are two things which he overlooks. First, the power of perfect organization, which is daily becoming more apparent in every domain of life, and which is now achieving triumphs remarkable beyond precedent. The second is the fact that the captains of industry will yet be found at the head of co-operative enterprises. As already pointed out in the first paper, it was that kind of co-operation which we find in corporations which first gave them their present position—which, it may almost be said, first called them into existence. When corporations become more truly co-operative with respect to the labor element, the captains of industry will not disappear.

Personal superiority is compatible with the most perfect democracy. There is no more democratic air than that which students breathe in the higher institutions of learning, but nowhere else is personal superiority so valued as in colleges and universities, and that precisely in proportion as they approach the democratic ideal.

There are, then, three reasons why this subject of the proper development of corporations should engage the most serious attention of the economist and the statesman. These are, first, their present importance as an industrial factor; second, their growing power; third, the part they

must play in the ultimate solution of social problems. Upon the character of their future more than upon anything else depends the nature of the conclusion of the industrial revolution. "Is it peace or war?" The development of corporations must, it seems to me, give the answer.\*

Some have advocated a total suppression of corporations; but, even were this possible, it is plain that it would be a retrograde movement. There is fortunately a conservative middle ground between the radicalism which would sweep away these useful industrial forms and the equally dangerous obstinacy which rejects all suggestions of change. The arguments advanced by the enemies of corporations must convince any fair-minded man that there are evils inseparably connected with corporations as they exist today in the United States, but an analysis of these arguments reveals the fact that they do not apply equally to all classes of corporations.

What are the corporations of which one thinks when people talk about the abuses of corporate powers? Some of them have already been mentioned. First and foremost are the railways. Then follow express companies, telegraph companies, street-car companies, gas-light companies, water-supply companies, and others. But there is something common about all these productive agencies which are conspicuous for the abuse of corporate power. They are beyond the regular, normal action of competition. They are natural monopolies.† Now the evil in cases of this character is not merely the corporation. The corporate principle is the only one adequate to the supply of the services rendered by many of the corporations in control of these natural monopolies, unless they are handed over to public authority. Even

\* It may be remarked in passing that the history of banking corporations in the United States is peculiarly instructive to the student of this problem. No other class of corporations in our country has an equally suggestive past, and no other class has been, on the whole, so highly and so satisfactorily developed. The national bank act is still our best model of a law for corporations.

† Mr. T. H. Farrer, in his work *The State in its Relation to Trade*, in the "English Citizen Series," gives the following enumeration of undertakings which are total or partial monopolies: "Harbors and natural navigations, canals, docks, light-houses, roads, bridges and ferries, railways, tramways (street-car lines), gas-works, water-works, and telegraphs." In none of these, he says, has competition proved to be completely successful.



were individual private capitalists both able and willing to do those things for us which corporations at present perform, there is too much reason to fear greater oppression of the public than we now know anything about. Administration of railways owned by a single capitalist would be more efficient, doubtless, but such concentration of power would be more dangerous than existing corporations owned by thousands, who for the most part desire the welfare of the country, and are themselves dependent upon its prosperity. The evil is the application of the principles of private business concerns to what are in their nature essentially public undertakings. It is not true that private corporations are a bad form of industrial organization; it is true that their sphere has been unduly extended.

Industrial monopolies, defined by Professor Henry C. Adams as branches of business "superior to the regulating control of competition," should not be intrusted to private corporations. The chief evils of corporations which cannot be cured by satisfactory legislation concerning the fundamental principles of associations of capital, and by the creation of institutions for the enforcement of this legislation, pertain to those corporations which are in possession of natural monopolies. These are well enough known in the concrete, but it is somewhat difficult to lay down a general rule which shall embrace them all.

It is a characteristic of a business which is a natural monopoly that it supplies universal economic wants which individuals cannot satisfy. It is a further characteristic of most of these natural monopolies that they embrace agencies which furnish commodities or services which cannot be transported and sold away from the ground they occupy or from their plant. Some of them extend over an entire country, or a large part of it, or possibly even several countries, while others are local. Means of transportation belong to the first class; gas-works to the second.

Mr. Farrer in his work *The State in its Relation to Trade* gives the following as the characteristics of undertakings which tend to become monopolies:

- "1. What they supply is a necessary.
- "2. They occupy peculiarly favored spots or lines of land.
- "3. The article or convenience they

supply is used at the place where, and in connection with the plant or machinery by which, it is supplied.

"4. This article or convenience can in general be largely, if not indefinitely, increased without proportionate increase in plant and capital.

