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AMERICAN "TRUSTS" AND ENGLISH COMBINATIONS ¹

THE subject of this paper is one which presents many points of interest to students of Political Economy as well as to business men. The "Trust"—a term suggesting a principle which, so far as the public is concerned, is in this connection often more honoured in the breach than in the observance—connotes in theory only industrial combination carried out in its most complete and logical form. It constitutes, nevertheless, a phenomenon before which Adam Smith, and the earlier economists who preached the gospel of free exchange, would have fairly stood aghast, and it is interesting to note the perplexity into which its sudden and abnormal development appears to have thrown many of the ablest writers of our own time.

Their dilemma is substantially that hinted at by the late Prof. Henry Sidgwick, when he remarked that the doctrines of Political Economy, as taught by Adam Smith's successors, fell into two distinct and wholly diverse parts : (1) an analysis of the processes of production, division and exchange of wealth, apart from Government interference ; and (2) a demonstration that these processes led to the best possible results.

Mr. Bagehot, indeed, ascribed much of the failure of Political

¹ The main authority for the details given in this paper as far as regards America, is the Report of the U. S. Industrial Commission. I have to acknowledge my obligations to the admirable summary of Prof. Jenks, and also to Mr. Macrosty, to whom I am indebted for many of the instances of British combinations.—E. H.

Economy to attain general acceptance to the fact that its advocates had put it forward not as a theory of the principal causes affecting wealth in certain localities, but as a theory of the principal—sometimes even of all—causes affecting wealth in every society. Its professors, he remarks, have been economists, but they have not been business men; and I would venture to add that many of them have failed to grasp the central fact which vitiates so much economic theory, viz., that the individual self-interests which by the hypothesis form the mainspring of commercial dealing, are seldom enlightened, and are frequently conflicting.

These considerations may help, perhaps, to explain how it is that, with regard to the classification of the industrial trust in the economic order, the recognised authorities of the present day afford but ambiguous guidance; and while their utterances seem to hail the appearance of this hydra-headed prodigy as the legitimate offspring of the union of competition with combination, they damn it uncompromisingly, on the other hand, as the parent of monopoly. Where doctors disagree, the treatment must be empirical; and I would propose to test the question by the utilitarian rule which Bentham paraphrased from a maxim of still higher authority: "By their fruits ye shall know them."

In other words, so far as we find that the organisation of a trust has tended to improve methods of production, to cheapen the products or commodities with which it deals, to maintain the level of wages, to bring the necessities or the accessories of civilised life within easier reach of the mass of the people—so far shall we say that the trust has justified its existence. On the other hand, so far as a trust tends to create monopoly, to crush out legitimate competition, to raise prices in excess of a fair margin of profit to the producer and his assistants—so far shall we hold the trust to be economically indefensible.

The whole subject is too large, and opens up too many issues, to be dealt with in any but the most summary manner in the space at my disposal; and I will, therefore, clear the ground at once by explaining that in the following remarks I confine myself entirely to the industrial or commercial trust, leaving aside all so-called trusts—social, religious, or philanthropic—which, like Lord Grey's Public-house Trust, are designed to be worked on moral or social, rather than on purely "business" lines.

The trust, or "combine" (to use the hideous American phrase), is essentially a modern development of American birth, corresponding to a peculiarity in the conditions of trade in the United

States. Commercial law in the States is not federal, but local, the result being that companies or corporations authorised in one State, may be (and often are) illegal in another, or permitted to trade only under severe restrictions and at great additional expense. In cases where the ramifications of a simple industry extend of necessity over a number of States or Territories, and comprise a number of distinct functions or trades, each branch had originally to be worked by one or more distinct and independent companies, whose interests sometimes overlapped, and were often conflicting. The combination and consolidation of such interests was obviously desirable, and where voluntary pools and agreements were found insufficient, from the impossibility of coercing a refractory or dishonest member, the organisation was usually carried out somewhat in the following manner :—

The stockholders of each separate company assigned their stock, under an irrevocable power of attorney, to a certain number of trustees, receiving trust certificates in return for the stock so assigned. The profits of the companies are pooled, and divided on the said trust certificates, the voting and absolute control of the business remaining in the hands of the trustees.

