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THE THEORY OF BUSINESS ENTERPRISE

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Preface

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In respect to its point of departure, the following inquiry into the nature, causes, utility, and further drift of business enterprise differs from other discussions of the same general range of facts. Any unfamiliar conclusions are due to this choice of a point of view, rather than to any peculiarity in the facts, articles of theory, or method of argument employed. The point of view is that given by the business man's work, -- the aims, motives, and means that condition current business traffic. This choice of a point of view is itself given by the current economic situation, in that the situation plainly is primarily a business situation.

A much more extended and detailed examination of the ramifications and consequences of business enterprise and business principles would feasible, and should give interesting results. It might conceivably lead to something of a revision (modernization) of more than one point in the current body of economic doctrines. But it should apparently prove more particulary interesting if it were followed up at large in the bearing of this modern force upon cultural growth, apart from what is of immediate economic interest. This cultural bearing of business enterprise, however, belongs rather in the field of the sociologist than in that of the professed economist; so that the present inquiry, in its later chapters, sins rather by exceeding the legitimate bounds of economic discussion on this head than by falling short of them. In extenuation of this fault it is said that the features of general culture touched upon in these chapters

bear too intimately on the economic situation proper to admit their being left entirely on one side.

Of the chapters included in the volume, the fifth, on Loan Credit, is taken without substantial change, from Volume IV of the Decennial Publications of the University of Chicago, where it appears as a monograph.

Introductory

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The material framework of modern civilization is the industrial system, and the directing force which animates this framework is business enterprise. To a greater extent than any other known phase of culture, modern Christendom takes its complexion from its economic organization. This modern economic organization is the "Capitalistic System" or "Modern Industrial System," so called. Its characteristic features, and at the same time the forces by virtue of which it dominates modern culture, are the machine process and investment for a profit.

The scope and method of modern industry are given by the machine. This may not seem to hold true for all industries, perhaps not for the greater part of industry as rated by the bulk of the output or by the aggregate volume of labor expended. But it holds true to such an extent and in such a pervasive manner that a modern industrial community cannot go on except by the help of the accepted mechanical appliances and processes. The machine industries -- those portions of the industrial system in which the machine process is paramount -- are in a dominant position; they set the pace for the rest of the industrial system. In this sense the present is the age of the machine process. This dominance of the machine process in industry marks off the present industrial situation from all else of its kind.

In a like sense the present is the age of business enterprise. Not that all industrial activity is carried on by the rule of investment for profits, but an effective majority of

the industrial forces are organized on that basis. There are many items of great volume and consequence that do not fall within the immediate score of these business principles. The housewife's work, e.g., as well as some appreciable portion of the work on farms and in some handicrafts, can scarcely be classed as business enterprise. But those elements in the industrial world that take the initiative and exert a far-reaching coercive guidance in matters of industry go to their work with a view to profits on investment, and are guided by the principles and exigencies of business. The business man, especially the business man of wide and authoritative discretion, has become a controlling force in industry, because, through the mechanism of investments and markets, he controls the plants and processes, and these set the pace and determine the direction of movement for the rest. His control in those portions of the field that are not immediately under his hand is, no doubt, somewhat loose and uncertain; but in the long run his discretion is in great measure decisive even for these outlying portions of the field, for he is the only large self-directing economic factor. His control of the motions of other men is not strict, for they are not under coercion from him except through the coercion exercised by the exigencies of the situation in which their lives are cast; but as near as it may be said of any human power in modern times, the large business man controls the exigencies of life under which the community lives. Hence, upon him and his fortunes centres the abiding interest of civilized mankind.

For a theoretical inquiry into the course of civilized life as it runs in the immediate present, therefore, aud as it is running into the proximate future, no single factor in the cultural situation has an importance equal to that of the business man and his work.

This of course applies with peculiar force to an inquiry into the economic life of a modem community. In so far as the theorist aims to explain the specifically modern economic phenomena, his line of approach must be from the businessman's standpoint, since it is from that standpoint that the course of these phenomena is directed. A theory of the modern economic situation must be primarily a theory of business traffic, with its motives, aims, methods, and effects.