"5. Certainty and harmonious arrangement, which can only be attained by unity, are paramount considerations."

Professor Adams, in the work to which reference has already been made, lays down a more scientific classification of industries. He divides them into three classes, as follows:

1. Industries of constant returns.
2. Industries of diminishing returns.
3. Industries of increasing returns.

The principle of competition is sufficient for the regulation of industries of the first two classes, and there is no call for government management. The personal element is prominent in all forms of business which fall within these two classes, and success is dependent on attention to details and capacity for rendering great services to the public. If the returns of industry are constant, increasing only in proportion to labor and capital invested, or if, after a certain point is reached, there is a relative diminution in returns with new investments of capital and labor, a monopoly is out of the question.

The business of a manufacturer or a merchant falls within the first class. If capital  $3a$  produces a return of  $3x$ , capital  $4a$  will produce a return of  $4x$ . Up to a certain point, very soon reached, additional investments do not produce more than proportionate returns. How soon this point is reached depends chiefly upon the personal element. If a man has great ability he can establish an enormous business, but never a monopoly. Competition is present as a regular, constant force, and he soon reaches his limit. His success is due to the fact that he renders superior services to the public, and with him—and he is taken merely as a representative of a class—we have no quarrel.

Agriculture belongs to the second class. After we reach a certain point, returns diminish in proportion to labor and capital. Ask a farmer why he does not hoe his corn ten times, and he will tell you that it will not pay for the work required. It will yield more than if hoed twice, but not proportionably more. When we consider this principle, and also the fact that



agricultural competition is world-wide, it becomes manifest that a monopoly of agricultural commodities is, for the present at least, an impossibility.

Gas supply belongs to the third class. The larger the amount furnished within a given area, the cheaper it may be manufactured, because no proportional increase of capital or labor is required. To increase this supply it is far cheaper to extend the facilities of an existing company than to establish a new one. Hence competition is never present as a permanent force. A species of competition exists at times in the shape of a "war," as it is properly called in popular language, but real competition is a constant pressure, and not a war. A new gas company enters the field of an old one to bleed it, to sell out to it, to enter into a combination with it, or to divide territory. The war decides the division of spoils. No one can instance a case in any country where competition in gas supply has been a permanent force. The same may be said of railways, which likewise have wars of rates, leading to fluctuations almost as disastrous to the public as to the investor. When the railway system of a country is in process of development, wars are frequent, because no permanent arrangement in the division of spoils can be reached. When peace seems assured, a new railway or a new combination again plunges the railway world into war. But this is, nevertheless, only a passing phase of the development of railways. It is already a matter of the past in England—indeed, generally in Europe; and a careful observer can see that its days are numbered in the United States.

Whenever the principle of increasing returns works with any high degree of intensity, competition can never regulate private business satisfactorily. It is then the private business principle, and not the corporate principle, which is at fault.

The sphere of economic life covered by the principle of increasing returns must be surrendered by corporations to the Federal government, to the individual State, or to combinations of States, and to the various subdivisions of the State, especially the municipalities.

In this restriction of the sphere of corporations is indicated one line of industrial evolution. It will not be completed to-morrow or next day, but there can be little doubt that it will find its consum-

mation in the future. The forces pushing in that direction are too strong to be resisted, and in this solution alone can peace be found.

If we study history we shall observe that the evolution of industrial society in the past has, on the whole, been in the direction of the performance of public functions by public authority. Mention has been made of the private societies in Rome which farmed the taxes, and we can imagine if taxes were now sold to private corporations, and collected by their agents, what a howl in certain quarters would greet the proposal to transfer the function to public authorities. There would be computations about the number of officials in all parts of the country dependent on government, opportunities for fraud, etc., etc. No doubt to do this was a more serious step than it is now proposed to take; yet all see that it is far better that taxation should be intrusted to public officials. In certain backward lands like Turkey even such functions as providing a dangerous coast with lighthouses are handed over to a private corporation, but we recognize in it an indication of their backwardness.

All public measures relating to corporations should have in view the ultimate acquisition of natural monopolies by the people in their organic capacity, and the management of these monopolies on the principle of public finance, which has been so successfully applied in the Post-office. Plain, simple tariffs are wanted, and prices which will cover expenses. The benefits of what would be unearned increments in value under private management are thus diffused among the people.

Here we are treading entirely safe ground, for we have abundant experience on which to base conclusions.

All charters for performing the functions of a natural monopoly should be limited to a brief period, with the reversion of the entire property to municipality, state, or federal government, either without compensation or with compensation at an appraised valuation for actual outlays.