The decision, however, of the New York Court of Appeal against the Sugar Trust, declaring that the act of a corporation in thus abdicating its own power of self-direction, was *ultra vires*, led to a change, in form only, the trust being reorganised as a new corporation, which owned all the plant and assets of the companies allied under the trust—the trustees becoming the directors, and continuing the management on the same lines.

In the case of the Standard Oil Trust, where nine trustees owned the bulk of the certificates, a division was made into twenty corporations, the trustees retaining a majority of the stock in each, and working the whole business practically as before.

I propose to treat the history of this trust, the largest and most influential combination in the United States, until the recent creation of the gigantic U.S. Steel Trust, somewhat in detail, as illustrative and typical of the whole trust movement.

Petroleum was first discovered in the States in 1859. The products obtained by the imperfect methods of distillation were dangerous and uncertain. As time went on improvements were introduced, patents were applied for, and larger and better-equipped refineries were built ; but although the price of kerosene varied for the twelve years up to 1872 between 25 and 50 cents

per gallon, as against a price of some 7 cents at the present day, the history of refining was, in the main, one of disaster. The railroad rates were excessive, and lacked uniformity. The system of drawbacks and rebates was universal, and the larger refiners, who could bring a large volume of goods to the rail, could get differential treatment, and so break the smaller men. Barrelling was very costly, and leakage formed a large item of expense. Trade in a natural product was crushed by the charges incurred in bringing it to market.

In 1870 the Standard Oil Co. of Ohio was organised with a capital of \$1,000,000, and soon after entered into an alliance with other important companies in the same industry, such as the Cleveland Standard Refinery, the Pittsburg Refinery, the Atlantic Refining Co. of Philadelphia, and Charles Pratt and Co. of New York. This alliance paved the way for a more extensive combination, and in 1882 the Standard, together with thirty-eight other companies and a long list of individuals—all engaged in the business of either producing, refining, or transporting oil—entered into the Standard Oil Trust, each company being appraised at its market value, and certificates for that amount, as explained above, being lodged in the hands of the trustees. After the adverse decision of the U.S. Courts, the twenty corporations into which the trust was reorganised consisted of the following:—

	\$
Anglo-American Oil Co., Ltd., with a capital of	5,000,000
Atlantic Refining Co.	5,000,000
Buckeye Pipe Line Co.	10,000,000
Eureka Pipe Line Co.	5,000,000
Forest Oil Co.	5,500,000
Indiana Pipe Line Co.	1,000,000
National Transit Co.	25,455,200
New York Transit Co.	5,000,000
Northern Pipe Line Co.	1,000,000
North-Western Ohio Natural Gas Co.	3,278,500
Ohio Oil Co.	2,000,000
Solar Refining Co.	500,000
Southern Pipe Line Co.	5,000,000
South Penn. Oil Co.	2,500,000
Standard Oil Co., Indiana	1,000,000
„ „ Kentucky	1,000,000

	\$
Standard Oil Co., New Jersey	10,000,000
" " New York	7,000,000
" " Ohio	3,500,000
Union Tank Line Co.	3,500,000
	<hr/>
	\$102,233,700

The market value of these companies in 1892,
as given in evidence before the U.S. Com-
mission, was \$121,631,312

By 1899, when the Commission was sitting, that value had risen to close on 500 million dollars; the dividends paid on the 100 million dollars capital had been 12 per cent. for the years 1891-5, 31 per cent. in 1896, 33 per cent. in 1897, 30 per cent. in 1898, and 33 per cent. in 1899; 48 per cent. was paid in 1900, and the same in 1901.

