Corporate management compared with government control (fifth edition);

Elijah Watt Sells (1858-1924)
Corporate Management
Compared with
Government Control

BY
ELIJAH W. SELLS, C. P. A.

FIFTH EDITION

PRESS OF
SAFETY SYSTEMS COMPANY
NEW YORK
In an address * * * Elijah W. Sells of the accounting firm of Haskins & Sells * * * made some interesting and pertinent remarks bearing upon the management of railroad and other corporations and those who direct their affairs. He contrasted corporate management with Government management. By reason of his profession, Mr. Sells is well qualified to speak on this subject. He has had unusual opportunities for observation and for getting at the actual facts, on which alone a correct judgment can be based. * * *

Altogether, Mr. Sells, it will be seen, has succeeded in crowding many facts and much solid truth into his remarks, and the address, coming from such a well-informed public accountant, must be considered as forming an important contribution to the discussions of the subject.

THE COMMERCIAL & FINANCIAL CHRONICLE, New York.

* * * Seldom does an after-dinner audience have the luck to listen to an address so sane in substance and so chaste in style.


* * * These are facts of which there has been more or less demonstration in this and other Southern States.

* * * That the politicians have gone too far in their war on corporations is evidenced today in the extra session of the North Carolina Legislature.

CHARLOTTE EVENING CHRONICLE, Charlotte, N. C.

* * * A public accountant has had opportunity to examine somewhat intimately the stewardship of many men occupying positions of public or of private trust. * * *

THE GLOBE, New York.

* * * the conclusions he has reached are entitled to respect to say the least.

THE ECONOMIST, Chicago.

A brand new bit of testimony bearing on the comparative abilities and efficiency of corporation executives and government executives * * * testimony possessing a character and a value that cannot come from any other source * * *

* * * Who will not assent to this? * * *

* * * Who will quarrel with our accountant-judge?

NEW YORK COMMERCIAL.

* * * startling facts * * with great force and truth.

THE MACON TELEGRAPH.

Intensely interesting conclusions * * *

SUN, Columbus, Ohio.

* * * A remarkable speech delivered last evening by Elijah W. Sells of New York. * * *

* * * A tribute is paid by one who knows, to the integrity of American business men.

POST-EXPRESS, Rochester.

* * * Mr. Sells vigorously assailed as wide of the mark the charge that the crisis has been caused by the dishonesty of corporation managers and their exploitation of the people.

INTER-OCEAN, Chicago.

* * * Upheld the management of the big corporations. * * * gave figures to show how the amount of railway construction fell off immediately following the passage of the interstate commerce act.

TRIBUNE, New York.

* * * accentuates several phases of present day questions relating to the control of corporations which will be of interest to many of our readers.

NEW ORLEANS ITEM.

* * * Defending his right to make an estimate of the men whose business affairs he had investigated * * *

THE SUN, New York.

* * * Yet the politicians in office and those who aspire to office are the severest castigators of corporation morals. Eden before Adam's fall was corrupt in comparison with the immeasurable purity the politician has in his mind's eye, when it is a question of exciting the attention of the jaded voter by a good bit of denunciation of wicked corporations. Yet here comes a daring public accountant with a cold statement * * *

BALTIMORE SUN.

* * * Startling statement * * *

BUFFALO COURIER.

* * * Mr. Elijah W. Sells, the well-known public accountant, has given the public much food for thought in a comparison which he draws between the management of government bureaus and of the various classes of public service, industrial and business corporations, a comparison which he is peculiarly fitted to make from his lifelong experience.

THE BANKING LAW JOURNAL, New York.

* * * Address is an admirable one.

NEW JERSEY COMMERCE AND FINANCE.

* * * the cudgel was very vigorously taken up * * *

TRIBUNE, Johnstown, Penn.

* * * Mr. Sells administered some sturdy whacks at current delusions about the conduct of private business and the conduct of government.

THE EVENING SUN, New York.
Corporate Management
Compared with
Government Control

BY
ELIJAH W. SELLS, C. P. A.