Both principles have been applied, the former especially in France and Germany, the latter in England. Before 1950 all French railways, with all that belongs to them, like rolling stock and stations, become the property of the French



nation, and that without compensation. The charters were granted and accepted on that condition.

The same principle might have been applied in the United States, and it would ultimately have enriched the people by ten or fifteen thousand millions of dollars. We would have had fewer overgrown fortunes, injurious to their possessors as well as to others, but a more general diffusion of comfort.

Berlin affords another example. The street-car lines pay a portion of their revenue to the city, keep the streets through which they run well paved from curb to curb, and in 1911 they become the property of the city without compensation. Had New York city—a municipality of about the same size—followed this example, taxation could in a no distant future be reduced very considerably, and fares lowered from five to three or even two cents. This same city, Berlin, defrays nearly ten per centum of its municipal expenses from the profits on its gas-works, although gas is sold for less than one dollar a thousand cubic feet.\*

The second principle is now very generally applied in such English municipalities as do not own and manage natural monopolies like gas-works, water-works, and street-car lines.

An act of Parliament allows no municipality to grant a charter to a street-car company or an electric light company for more than twenty-one years, and it must always be granted with a reserved right of purchase before the expiration of the charter, and at expiration, with compensation for land, buildings, and plant, but none whatever for good-will, expectation of future profits, or for compulsory purchase.

Baltimore, in some respects the best governed of the great cities of the United States, and certainly that one in which old American traditions of the best type are most alive, has recognized to a certain extent the duty of public authorities to see that the benefits of monopolies, as distinguished from profits on capital, should accrue to the public. The street-car lines of that city pay twelve per centum of

\* Per capita taxation, federal, state, and municipal, is \$10 82 in Berlin, and \$25 42 in New York. Several cities in Virginia, it may be added, also manufacture gas, and that, so far as is known, very successfully. Richmond defrays about seven per centum of its expenses from the revenues of the gas-works.

gross revenues into the city treasury for the maintenance of public parks. Charters are limited to fifteen years, and that of the most profitable corporation, the Baltimore City Passenger Railway Company, will soon expire. Unfortunately no precise terms have been fixed for the acquisition of the property by the city, but it would seem clear that a street-car line without a charter is worth only the value of its ground, buildings, plant, horses, cars, and other property, to be purchased at an appraised valuation. This would then leave the city free to put up the charter for fifteen years at public auction, or to work the line itself.

It may be well at this point to add a few general remarks on the proposed extension of the function of government to what I have already said on that subject in my article on the "Reform of Railway Abuses" in this Magazine for September, 1886.

The objection is likely to be raised by the thoughtless that this is socialism. It is nothing of the kind. It includes only the direct performance by the state and its various subdivisions of their proper functions. Far more is left to individuals and to voluntary combinations of individuals than it is proposed to place under the management of public authority. Commerce, agriculture, and manufactures are not affected by this proposal. On the contrary, it may reasonably be expected that these measures would be a most effective antidote to socialism. When the truth in that theory of industrial society is recognized and separated from its error, it must become harmless. What better way to spike the guns of socialism?

Another phase of the subject may best be introduced by a quotation from Professor Adams: "The policy of restricting public powers within the narrowest possible limits tends to render government weak and inefficient, and a weak government placed in the midst of a society controlled by the commercial spirit will quickly become a corrupt government. This in turn reacts upon commercial society by encouraging private corporations to adopt bold measures for gaining control of government machinery. Thus the doctrine of *laissez-faire* overreaches itself, for the application of the rule which it lays down will surely destroy that harmony between public and private duties essential to the best results in either domain of action."



There can be little doubt that such an extension of the duties of government as is proposed would improve our public service. The chief public evils now come from corporations, and these will last until corporations outside of their own sphere are abolished. Endless legislation is the result of attempts, often fruitless, to control private corporations in the performance of public duties. Legislatures are not and cannot be equal to the task. Both they and the corporations are corrupted. Corporations attempt to defeat the wise plans of legislatures by an unscrupulous use of money; legislatures at times threaten corporations with disastrous measures simply to be bought. Thus all barriers are broken down, and disgraceful public corruption goes on on every hand.\* When the public authority is intrusted with public functions, the opportunity for corruption and unwise legislation is greatly lessened. The general features of management are determined by the legislature, and then the rest is left to the administration.