The trust owns or controls three-quarters of the entire oil trade of the United States. It is strong enough to practically dictate the price which shall be fixed for crude oil to the producer. In 1899 the New Jersey Co. recombined the twenty corporations above mentioned into one, which, according to the bald official statement, "controls petroleum oil refineries in all the principal northern cities of the United States, and produces about 65 per cent. of the country's total output of refined oil; also controls oil wells in Pennsylvania, Ohio and West Virginia, and the pipe lines for transmitting its oil to tide-water."

In that last sentence lies the secret of the Standard Oil Co.'s success. Fifty millions out of the hundred was the capital represented by transit companies, and these have all been consolidated and expanded into one huge system of pipe lines, covering the country like a net, and conveying to all the chief refining centres the oil as it comes from the wells—thence carrying on the refined products to the great cities for consumption or exportation.

Two such lines reach New York harbour from the oil regions of Pennsylvania and New York, with a capacity of 25,000 barrels per day. There is one such line to each of the cities of Philadelphia, Baltimore, Buffalo, Cleveland, and Pittsburg. These lines form in themselves no inconsiderable addition to the storage under command of the trust. Mr. Rogers testified that the National Transit Co.'s pipes extended to 35,000 miles, and the pipes (of 5-inch and 8-inch diameter) contained, on Oct. 1, 1899, 535,500 barrels of 42 gallons each.

In the eyes of its advocates, the phenomenal success of the Standard Oil Co. is no more than the due reward of philanthropy exercised on business lines.

Mr. Dodd, the legal adviser of the trust, states that the purposes for which the combination was formed, were:—

(1) To cheapen transportation by the development of cars, pipes, tanks, steamers, wharves and warehouses.

(2) To improve the quality of illuminating oils.

(3) To unite with the business of refining all business collateral thereto, and to utilise the best scientific skill in obtaining new bye-products.

(4) To employ agents to push and popularise the trade, and by these means to increase the supply of oil products, and lessen their price to the consumers.

Mr. Dodd, adopting apparently the principle of *post hoc ergo propter hoc*, asserts that these objects have been fully attained, and that the consumer is immensely the gainer by the operations of the trust. Showing that the margin between crude and refined oil fell in the fifteen years 1872–87 by over 9 cents per gallon, and multiplying this figure by the total consumption, he boldly claims a saving of 100 million dollars in the latter year alone as the result of the combination. Good quality and cheapness, he declares, are the essential principles of the trust; and in an almost lyric outburst he concludes:—

“The consequence is that petroleum is truly the light of the world. It is carried wherever a wheel can roll or a camel’s hoof be planted. The caravans of the deserts of Sahara go laden with Pratt’s Astral, and the elephants in India carry cases of Standard White!”

Other critics do not entirely endorse this altruistic view of the Standard’s action. Although the margin no doubt fell rapidly in the earlier years, owing to the improvements and economies effected in the process of refining, it is noticeable that from 1882 onwards—the date of the formation of the trust—this tendency to decrease disappears, and a margin of 4 and 5 cents (sufficient, in connection with the development of bye-products, to give the shareholders the enormous returns stated above) was pretty consistently maintained.

Bitter complaint was made by several witnesses before the committee, of the arbitrary action of the Standard in fixing the price of crude oil—nor, in special instances, was this denied by its officials.

In certain localities the trust raised the price of crude oil until

it ruined the rival pipe line, and then put prices down again to the detriment of the producer; while in places where it was practically the sole buyer, it kept offers low until the well-owners were practically broke, and compelled to part with their property to the trust, which then raised its terms. Action of this kind is, however, only local in its effects; the main fluctuations in "crude" prices, which have been violent and sudden, are clearly attributable to the varying intensity of demand or supply, caused by the exhaustion of an old field or the discovery of a new one, such as the Butler field, Pa., in 1872, or the Bradford field in 1876, when crude fell from 9 to $4\frac{1}{2}$ cents per gallon, and refined from 29 to 14 cents; and, I should add, the outburst of the Texas "gushers" in last year.