Response to a Toast, "The American Association of Public Accountants," at the Banquet of the Society of Certified Public Accountants of the State of New Jersey, on their Tenth Anniversary, Newark, New Jersey, January 20, 1908.

FIFTH EDITION

PRESS OF
SAFETY SYSTEMS COMPANY
NEW YORK
<table>
<thead>
<tr>
<th>PERCENTAGES</th>
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<tbody>
<tr>
<td>1871</td>
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<tr>
<td>Mileage of Railways constructed increased 49%</td>
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<tr>
<td>Bushels of Corn produced increased 47%</td>
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<tr>
<td>Bushels of Wheat produced increased 77%</td>
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<tr>
<td>Bales of Cotton produced increased 91%</td>
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<tr>
<td>Tons of Pig Iron produced increased 289%</td>
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<tr>
<td>Bank Clearings increased 225%</td>
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<tr>
<td>National and State Bank Deposits increased 299%</td>
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<tr>
<td>Mileage of Railways constructed increased 253%</td>
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For 19 years after the passage in 1887 of the Interstate Commerce Act, 1888 to 1906.

For 29 years prior to the passage of the Interstate Commerce Act.
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The Society of Certified Public Accountants of the State of New Jersey is especially conspicuous because more corporations and more corporate capital have their corporate home in the State of New Jersey than in any other State. And so I want to take this occasion to discuss, and in a spirit that shall lack neither candor nor courage, certain public questions upon which the experience of a public accountant is competent to throw light.

The position of the public accountant in respect to corporations and their management is always an independent one. Unlike the attorney he is not expected to make out a case. The character of the service he renders is impersonal. All he can do is to tell what the facts are, and they exist for his examination in forms so tangible and so subject to other scrutiny than his own that even if he were willing to prostitute his calling he would never dare to do so. It is equally true that the knowledge he obtains of the affairs of corporations is necessarily intimate, accurate, and substantially complete.

Our country just now is passing through a period of acute financial stringency. The securities representing its properties are selling at prices that range from 30 to 60 per cent. lower than were obtained for them one year ago. The money needed
to keep business going is harder to get today than was any sum, however great, for the extension and development of business one year ago, and the questions, What is the matter? How has this come about? Who is responsible? are on everybody's tongue. The answers that are so generously provided seem to me very wide of the mark. Usually they involve grave reflections upon corporate management, and usually they come from a class of people who are particularly glib with their tongue, or ready with their pen, and who seem to have no other qualification for throwing light upon so grave a problem.

We are told that the corporation managers are dishonest; that they "exploit" the people and their utilities; that they put their own enrichment above their duty to the stockholding interest or to the patronizing public; and that before there can be a return of the splendid prosperity we were enjoying, the Corporation must be regulated and the Government must step in with a sharp eye and a big stick.

My experience in the conduct of independent and impartial examinations of books of account and affairs has covered many years and has been concerned with the Federal Government, State Governments, and City Governments. It has covered the field also of railway, street railway, light, power, and other public service corporations. It has dealt with industrial corporations, the so-called "trusts." It has taken me into banks, trust companies, and insurance companies; into educational and charitable institutions. I think I may say it has taken me pretty generally over the whole field of public and private business, and if I am to judge by what my eyes have seen, it is the unassailable truth that almost any one of the men who stand at the head of our great business institutions is far more competent to
run the Government, and would run it more economically, more wisely, and more honestly than any of those who are in the business of running governments.

I know as a matter of fact that the management of our great properties is generally intelligent and economical, and that the management of our Government bureaus is generally loose, irregular, and frequently dishonest; and when I read the articles with which so many of our newspapers and magazines are filled nowadays, reflecting on the men whose genius is developing the country's resources, and when I hear the proposals of politicians, from the most eminent to the least, for the passage of laws to hamper and restrict the energies of these men on the theory that their integrity is open to suspicion, my mind inevitably brings up the contrast that I always observe between a corporation's way of doing things and a government's, as disclosed by their respective records and books of account.