The Machine Process

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In its bearing on modern life and modern business, the "machine process" means something more comprehensive and less external than a mere aggregate of mechanical appliances for the mediation of human labor. It means that, but it means something more than that. The civil engineer, the mechanical engineer, the navigator, the mining expert, the industrial chemist and mineralogist, the electrician, -- the work of all these falls within the lines of the modern machine process, as well as the work of the inventor who devises the appliances of the process and that of the mechanician who puts the inventions into effect and oversees their working. The scope of the process is larger than the machine.[1] In those branches of industry in which machine methods have been introduced, many agencies which are not to be classed as mechanical appliances, simply, have been drawn into the process, and have become integral factors in it. Chemical properties of minerals, e.g., are counted on in the carrying out of metallurgical processes with much the same certainty and calculable effect as are the motions of those mechanical appliances by whose use the minerals are handled. The sequence of the process involves both the one and the other, both the apparatus and the materials, in such intimate interaction that the process cannot be spoken of simply as an action of the apparatus upon the materials. It is not simply that the apparatus reshapes the materials; the materials reshape themselves by the help of the apparatus. Similarly in such other processes as the refining of

petroleum, oil, or sugar; in the work of the industrial chemical laboratories; in the use of wind, water, or electricity, etc.

Wherever manual dexterity, the rule of thumb, and the fortuitous conjunctures of the seasons have been supplanted by a reasoned procedure on the basis of a systematic knowledge of the forces employed, there the mechanical industry is to be found, even in the absence of intricate mechanical contrivances. It is a question of the character of the process rater than a question of the complexity of the contrivances employed. Chemical, agricultural, and animal industries, as carried on by the characteristically modern methods and in due touch with the market, are to be included in the modern complex of mechanical industry.[2]

No one of the mechanical processes carried on by the use of a given outfit of appliances is independent of other processes going on elsewhere. Each draws upon and presupposes the proper working of many other processes of a similarly mechanical character. None of the processes in the mechanical industries is self-sufficing. Each follows some and precedes other processes in an endless sequence, into which each fits and to the requirements of which each must adapt its own working. The whole concert of industrial operations is to be taken as a machine process, made up of interlocking detail processes, rather than as a multiplicity of mechanical appliances each doing its particular work in severalty. This comprehensive industrial process draws into its scope and turns to account all branches of knowledge that have to do with the material sciences, and the whole makes a more or less delicately balanced complex of sub-processes.[3]

Looked at in this way the industrial process shows two well-marked general characteristics: (a) the running maintenance of interstitial adjustments between the several sub-processes or branches of industry, wherever in their working they touch one another in the sequence of industrial elaboration; and (b) an unremitting requirement of quantitative precision, accuracy in point of time and sequence, in the proper inclusion and exclusion of forces affecting the outcome, in the magnitude of the various physical characteristics (weight, size, density, hardness, tensile strength, elasticity, temperature, chemical reaction, actinic sensitiveness, etc.) of the materials handled as well as of the appliances employed. This requirement of mechanical accuracy and nice adaptation to specific uses has led to a gradual pervading enforcement of uniformity to a reduction to staple grades and staple character in the materials handled, and to a thorough standardizing of tools and units of measurement. Standard physical measurements are of the essence of the machine's regime.[4]

The modern industrial communities show an unprecedented uniformity and precise equivalence in legally adopted weights and measures. Something of this kind would be brought about by the needs of commerce, even without the urgency given to the movement for uniformity by the requirements of the machine industry. But within the industrial field the movement for standardization has outrun the urging of commercial needs, and has penetrated every corner of the mechanical industries. The specifically commercial need of uniformity in weights and measures of merchantable goods and in monetary units has not carried standardization in these items to the extent to which the mechanical need of the industrial process has carried out a sweeping standardization in the means by which the

machine process works, as well as in the products which it turns out.