The Standard's activities, however, are by no means confined to the United States, but extend into all the markets of the world; and the present abnormal depression of crude oil in South Russia is largely attributable to the influence of a combination working under an agreement with the Standard as to its share in the British and European kerosene markets.

The charge of aiming at monopoly is strongly disclaimed by the Standard promoters, while it is pressed with great pertinacity and much detail by their opponents; and the amount of hard swearing on each side indicates the importance that attaches to this point. Several witnesses testified that the almost complete control by the Standard of the pipe line systems made them dictators in the matter of prices; that the rates charged by them both for local pipage and for transit to the seaboard were excessive, and had not been reduced for twenty years; and that where independent organisations, such as the Pure Oil Co. and the United States Pipe Line, had endeavoured to gain a footing, they had been bitterly and unfairly opposed by the Standard Co., which, failing in its attempts to crush them, had then endeavoured to gain control by purchasing their stock—a manoeuvre which the Pipe Line only defeated by the formation of a voting trust. Unfair discrimination by the railways, in the shape of preferential rates and rebates granted to the Standard Oil Co., was a point on which much stress was laid, Messrs. Emery, Lockwood, and Rice tracing the growth of the trust almost exclusively to this cause, and estimating the profits so received to amount to millions of dollars yearly. "Railway discrimination," says Mr. Rice, "is the father and breeder of trusts." The Standard officials admitted that the practice existed until the passing of the Inter-State Act of 1887, which rendered it illegal, but claimed that any advantage

so obtained was given wholly to the public. Mr. Rockfeller, the President of the Company, declared that any such rebates were deducted from the price of oil, adding, "the advantage to the Standard from low freight rates consisted solely in the increased volume of business arising from the low price of its products."

Another example of the monopolising policy was pointed to in the charge that, in several instances, the Standard had forced competing refiners to sell, and then dismantled or pulled down the refineries, causing great loss to the district, and throwing many employés out of work. Mr. Archbold, the Vice-President, whose evidence was very able and voluminous, defended this action as prompted by pure business considerations, stating that where refineries were closed, others, better equipped and up to date, were started in more convenient localities, and that labour was merely displaced and transferred. The evidence went to show that the employés were paid good wages, though not higher than those paid by independent refiners. The chiefs of departments and superintendents enjoy high salaries.

It was admitted by Mr. Monnett, the Attorney-General of Ohio, a witness hostile to the trust, that in its formation there was no inflation of capital—an unusual feature of which, however, the high rate of dividends earned, offers independent confirmation.

Generally speaking, the Standard officials claimed that the progress made in refining during the last twenty years, and the advantages now enjoyed by the public in cheap prices and increased facilities, were due to the formation of the trust. Independent or competing witnesses attributed these simply to the natural development of trade, deposed that the Standard offered the public no advantages in excess of its competitors, and maintained that rates would rule lower in the absence of that organisation.

I fear I have been led into somewhat excessive detail over the Standard Co. It will not be necessary to do more than summarise the salient features of a few of the other more prominent trusts, before passing on to the English companies.

The Sugar Trust is instructive as an example of a vigorous and deliberate attempt to establish a monopoly in an article of universal consumption, in one of the "necessaries of life," under the protection afforded by the American Tariff.

Mr. Havemeyer, President of the American Sugar Refining Co., stated frankly that the trust was organised "with a view of controlling the price or output to the people of this country."

In 1897, he testified the company was producing some 30,000 barrels a day, with a capacity of 40,000; in other words, it was supplying 90 per cent. of the entire consumption, and could produce 20 per cent. more than the total demand. Mr. Havemeyer added that he would not have dared to take the risk of forming the trust had the sugar refining business not been protected by a severe tariff; and it is significant that, previous to its formation in 1887, the excessive internal competition induced by the American protective system had brought most of the existing refiners to the verge of bankruptcy.