For the purpose of this comparison, incompetency and dishonesty need not be separated. Putting them together it is my deliberate estimate, that, judged by the highest standards prevailing in the best conducted corporations, there is less than 10 per cent. of both among men in the management of corporations generally, and at least 90 per cent. of both among public office holders, and I base this estimate upon my experience as a public accountant.

The men entrusted with the management of the corporations are better fitted to administer the affairs of such corporations and to exercise judgment in matters concerning both the investor and the public which takes their product or utilizes their franchises, than are those men who hold public office qualified to fill even
their own positions, much less to undertake administrative control over corporations. The facts that prove this do not deal with the mere matter of honesty and efficiency. The organization of a public bureau is much less compact, much less harmonious in its operation than the organization of a great railway or a great industrial corporation. The men at the head of such business organizations, in practically every case, are experts, working diligently, in harmony, and ready to work to the limit of their endurance, with full and direct control of their subordinates. On the other hand, nothing can be more notorious, the results are obvious to every public accountant who investigates, than the fact that in nine cases out of ten the head of a public department spends most of his time promoting his political interests, and the employees generally, protected by the civil service regulations, are looking to see how little rather than how much work they can get into their appointed short hours.

We are not without information of the effects upon great business industries of being hampered by government regulation, as compared with the effect of being let alone. It is rare, of course, that conditions common to a great business are due to a single cause, but in this instance the signs point that way.

The two greatest business interests of the country are represented by the railways and by agriculture, and they are particularly inter-related. Everything that tends to restrain capital from investing in railway enterprises; everything that holds back the extension of railway enterprises into new and undeveloped country checks the settlement of new farms and the production of new crops. The manufacturer, on the other hand, finds his interests facilitated by the erection of his factories and shops in old and closely settled communities where the transportation
problem is already fully solved. So, note the comparison.

In addition to a vast amount of State legislation in restraint of railways that began at about the time the Interstate Commerce Act was passed in 1887, that evil enactment, with its subsequent amendments, ushered in the era of restriction and introduced the period of railway persecution by law. Prior to that time railway construction had progressed in line with the development of business generally, but since that day, notwithstanding the enormous increase of capital resources, the railway industry has fallen far below other lines of development, and with it also has fallen the principal agricultural interests.

From 1878 to 1887 the average number of miles of railways constructed per annum was 7,013, but in the ten years following the passage of this Act, the average was only 3,537, or a falling off of about 50 per cent. A normal growth since 1887, to keep pace with the development of industries generally, should show an average in excess of that which had distinguished the earlier period. No less than 12,876 miles of railway were constructed in the very year, 1887, in which the Interstate Commerce Act was passed; since that time the largest year of construction was in the year following, 1888, when the total was only 6,900 miles. The total mileage at the end of 1887 was 149,214; at the close of 1906 the total mileage was 222,635, an increase during these nineteen years of only 49 per cent., while in the preceding nineteen years the increase had been 253 per cent.

The explanation of this condition of things is not to be found in the suggestion that the country has been occupied. In the region west of the Mississippi, as suitable for development as any country through which any of the trans-continental lines were built, there were in 1904, outside of Alaska and Texas, no
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fewer than 473,836,000 acres of unoccupied public lands, while in Texas one-half of the area, or fully 84,000,000 acres, has not yet been penetrated by lines of railway. In the region west of the Mississippi, where there is only a little over 100,000 miles of road, there is an area at the present time sufficient to support at least 50 per cent. more railway mileage.

Note now the figures showing the development of businesses which have not been hampered by that sort of government regulation which hinders their management and frightens their investors.