As a matter of course, tools and the various structural materials used are made of standard sizes, shapes, and gauges. When the dimensions, in fractions of an inch or in millimetres, and the weight, in fractions of a pound or in grammes, are given, the expert foreman or workman, confidently and without reflection, infers the rest of what need be known of the uses to which any given item that passes under his hand may be turned. The adjustment and adaptation of part to part and of process to process has passed out of the category of craftsmanlike skill into the category of mechanical standardization. Hence, perhaps, the greatest, most wide-reaching gain in productive celerity and efficiency through modern methods, and hence the largest saving of labor in modern industry.

Tools, mechanical appliances and movements, and structural materials are scheduled by certain conventional scales and gauges; and modern industry has little use for, and can make little use of, what does not conform to the standard. What is not competently standardized calls for too much of craftsmanlike skill, reflection, and individual elaboration, and is therefore not available for economical use in the processes. Irregularity, departure from standard measurements in any of the measurable facts, is of itself a fault in any item that is to find a use in the industrial process, for it brings delay, it detracts from its ready usability in the nicely adjusted process into which it is to go; and a delay at any point means a more or less far-reaching and intolerable retardation of the comprehensive industrial process at large. Irregularity in products intended for industrial use carries a penalty to the nonconforming

producer which urges him to fall into line and submit to the required standardization.

The materials and moving forces of industry are undergoing a like reduction to staple kinds, styles, grades, and gauge.[5] Even such forces as would seem at first sight not to lend themselves to standardization, either in their production or their use, are subjected to uniform scales of measurement; as, e.g., water-power, steam, electricity, and human labor. The latter is perhaps the least amenable to standardization, but, for all that, it is bargained for, delivered, and turned to account on schedules of time, speed, and intensity which are continually sought to be reduced to a more precise measurement and a more sweeping uniformity.

The like is true of the finished products. Modern consumers in great part supply their wants with commodities that conform to certain staple specifications of size, weight, and grade. The consumer (that is to say the vulgar consumer) furnishes his hose, his table, and his person with supplies of standard weight and measure, and he can to an appreciable degree specify his needs and his consumption in the notation of the standard gauge. As regards the mass of civilized mankind, the idiosyncrasies of the individual consumers are required to conform to the uniform gradations imposed upon consumable goods by the comprehensive mechanical processes of industry. "Local color" it is said, is falling into abeyance in modern life, and where it is still found it tends to assert itself in units of the standard gauge.

From this mechanical standardization of consumable goods it follows, on the one hand, that the demand for goods settles upon certain defined lines of production which handle certain materials of definite grade, in certain,

somewhat invariable forms and proportions; which leads to well-defined methods and measurements in the processes of production, shortening the average period of "ripening" that intervenes between the first raw stage of the product and its finished shape, and reducing the aggregate stock of goods necessary to be carried for the supply of current wants, whether in the raw or in the finished form.[6] Standardization means economy at nearly all points of the process of supplying goods, and at the same time it means certainty and expedition at neatly all points in the business operations involved in meeting current wants. Besides this, the standardization of goods means that the interdependence of industrial processes is reduced to more definite terms than before the mechanical standardization came to its present degree of elaborateness and rigor. The margin of admissible variation, in time, place, form, and amount, is narrowed. Materials, to answer the needs of standardized industry, must be drawn from certain standard sources at a definite rate of supply. Hence any given detail industry depends closely on receiving its supplies from certain, relatively few, industrial establishments whose work belongs earlier in the process of elaboration. And it ma similarly depend on certain other, closely defined, industrial establishments for a vent of its own specialization and standardization product.[7] It may likewise depend in a strict manner on special means of transportation.[8]

Machine production leads to a standardization of services as well as of goods. So, for instance, the modern means of communication and the system into which these means are organized are also of the nature of a mechanical process, and in this mechanical process of service and intercourse the life of all civilized men is more or less intimately involved. To make effective use of the modern system of

communication in any way or all of its ramifications (streets, railways, steamship lines, telephone, telegraph, postal service, etc.), men are required to adapt their needs and their motions to the exigencies of the process whereby this civilized method of intercourse is carried into effect. The service is standardized, and therefore the use of it is standardized also. Schedules of time, place, and circumstance rule throughout. The scheme of everyday life must be arranged with a strict regard to the exigencies of the process whereby this range of human needs is served, if full advantage is to be taken of this system of intercourse, which means that, in so far, one's plans and projects must be conceived and worked out in terms of those standard units which the system imposes.