The capitalisation of the trust, when formed, was 50 million dollars; it is now 75 millions. The capital stock of the various companies which composed the combine stood at no more than 6,590,000 dollars; but, as was stated, the latter figure by no means represented their assets or real value. This was settled for the purposes of the trust by a committee of appraisement, which took plant, location, trade-marks and good-will all into consideration. Mr. Havemeyer admitted that the actual refineries and plant for a capacity of 45,000 barrels daily could be put up for a sum of 30 to 35 million dollars, but stated that he considered his brand alone as worth that sum, and argued that it was fair that good-will should be capitalised, and dividends paid thereon.

Judged by the chart of prices published with the U.S. Commission's Report, the trust does not appear to have conferred any benefit upon the consumer. It has economised in production by running only its best plants at their full capacity; but the margin upon refining rose very distinctly on the formation of the trust in 1887, and continued high until lowered by the competition of Claus Spreckel in 1889. This firm was absorbed in 1892, and prices again were immediately advanced, until the opposition of Arbuckle Bros., Doscher, and others, in 1898, once more cut down the margin.

I turn to the Whisky Trust, which undoubtedly presents an excellent example of "how not to do it." The capitalisation of this trust is somewhat startling. In 1887 some seventy-five distilleries were combined in the Distillers' and Cattle Feeders' Trust. Mr. Clarke testified that his own distillery secured trust certificates amounting to four times its valuation, and believed that this was done throughout. This trust, reorganised in 1890 as a company, promoted three other combinations with a view to eliminating competition. With regard to the principal of these, the Standard Distillery and Distributing Co., it was elicited that

for each 100,000 dollars of value taken over, there was handed to the seller 100,000 dollars in preferred, and a like amount in ordinary, stock of the company. In addition, there was handed to the promoters 150,000 dollars in common stock, and to the underwriters 100,000 dollars preferred and 150,000 dollars of common stock; so that ultimately the company had to earn dividends on 600,000 dollars of stock for every 100,000 dollars of actual value taken over. These four companies were finally merged into the Distilling Co. of America, with an authorised capital of 55 million dollars 7 per cent. preference, and 70 million dollars of common stock, when again enormous profits were made by the organisers and financiers.

The chart showing the working margin, *i.e.*, the difference between the price of spirits and the price of corn in Chicago, exhibits a line violently fluctuating, rising with the duration of each new pool or combine, and dropping abruptly when it became necessary to cut prices in order to force competitors to come in. The organisers have been greedy of profits, which they have been able to hold at a high figure only for short periods at a time—the changes, on the whole, being more sudden and injurious to the trade than would have been the case under free competition.

The various Tin Plate, Tube, Steel and Wire combinations that were formed in the winter of 1898–99 met with a large measure of success, having hit off the psychological moment when the demand for steel, both for mills and buildings, was largely on the increase. These bodies had previously been mainly dependent on the tariff, and it does not appear that the combinations used their position to increase their margin of profit unduly, having regard to the advance in the price of the raw material. They retained for themselves, no doubt, the advantage arising from economy in cost of manufacture.

In February, 1901, these combinations were themselves all absorbed in the U.S. Steel Corporation.

The significance of the Billion Dollar Trust has been said to lie in the fact that it is a combination of combinations, and carries the system of industrial coalition to a point only just short of a Continental monopoly.

This gigantic organisation, incorporated under the laws of New Jersey, took over practically all the stock of the leading steel companies of the Central West, the syndicate, represented by Messrs. J. P. Morgan and Co., providing a working capital of 25 million dollars. The capital authorised was 550 million

dollars of 7 per cent. cumulative preference, and a like amount of ordinary stock, of which about 510 millions respectively were issued, in addition to 300 millions of 5 per cent. debentures, representing a total of some £264,000,000.