National and State bank deposits increased from $1,737,000,000 in 1888 to $6,941,000,000 in 1906, or in the enormous measure of 299 per cent.; bank clearings increased from $49,098,000,000 to $159,808,000,000, or 225 per cent.; and the production of pig iron from 7,268,000 tons to 28,280,000 tons, or 289 per cent. The Lake Superior iron ore shipments increased from 9,000,000 tons in 1890, the figures showing the tons shipped in 1888 were not available, to 38,500,000 tons in 1906, or 324 per cent. The statistics of manufactures for the period from 1888 to 1906 are not available, but for the ten years from 1890 to 1900 the capital invested in manufactures had increased from $6,525,000,000 to $9,835,000,000, or 50 per cent.; but the capital invested in railways had increased during those ten years from $10,021,000,000 to $11,892,000,000, or only in the measure of 18 per cent., with a mileage in the measure of 16 per cent.

The fact that the causes, whatever they are, which have throttled railway development, are also responsible for holding back the development of agriculture appears clearly enough in the fact that agriculture is the only other large industry which
has not developed in proportion with the production of raw material, the growth of manufactures, and the increase of banking resources.

Since the time when the Egyptian people began the system of rotating crops, agriculture has been the greatest source of national enrichment, and doubtless the greatest factor in the civilization of the world.

With all the lands that are available in this country still to be reached by railway construction, and with unlimited markets abroad for our agricultural products, the production of corn, wheat, and cotton increased not at all in keeping with other developments, but only approximately with the progress of railway development.

In the period from 1888 to 1906, the increase in the production of corn was from 1,988,000,000 bushels to 2,927,000,000 bushels, or only 47 per cent.; that of wheat was from 416,000,000 bushels to 735,000,000 bushels, or only 77 per cent.; while that of cotton was from 6,941,000 bales to 13,290,000 bales or only 91 per cent.; and the fact that cotton did better than wheat or corn is accounted for by the reinvigoration of the South.

It is interesting also to note that the revenue to the investor from his interests in railways is far less than his revenue from an interest in manufactures. The average rate of net income on railway investments is only about 4 per cent., while the average net income from investments in manufactures is about 15 per cent.

I want to quote, and with earnest approval, the language employed by President Hadley of Yale University, in a lec-
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ture on "Ethics of Corporation Management," delivered in the latter part of 1906:

"Personally, I am one of those who look with serious distrust on each extension of political activity. I believe that the Interstate Commerce Law did more to prevent wise railroad regulation than any other event in the history of the country. I think that the Courts would have dealt with our industrial problems better than they have done if the Anti-Trust Act had never been passed. I have gravely doubted the wisdom of some of the more recent measures passed by the National Government."

The prejudice that has been aroused against the men who have written their names largest upon the geography of their country by railway construction and development, or whose genius has built up such corporate organizations as exist in steel, in oil, in the telegraph, and in other lines of industry; the prejudice that swept over the West in the days of Populism, and that now seems so far to dictate the policies of both the great political parties that their old-time controversies are forgotten and they are merged in attacks upon the business of the country, is a prejudice that is based upon two false assumptions; first, that the men of great affairs are lacking in integrity, and, second, that the men of small affairs are over-supplied with it. I shall not say that the reverse is more nearly true, but I do say that almost every instance of great success in this country is an example of a combination, in the man who has accomplished it, of scrupulous honesty, great frugality of personal expenditure during the years of struggle, and unbounded industry; while as a commentary upon general good conduct of the masses as such, it is a pertinent remark that if during the last few years one of our largest street railway systems could have gathered into its treasury all the fares that were passed up to
its conductors, together with all the fares for which it gave rides but for which the passengers had contrived to omit to pay, it would not now be in the hands of receivers.

The loss to traction lines in all principal cities by the evasion and the dodging of passengers, and by the misconduct of conductors, is estimated at from 5 to 10 per cent. of their gross earnings. The aggregate loss to shareholders of traction companies throughout the country must amount to a great many millions of dollars annually.

Christian Socialism, the equal protection of the individual rights of all, the doctrine of the Golden Rule, is the only sort of socialism that should exist in a free country where each man's endowment of industry and ability should be permitted to achieve for him that full measure of success of which it is capable.