For the population of the towns and cities, at least, much the same rule holds true of the distribution of consumable goods. So, also, amusements and diversions, much of the current amenities of life, are organized into a more or less sweeping process to which those who would benefit by the advantages offered must adapt their schedule of wants and the disposition of their time and effort. The frequency, duration, intensity, grade, and sequence are not, in the main, matters for the free discretion of the individuals who participate. Throughout the scheme of life of that portion of mankind that clusters about the centres of modern culture the industrial process makes itself felt and enforces a degree of conformity to the canon of accurate quantitative measurement. There comes to prevail a degree of standardization and precise mechanical adjustment of the details of everyday life, which presumes a facile and unbroken working of all those processes that minister to these standardized human wants.

As a result of this superinduced mechanical regularity of life, the livelihood of individuals is, over large areas, affected in an approximately uniform manner by any incident which at all seriously affects the industrial process at any point.[9]

As was noted above, each industrial unit, represented by a given industrial "plant", stands in close relations of interdependence with other industrial processes going forward elsewhere, near or far away, from which it receives supplies -- materials, apparatus, and the like -- and to which it turns over its output of products and waste, or on which it depends for auxiliary work, such as transportation. The resulting concatenation of industries has been noticed by most modern writers. It is commonly discussed under the head of the division of labor. Evidently the prevalent standardization of industrial means, methods, and products greatly increases the reach of this concatenation of industries, at the same time that it enforces a close conformity in point of time, volume and character of the product, whether the product is goods or services.[10]

By virtue of this concatenation of processes the modern industrial system at large bears the character of a comprehensive, balanced mechanical process. In order to an efficient working of this industrial process at large, the various constituent sub-processes must work in due coordination throughout the whole. Any degree of maladjustment in the interstitial coordination of this industrial process at large in some degree hinders its working. Similarity, any given detail process or any industrial plant will do its work to full advantage only when due adjustment is had between its work and the work done by the rest. The higher the degree of development reached by a given industrial community, the more comprehensive

and urgent becomes this requirement of interstitial adjustment. And the more fully a given industry has taken on the character of a mechanical process, and the more extensively and closely it is correlated in its work with other industries that precede or follow it in the sequence of elaboration, the more urgent, other things equal, is the need of maintaining the proper working relations with these other industries, the greater is the industrial detriment suffered from any derangement of the accustomed working relations, and the greater is the industrial gain to be derived from a closer adaptation and a more facile method of readjustment in the event of a disturbance, -- the greater is also the chance for an effectual disturbance of industry at the particular point. This mechanical concatenation of industrial processes makes for solidarity in the administration of any group of related industries, and more remotely it makes for solidarity in the management of the entire industrial traffic of the community.

A disturbance at any point, whereby any given branch of industry fails to do its share in the work of the system at large, immediately affects the neighbouring or related branches which come before or after it in the sequence, and is transmitted through their derangement to the remoter portions of the system. The disturbance is rarely confined to the single plant or the single line of production first affected, but spreads in some measure to the rest. A disturbance at any given point brings more or less derangement to the industrial process at large. So that any maladjustment of the system involves a larger waste than simply the disabling of one or two members in the complex industrial structure.

So much is clear, that the keeping of the balance in the comprehensive machine process of industry is a matter of the gravest urgency if the productive mechanism is to

proceed with its work in an efficient manner, so as to avoid idleness, waste, and hardship. The management of the various industrial plants and processes in due correlation with all the rest, and the supervision of the interstitial adjustments of the system, are commonly conceived to be a work of greater consequence to the community's well-being than any of the detail work involved in carrying on a given process of production. This work of interstitial adjustment, and in great part also the more immediate supervision of the various industrial processes, have become urgent only since the advent of the machine industry and in proportion as the machine industry has advanced in compass and consistency.