"The properties owned are described unofficially in a general way as follows: 78 blast furnaces, with a capacity of upward of 6,500,000 tons of pig iron yearly, or half that of the United States in 1900; 149 steel works and 6 finishing plants, including bar mills, structural steel and plate mills, tin plate works, sheet, wire rod and nail mills, with an annual capacity of about 9,000,000 tons of finished material; 18,300 coke ovens; about 70 per cent. of the ore mines of the Lake Superior region, producing in 1900 12,724,900 tons; 70,830 acres of coal lands, about 30,000 acres of surface lands in the coke region, and 125 lake vessels, &c."

Soon after its start the company suffered from an extensive strike, which lasted two months, and, it was reckoned, involved a loss of some 20 million dollars to the corporation, and some four or five millions, wages to the workmen.

The operations of the combine, under the management of Mr. Schwab (reported to be the most highly-paid official in the world), have been carried on with much ability, energy, and success. A statement published on April 1st shows the net earnings for the past year to exceed 111 million dollars. It has been decided to convert £40,000,000 of the preferred stock into debenture bonds, and also to issue additional capital to the extent of £10,000,000, raising the working capital to £21,000,000. Contracts are said to have been booked for thirteen months ahead, and pig iron has been advanced a dollar a ton.

The foregoing examples are sufficient, I think, to exhibit clearly the organisation and scope of the typical American trust—though speaking accurately that title has been dropped since 1890. The movement, however, shows no lessening of vigour, and, at this moment—having embraced the principal industries of the United States—it is apparently assuming an international ambition, and, as the first step thereto, is seeking to unite the main trunk railways of the North American Continent, as well as the principal Atlantic steamship lines, into one or two huge organisations. The U.S. Steel Corporation is already said to be attempting to capture the Continental trade, though it meets with vigorous opposition from the German Steel Cartel. The Standard Oil have already absorbed two-thirds of the English and Continental markets, and are extending their operations far into the East.

It is this distinct and avowed tendency towards monopolisation that differentiates the American movement from the recent

growth of combinations in this country. I should except, perhaps, the Salt Union, formed in 1888, with a capital of £3,000,000 in shares and £1,000,000 in debentures; and the United Alkali Co., formed in 1891, with £6,000,000 in shares and £2,500,000 in debentures. These companies undoubtedly hoped and attempted to control their entire trade, and at first the Salt Union succeeded in raising the price of common salt from 5s. to 10s. 6d., and other qualities by 100 and 125 per cent. High prices, however, attracted foreign competition, and the result proved the impossibility of establishing anything like monopoly in a free trade country. The \$10 shares of the United Alkali Co. stand to-day at 2, the Salt Union shares at $1\frac{1}{2}$.

In the cotton spinning trade, the largest and most successful combination is that formed by Messrs. Coats in 1890, which absorbed a large number of important yarn and thread spinners, and by judicious purchases of the stock of some of its late rivals, such as the English Sewing Cotton Co., the American Thread Co., and the Fine Cotton Spinners' and Doublers' Association, have obtained a commanding pre-eminence in the trade at home, in the States and Canada, extending also to Russia. The last-mentioned company (Fine Cotton) has itself a capital of four millions, with £2,450,000 of debentures; Coats' capital stands at seven and three-quarter millions, with £1,180,000 of short term debentures.

The Bradford Dyers' Association, formed in December 1898 with a share capital of three millions and one million debentures, united about 90 per cent. of the Bradford piece dyeing trade, and has been fairly successful, its shares standing just above par.

The Yorkshire Woolcombers made an unsuccessful attempt to follow on the same lines; but by far the largest British textile combination is the Calico Printers' Association, floated in December, 1899, with the aid of a very confident prospectus, describing the business as "unusually safe." Its capital authorised is six millions, of which five millions have been issued, in addition to £3,200,000 of 4 per cent. debentures. Forty-seven firms of printers, with 830 machines, and thirteen firms of merchants were amalgamated, the purchase price for the properties or assets being £8,047,000, of which £2,660,000 was payable in shares and debentures. There was thus no undue inflation of capital; nevertheless, the results, so far, have been disastrous; no dividend has been forthcoming for the past two years, and the £1 shares stand at 7s. 6d., showing a depreciation of over three millions.