The reforms proposed would give men a career in the service of the public, and we should then draw to that service some of our ablest men. It would become honorable, and men would take pride in doing their work well. We could thus guard against two dangers: the absorption of the best talent by private business, as in the United States, and, on the other hand, against that absorption of the highest talent by the state which Mill feared, and which is also unfortunate. Second, the increased strength of government would improve it. Men to-day who despise the laws of Maine on the subject of liquor dealing have the greatest respect for the Federal government, and would not venture to try to evade the internal revenue license tax. That is because the Federal government is strong. But even that is not adequate to cope with great corporations.

A man of practical experience, and one

\* The pronounced hostility of ring politicians to the acquisition of monopolies by the people is thus explained. The United States, almost alone of civilized nations, has no postal telegraph, but Congress, even with the large surplus in the Treasury, would rather pass a bill to pauperize the nation by an indiscriminate grant of pensions than one for the purchase of existing telegraph lines. Philadelphia exhibits the curious spectacle of political "bosses" in league with corporations for the sale of the municipal gas-works.

opposed to any needless extension of government duties, Mr. Farrer—from whose work quotations have already been made—sees clearly the force of what has been urged in favor of strong government and the desirability of restricting the sphere of corporations. He uses these words: "There is nothing like plenty of work and full publicity for preventing jobbery and keeping administration sound and pure. On the other hand, also, there is a serious political evil to be apprehended from the growing influence of the great joint-stock company interest in Parliament and in local governing boards."

One cry which is likely to be heard in this connection is "centralization." Of this there is no apparent danger, the function of the smaller political units all increasing more rapidly than those of the larger bodies, and this movement is likely to continue in the future. It is scarcely too much to say that for years the political movement the world over has been in the direction of relative decentralization.

The difficulties of the move proposed are doubtless great, but the difficulties of not making the move are still greater. It requires intelligence and morality for any highly developed social organism to survive, and if it is not equal to its tasks it perishes, and ought to perish, for it is not fit for survival. For one, I have faith in our republic that it is able to perform its functions. The obstacles which seem insuperable to a superficial observer dwindle very considerably upon closer examination. It is quite possible for us to intrust to our various governments all the duties required of them by the principles laid down in this article, and at the same time establish such a system of administration that the amount of patronage would be decidedly less than it is now. When one speaks of nationalization of railways one is apt to think of four hundred thousand new offices to be distributed at Washington. This is quite needless. It is simply necessary that earnest attention should be given to the subject to perceive the errors of such popular views.

The incompetence of the vast corporations in control of natural monopolies to manage the element of labor in production is daily becoming more apparent. It lies to large extent in the nature of things. Public interests are involved, but it is nothing less than childish for a public which



does nothing for labor to appeal to labor not to hurt it in its attempt to obtain what it considers its rights. The natural thing is for labor to organize and combine its powers as capital does, so that all the labor engaged in an enterprise should through its chosen leader treat with the representative of all the capital. In small concerns this can be effected, and in the long-run it produces good results in a normal condition of things. This idea is expressed in the form of a law by Professor J. B. Clark, in his *Philosophy of Wealth*, in these words: "A maximum of justice in distribution is attained where the brute forces are evenly matched, and where moral influences are efficient." But this matching of brute forces is extremely difficult and dangerous in the case of labor and capital in the vast corporations under consideration. If it can ever be brought about it must be at the expense of great suffering and loss to all concerned—capitalists, laborers, and the general public. The only way the public can give those guarantees to labor which will warrant it in enforcing peace is by the employment of labor in its own service.

When the evolution recently promoted by the Inter-State Commerce Law is carried so far that railways are essentially public undertakings, we will hear as little of strikes of railway employés as we now do of post-office employés.

There still remain to be considered those larger classes of corporations not in possession of natural monopolies. Experience shows that it would not be a difficult matter to solve the problems which they present to us were the public in complete control of natural monopolies. But, as it is, much can be done. The general aim of legislation concerning corporations should be to protect people against fraudulent and dishonest practices on the part of corporations, and to treat corporate thieves as other thieves are treated, recovering from them stolen property and sending them to the penitentiary.

There are three classes whose life and property are to be protected in legislation on corporations, namely, actual investors or shareholders; second, the general public; third, those who supply labor to corporations. But against whom are the investors, the laborers, and the public at large to be protected? Manifestly against dishonest promoters and directors. Some people talk as if any shareholder in a cor-

poration were a "bloated bondholder" or a millionaire. As we have already seen, the shareholder is frequently a widow, an orphan, or a hard-working man who has saved a few dollars from the fruits of his hard toil. No one is oftener wronged or more needs protection than the ordinary shareholder.