It is by business transactions that the balance of working relations between the several industrial units is maintained or restored, adjusted and readjusted, and it is on the same basis and by the same method that the affairs of each industrial unit are regulated. The relations in which any independent industrial concern stands to its employees, as well as to other concerns, are always reducible to pecuniary terms. It is at this point that the business man comes into the industrial process as a decisive factor. The organization of the several industries as well as the interstitial adjustments and discrepancies of the industrial process at large are of the nature of pecuniary transactions and obligations. It therefore rests with the business men to make or mar the running adjustments of industry. The larger and more close-knit and more delicately balanced the industrial system, and the larger the constituent units, the larger and more far-reaching will be the effect of each business move in the field.

Business Enterprise

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The motive of business is pecuniary gain, the method is essentially purchase and sale. The aim and usual outcome is an accumulation of wealth.[11] Men whose aim is not increase of possessions do not go into business, particularly not on an independent footing.

How these motives and methods of business work out in the traffic of commercial enterprise proper - in mercantile and banking business does not concern the present inquiry, except so far as these branches of business affect the course of industrial business in the stricter sense of the term. Nor is it necessary were to describe the details of business routine, whether in the mercantile pursuits or in the conduct of an industrial concern. The point of the inquiry is that characteristically modern business that is coextensive with the machine process described above and is occupied with the large mechanical industry. The aim is a theory of such business enterprise in outline sufficiently full to show in what manner business methods and business principles, in conjunction with the mechanical industry, influence the modern cultural situation. To save space and tedium, therefore, features of business traffic that are not of a broad character and not peculiar to this modern situation are left on one side, as being already sufficiently familiar for the purpose in hand.

In early modern times, before the regime of the machine industry set in, business enterprise on any appreciable scale commonly took the form of commercial business - some form of merchandising or banking. Shipping was the only

considerable line of business which involved an investment in or management of extensive mechanical appliances and processes, comparable with the facts of the modern mechanical industry.[12] And shipping was commonly combined with merchandising. But even the shipping trade of earlier times had much of a fortuitous character, in this respect resembling agriculture or any other industry in which wind and, weather greatly affect the outcome. The fortunes of men in shipping were on a more precarious footing than to-day, and the successful outcome of their ventures was less a matter of shrewd foresight and daily pecuniary strategy than are the affairs of the modern large business concerns in transportation or the foreign trade. Under these circumstances the work of the business man was rather to take advantage of the conjunctures offered by the course of the seasons and the fluctuations of demand and supply than to adapt the course of affairs to his own ends. The large business man was more of a speculative buyer and seller and less of a financiering strategist than he has since become.

Since the advent of the machine age the situation has changed. The methods of business have, of course, not changed fundamentally, whatever may be true of the methods of industry; for they are, as they had been, conditioned by the facts of ownership. But instead of investing in the goods as they pass between producer and consumer, as the merchant does, the business man now invests in the processes of industry; and instead of staking his values on the dimly foreseen conjunctures of the seasons and the act of God, he turns to the conjunctures arising from the interplay of the industrial processes, which are in great measure under the control of business men.

So long as the machine processes were but slightly developed, scattered, relatively isolated, and independent of one another industrially, and so long as they were carried on on a small scale for a relatively narrow market, so long the management of them was conditioned by circumstances in many respects similar to those which conditioned the English domestic industry of the eighteenth century. It was under the conditions of this inchoate phase of the machine age that the earlier generation of economists worked out their theory of the business man's part in industry. It was then still true, in great measure, that the undertaker was the owner of the industrial equipment, and that he kept an immediate oversight of the mechanical processes as well as of the pecuniary transactions in which his enterprise was engaged; and it was also true, with relatively infrequent exceptions, that an unsophisticated productive efficiency was the prime element of business success.[13] A further feature of that precapitalistic business situation is that business, whether handicraft or trade, was customarily managed with a view to earning a livelihood rather than with a view to profits on investment.[14]

In proportion as the machine industry gained ground, and as the modern concatenation of industrial processes and of markets developed, the conjunctures of business grew more varied and of larger scope at the same time that they became more amenable to shrewd manipulation. The pecuniary side of the enterprise came to require more unremitting attention, as the chances for gain or loss through business relatIons simply, aside from mere industrial efficiency, grew greater in number and magnitude. The same circumstances also provoked a spirit of business enterprise, and brought on a systematic investment for gain. With a fuller development of the

modern closeknit and comprehensive industrlal system, the point of chief attention for the business man has shifted from the old-fashioned surveillance and regulation of a given industrial process, with which his livelihood was once bound up, to an alert redistribution of investments from less to more gainful ventures,[15] and to a strategic control of the conjunctures of business through shrewd investments and coalitions with other business men.