It may be remarked here that, from the very nature of the business, a calico printers' combine is one most difficult to conduct with success. The business is one which depends largely on the ability of the manufacturer to meet the constantly-varying demands of the individual customer with promptitude and accuracy. A high level of work and finish has to be maintained, and, at the same time, care has to be taken that a successful or popular style is not overdone. Dress pieces of a particular pattern cannot be put on the market *en gros* like grey shirtings. The fashions of to-day may be unsaleable to-morrow. The highest excellence in such work can only be attained by the closest technical attention, and it has already been found that the firms who stood highest in popular estimation before the combine, have lost to a great degree their pride and interest in their own productions, since that has become only part of a great output which is sold from one common store. Trades in which taste and fashion are dominant factors fall into a class to which the trust system can never be really satisfactorily applied.

It is otherwise, of course, with the more essential or rudimentary industries of a country, and in these the tendency towards amalgamation has indeed been distinctly visible in England during the last few years. Witness the union of Armstrongs and Whitworth, in the Elswick Works; the absorption of the Naval Construction and Armament Co., and of Maxim, Nordenfeldt by Vickers and Co.; Brunner-Mond's great organisation of the chemical trade; Guest, Keen and Co. and John Brown and Co., iron and steel works; and such combinations as Bolchow, Vaughan's and Cory's in the coal trade. In the past few months Vickers have bought up half the shares in Beardmore and Co.'s shipbuilding and railway works, and the amalgamation of Guest, Keen and Co. with Nettlefold's forms an undertaking with four and a half millions of share capital and debentures.

The very latest example of a great English combination is the Imperial Tobacco Co. This company combines into one the businesses of thirteen existing firms, with an issued capital of £5,000,000 preferred and £5,000,000 deferred ordinary, all taken by the vendors, while the public is invited to subscribe for £3,000,000 of 5½ per cent. cumulative preference shares and £1,000,000 4¼ per cent. debentures. A striking feature in this prospectus is that while the assets, including stock-in-trade taken over, amount to approximately £3,440,000, and £2,560,000 is provided for working capital and future development, goodwill, trade-marks, brands and licenses figure for no less than

8½ millions sterling, or 60 per cent. of the entire issued capital. It appears somewhat doubtful whether this enormous inflation will be justified by the event, though as the certified profits for the last three years average over £1,060,000, the mortgage and preference interest seems to be well secured. It is understood that the combination is formed solely to repel the attack of the American Tobacco Co., whose manager has announced his intention of absorbing, if possible, the trade of the entire world; and the extraordinary nature of the competing offers, by which the rivals have each been trying to buy over the wholesale dealers as well as the refiners to their side, including the distribution of huge cash bonuses and the renunciation of all profits for a term of years, has for the last few months been exciting the amazement of the consumer and the derision of the economist.

But of this, as of the entire group of British combinations, with the exceptions above mentioned, it may be said that they are essentially defensive, not aggressive organisations; and I have referred to them here mainly to emphasise the distinction which is to be drawn between them and the "trust" proper.

I must apologise for the amount of dry detail which I have been compelled to introduce in illustration of the subject before us, and proceed to a conclusion.

It will be seen that the typical and only actually existing trust is the American creation which I have described. The so-called Sugar Trusts of Austria and Germany are really more of the nature of working agreements between the producers and refiners. The term is also sometimes popularly, but incorrectly, applied to those occasional organisations known as rings or corners, got up for the special purpose of creating a monopoly in some standard article, such as corn or cotton, pigs or pig iron; and so raising the price to the sole advantage of the holders. This is merely our mediæval friend, the "engrosser" or "forestaller," in a modern garb; his motive is purely selfish, and his operation transitory; he has nothing in common with a regularly constituted trust, and from every point of view, social or economic, he is to be unreservedly condemned.