The first step in reform is, then, to increase the responsibility both as regards the criminal and civil law of promoters and directors.

First, men who wish to form a corporation should be compelled to issue a prospectus, signed with their names, giving a full and complete statement about the business to be pursued, the capital to be invested, any existing property to be taken in lieu of money, any property to be acquired of promoters, with its history for the preceding two or three years. This prospectus should be made a matter of public record, and any dishonest statement should be regarded as fraud. It is further recommended that any one in any way concerned with the promotion of a corporation be subject to the principle of unlimited liability for a term of years.

The English and German laws wisely allow a minority of the shareholders, representing a twentieth or a tenth of the property, the right to demand a judicial investigation of the affairs of a corporation when they have reason to suspect fraud or mismanagement. A minority can also call a meeting of shareholders.

There is no reason why the liabilities of the ordinary shareholder should be increased. Practically he has little voice in the control of the corporation. He has already risked enough when he has bought his shares. The case is different with directors, and there is precedent in the banking legislation of the country for making them responsible at all times for double their investments. This is very simple, but how many railway bankruptcies would we have had if this liability had existed in the past?

There is perfect unanimity among those who have studied the subject about publicity. That should be full and complete, as now in the case of national banks. Publicity is one of the main grounds for the justification of the existence of corporations. No one is safe without it. It is a measure for the protection of property.

To supply the place of the moral senti-



ment in the treatment of labor we should have compulsory arbitration for corporations—not for individual employers or private firms—and compulsory performance of duties, so far as they may be of a public nature, until it could be shown that arbitration had been tried, that its terms had been accepted by the corporation, and refused by labor. The history of labor is a guarantee that this would rarely happen. The incorporation of trades-unions and other labor organizations would increase their responsibility, and would help matters.

Finally, in each State there might be an officer to enforce the laws respecting corporations, such officer having visitorial powers, and occupying a position similar

to that of the Comptroller of the Currency with respect to national banks. There might be created a Department of Corporations, with a head to be known as the Comptroller of Corporations.

All that has been said in this paper is designed simply to protect life and property and to promote the public welfare. No confiscation is proposed. The aim of all reforms should be to guard rights, not to invade them, and to create new rights. Not only do rights of capital invested in corporations, and seeking investment in them, need more adequate protection, but the rights of working-men in their only property—their labor power—need a development which they have as yet never received.

## BAYOU L'OMBRE.

AN INCIDENT OF THE WAR.

BY GRACE KING.

OF course they knew all about war—soldiers, flags, music, generals on horseback brandishing swords, knights in armor escalading walls, cannons booming through clouds of smoke. They were familiarized with it pictorially and by narrative long before the alphabet made its appearance in the nursery with rudimentary accounts of the world they were born into, the simple juvenile world of primary sensations and colors. Their great men, and great women too, were all fighters; the great events of their histories, battles; the great places of their geography, where they were fought (and generally the more bloody the battle, the more glorious the place); while their little chronology—the pink-covered one—stepped briskly over the centuries solely on the names of kings and sanguinary salencies. Sunday added the sabbatical supplement to week-day lessons, symbolizing religion, concreting sin, incorporating evil, for their better comprehension, putting Jehovah himself in armor, to please their childish faculties—the omnipotent Intervener of the Old Testament, for whom they waved banners, sang hymns, and by the brevet title “little soldiers of the cross” felt committed as by baptism to an attitude of expectant hostility. Mademoiselle Couper, their governess, eased the cross-stitching in their samplers during the evenings, after

supper, with traditions of “le grand Napoleon,” in whose army her grandfather was a terrible and distinguished officer, le Capitaine Césaire Paul Picquet de Montignac; and although Mademoiselle Couper was most unlovable and exacting at times, and very homely, such were their powers of sympathetic enthusiasm even then that they often went to bed envious of the possessor of so glorious an ancestor, and dreamed fairy tales of him whose gray hair, enshrined in a brooch, reposed comfortably under the folds of mademoiselle's fat chin—the hair that Napoleon had looked upon!

When a war broke out in their own country they could hardly credit their good fortune; that is, Christine and Régina, for Lolotte was still a baby. A wonderful panorama was suddenly unfolded before them. It was their first intimation of the identity of the world they lived in with the world they learned about, their first perception of the existence of an entirely novel sentiment in their hearts—patriotism, the “*amour sacré de la patrie*,” over which they had seen mademoiselle shed tears as copiously as her grandfather had blood. It made them and all their little companions feel very proud, this war; but it gave them a heavy sense of responsibility, turning their youthful precocity incontinently away from books,