As shown above, the modern industrial system is a concatenation of processes which has much of the character of a single, comprehensive, balanced mechanical process. A disturbance of the balance at any point means a differential advantage (or disadvantage) to one or more of the owners of the sub-processes between which the disturbance falls; and it may also frequently mean gain or loss to many remoter members in the concatenation of processes, for the balance throughout the sequence is a delicate one, and the transmission of a disturbance often goes far. It may even take on a cumulative character, and may thereby seriously cripple or accelerate branches of industry that are out of direct touch with those members of the concatenation upon which the initial disturbance falls. Such is the case, for instance, in an industrial crisis, when an apparently sllght initial disturbance may become the occasion of a widespread derangement. And such, on the other hand, is also the case when some favorable condition abruptly supervenes in a given industry, as, e.g., when a sudden demand for war stores starts a wave of prosperity by force of a large and lucrative demand for the products of certain industries, and these in turn draw on their neighbors in the sequence, and so transmit a wave of business activity.

The keeping of the industrial balance, therefore, and adjusting the several industrial processes to one another's

work and needs, is a matter of grave and far-reaching consequence in any modern community, as has already been shown. Now, the means by which this balance is kept is business transactions, and the men in whose keeping it lies are the business men. The channel by which disturbances are transmitted from member to member of the comprehensive industrial system is the business relations between the several members of the system; and, under the modern conditions of ownership, disturbances, favorable or unfavorable, in the field of industry are transmitted by nothing but these business relations. Hard times or prosperity spread through the system by means of business relations, and are in their primary expression phenomena of the business situation simply. It is only secondarily that the disturbances in question show themselves as alterations in the character or magnitude of the mechanical processes involved. Industry is carried on for the sake of business, and not conversely; and the progress and activity of industry are conditioned by the outlook of the market, which means the presumptive chance of business profits.

All this is a matter of course which it may seem simply tedious to recite.[16] But its consequences for the theory of business make it necessary to keep the nature of this connection between business and industry in mind. The adjustments of industry take place through the mediation of pecuniary transactions, and these transactions take place at the hands of the business men and are carried on by them for business ends, not for industrial ends in the narrower meaning of the phrase.

The economic welfare of the community at large is best served by a facile and uninterrupted interplay of the various processes which make up the industrial system at large; but

the pecuniary interests of the business men in whose hands lies the discretion in the matter are not necessarily best served by an unbroken maintenance of the industrial balance. Especially is this true as regards those greater business men whose interests are very extensive. The pecuniary operations of these latter are of large scope, and their fortunes commonly are not permanently bound up with the smooth working of a given Sub-process in the industrial system. Their fortunes are rather related to the larger conjunctures of the industrial system as a whole, the interstitial adjustments, Or to conjunctures affecting large ramifications of the system. Nor is it at all uniformly to their interest to enhance the smooth working of the industrial system at large in so far as they are related to it. Gain may come to them from a given disturbance of the system whether the disturbance makes for heightened facility or for widespread hardship, very much as a speculator in grain futures may be either a bull or a bear. To the business man who aims at a differential gain arising out of interstitial adjustments or disturbances of the industrial system, it is not a material question whether his operations have an immediate furthering or hindering effect upon the system at large. The end is pecuniary gain, the means is disturbance of the industrial system, - except so far as the gain is sought by the old-fashioned method of permanent investment in some one industrial or commercial plant, a case which is for the present left on one side as not bearing on the point immediately in hand.[17] The point immediately in question is the part which the business man plays in what are here called the interstitial adjustments of the industrial system; and so far as touches his transactions in this field it is, by and large, a matter of indifference to him whether his traffic affects the system advantageously or disastrously. His gains

(or losses) are related to the magnitude of the disturbances that take place, rather than to their. bearing upon the welfare of the community.

The outcome of this management of industrial affairs through pecuniary transactions, therefore, has been to dissociate the interests of those men who exercise the discretion from the interests of the community. This is true in a peculiar degree and increasingly since the fuller development of the machine industry has brought about a closeknit and wide-reaching articulation of industrial processes, and has at the same time given rise to a class of pecuniary experts whose business is the strategic management of the interstitial relations of the system. Broadly, this class of business men, in so far as they have no ulterior strategic ends to serve, have an interest in making the disturbances of the system large and frequent, since it is in the conjunctures of change that their gain emerges. Qualifications of this proposition may be needed, and it will be necessary to return to this point presently.

It is, as a business proposition, a matter of indifference to the man of large affairs whether the disturbances which his transactions set up in the industrial system help or hinder the system at large, except in so far as he has ulterior strategic ends to serve. But most of the modern captains of industry have such ulterior ends, and of the greater ones among them this is peculiarly true. Indeed, it is this work of far-reaching business strategy that gives them full title to the designation, "Captains of Industry." This large business strategy is the most admirable trait of the great business men who with force and insight swing the fortunes of civilized mankind. And due qualification is accordingly to be entered in the broad statement made above. The captain's strategy is commonly directed to gaining control of some

large portion of the industrial system. When such control has been achieved, it may be to his interest to make and maintain business conditions which shall facilitate the smooth and efficient working of what has come under his control, in case he continues to hold a large interest in it as an investor; for, other things equal, the gains from what has come under his hands permanently in the way of industrial plant are greater the higher and more uninterrupted its industrial efficiency.

An appreciable portion of the larger transactions in railway and "industrial" properties, e.g., are carried out with a view to the permanent ownership of the properties by the business men into whose hands they pass. But also in a large proportion of these transactions the business men's endeavors are directed to a temporary control of the properties in order to close out at an advance or to gain some indirect advantage; that is to say, the transactions have a strategic purpose. The business man aims to gain control of a given block of industrial equipment - as, e.g., given railway lines or iron mills that are strategically important - as a basis for further transactions out of which gain is expected. In such a case his efforts are directed, not to maintaining the permanent efficiency of the industrial equipment, but to influencing the tone of the market for the time being, the apprehensions of other large operators, or the transient faith of investors.[18] His interest in the particular block of industrial equipment is, then, altogether transient, and while it lasts it is of a factitious character.

The exigencies of this business of interstitial disturbance decide that in the common run of cases the proximate aim of the business man is to upset or block the industrial process at some one or more points. His strategy is commonly directed against other business interests and his

ends are commonly accomplished by the help of some form of pecuniary coercion. This is not uniformly true, but it seems to be true in appreciably more than half of the transactions in question. In general, transactions which aim to bring a coalition of industrial plants or processes under the control of a given business man are directed to making it difficult for the plants or processes in question to be carried on in severalty by their previous owners or managers.[19] It is commonly a struggle between rival business men, and more often than not the outcome of the struggle depends on which side can inflict or endure the greater pecuniary damage. And pecuniary damage in such a case not uncommonly involves a setback to the industrial plants concerned and a derangement, more or less extensive, of the industrial system at large.

The work of the greater modern business men, in so far as they have to do with the ordering of the scheme of industrial life, is of this strategic character. The dispositions which they make are business transactions, "deals," as they are called in the business jargon borrowed from gaming slang. These do not always involve coercion of the opposing interests; it is not always necessary to "put a man in a hole" before he is willing to "come in on" a "deal." It may often be that the several parties whose business interests touch one another will each see his interest in reaching an amicable and speedy arrangement; but the interval that elapses between the time when a given "deal" is seen to be advantageous to one of the parties concerned and the time when the terms are finally arranged is commonly occupied with business manoeuvres on both or all sides, intended to "bring the others to terms." In so playing for position and endeavoring to secure the largest advantage possible, the manager of such a campaign of reorganization not

infrequently aims to "freeze out" a rival or to put a rival's industrial enterprise under suspicion of insolvency and "unsound methods," at the same time that he "puts up a bluff" and manages his own concern with a view to a transient effect on the opinions of the business community. Where these endeavors occur, directed to a transient derangement of a rival's business or to a transient, perhaps specious, exhibition of industrial capacity and earning power on the part of one's own concern, they are commonly detrimental to the industrial system at large; they act temporarily to lower the aggregate serviceability of the comprehensive industrial process within which their effects run, and to make the livelihood and the peace of mind of those involved in these industries more precarious than they would be in the absence of such disturbances. If one is to believe any appreciable proportion of what passes current as information on this head, in print and by word of mouth, business men whose work is not simply routine constantly give some attention to manoeuvring of this kind and to the discovery of new opportunities for putting their competitors at a disadvantage. This seems to apply in a peculiar degree, if not chiefly, to those classes of business men whose operations have to do with railways and the class of securities called "industrials." Taking the industrial process as a whole, it is safe to say that at no time is it free from derangements of this character in any of the main branches of modern industry. This chronic state of perturbation is incident to the management of industry by business methods and is unavoidable under existing conditions. So soon as the machine industry had developed to large proportions, it became unavoidable, in the nature of the case, that the business men in whose hands lies the conduct of affairs should play at cross-purposes and endeavor to

derange industry. But chronic perturbation is so much a matter of course and prevails with so rare interruptions, that, being the normal state of affairs, it does not attract particular notice.

In current discussion of business, indeed ever since the relation of business men to the industrial system has seriously engaged the attention of economists, the point to which attention has chiefly been directed is the business man's work as an organizer of comprehensive industrial processes. During the later decades of the nineteenth century, particularly, has much interest centred, as there has been much provocation for its doing, on the formation of large industrial consolidations; and the evident good effects of this work in the way of heightened serviceability and economies of production are pointed to as the chief and characteristic end of this work of reorganization. So obvious are these good results and so well and widely has the matter been expounded, theoretically, that it is not only permissible, but it is a point of conscience, to shorten this tale by passing over these good effects as a matter of common notoriety. But there are other features of the case, less obtrusive and less attractive to the theoreticians, which need more detailed attention than they have commonly received.

The circumstances which condition the work of consolidation in industry and which decide whether a given move in the direction of a closer and wider organization of industrial processes will be practicable and will result in economies of production, -- these circumstances are of a mechanical nature. They are facts of the comprehensive machine process. The conditions favorable to industrial consolidation on these grounds are not created by the business men. They are matters of "the state of industrial

arts," and are the outcome of the work of those men who are engaged in the industrial employments rather than of those who are occupied with business affairs. The inventors, engineers, experts, or whatever name be applied to the comprehensive class that does the intellectual work involved in the modern machine industry, must prepare the way for the man of pecuniary affairs by making possible and pitting in evidence the economies and other advantages that will follow from a prospective consolidation.

But it is not enough that the business man should see a chance to effect economies of production and to heighten the efficiency of. industry by a new combination. Conditions favorable to consolidation on these grounds must be visible to him before he can make the decisive business arrangements; but these conditions, taken by themselves, do not move him. The motives of the business man are pecuniary motives, inducements in the way of pecuniary gain to him or to the business enterprise with which he is identified. The end of his endeavors is, not simply to effect an industrially advantageous consolidation, but to effect it under such circumstances of ownership as will give him control of large business forces or bring him the largest possible gain. The ulterior end sought is an increase of ownership, not industrial serviceability. His aim is to contrive a consolidation in which he will be at an advantage, and to effect it on the terms most favorable to his own interest.

But it is not commonly evident at the outset what are the most favorable terms that he can get in his dealings with other business men whose interests are touched by the proposed consolidation, or who are ambitious to effect some similar consolidation of the same or of competing industrial elements for their own profit. It rarely happens that the interests of the business men whom the prospective