M. Theodore Marburg, in the January number of the *Economic Review*, quotes Mr. Charles R. Flint, who has been active in organising some of the most successful trusts in America, as summarising the advantages enjoyed by industrial combinations as follows:—

"Raw material bought in large quantities is secured at a lower price; the specialisation of manufacture on a large scale in separate plants permits the

fullest utilisation of special machinery and processes, thus decreasing cost ; the standard of quality is raised and fixed ; the number of styles is reduced, and the best standards adopted ; those plants which are best equipped and most advantageously situated are run continuously, and in preference to those less favoured ; in case of local strikes or fires, the work goes on elsewhere, thus preventing serious loss : there is no multiplication of the means of distribution, a better force of salesmen takes the place of a larger number, and the same is true of branch stores ; terms and conditions of sale become more uniform, and credits through comparisons are more safely granted ; the aggregate of stocks carried is greatly reduced, thus saving interest, insurance, storage, and shop-wear ; greater skill in management accrues to the benefit of the whole instead of a part, and large advantages are realised from comparative accounting and comparative administration."

Again to quote Mr. Charles M. Schwab, the President of the United States Steel Corporation itself.

"The Metropolitan Street Railway Company of New York City acquired eighteen distinct lines, each supporting a full complement of officers. The lines were consolidated, the officers wiped out. Mr. H. H. Vreeland was made president of the combined system. He performs all the duties that formerly fell to the eighteen separate presidents, and being a high-grade specialist performs them very much better. The improved street-car service of the metropolis bears eloquent testimony to this. Eighteen vice-presidents and secretaries and treasurers have given place to one official of the same rank under the combination, and so the process has been carried out all along the line."

In a word the object aimed at is economy, the saving of waste in industry.

The whole question before us then is reduced to this : Is this saving of waste attained at too great a cost ? Is cheap production the *summum bonum* for a nation ? Do the methods and operations of the trust, as we see them, conduce to the welfare of a country as a whole, to the protection of the public as well as to the promotion of a trade, to the elevation of the working man as well as to the enrichment of the capitalist, in brief, do they subserve the best interests of commercial progress ? It is easier to ask the question than to answer it, and though a general reply may be hazarded, its terms must be modified in relation to different cases. Some obvious considerations may be emphasised here.

1. That the trust makes for monopoly is, I think, clearly proved by the evidence before us. Autocracy, in the unfortunate absence of the perfect autocrat, has been found wanting as an ideal form of political government. Human nature being what it is (and more so, if I may use the expression, in the States), is there any reason to expect a satisfactory outcome from autocracy in a sphere which even more than politics offers a direct appeal to human cupidity ?

2. Over-capitalisation. This is an evil almost inherent in the trust system, though, it should in fairness be added, it is not

universal. But as a rule it is safe to predicate of any one of these great American combinations, that, while the debentures and the preference shares may represent value *plus* working capital, the ordinary stock represents water, and, generally, not even pure water. In the Whisky Trust, the most diluted of all, half even of the preference shares went to the underwriters, and the combining companies had been watered already. It would take too long to enter here into the question as to how capitalisation should be related to actual asset value, or how far earning power should be allowed for; but it is obvious that the issue of large blocks of wild cat ordinary stock, which have to be unloaded on the outsider to secure the promoters' profit, is really a fraud on the public, and the necessity of earning dividends on such stock leads to undue exactions being enforced on the consumer. M. Havemeyer, of the Sugar Trust, stated his view with great frankness: "It is fair for consumers to pay dividends on goodwill—fair, indeed, to get out of them all you can."

3. The trust leads to the concentration of excessive wealth and power in the hands of a few individuals. Men, who under free competition would be managing their own businesses, are either squeezed out of the trade, or are reduced to serving as officials in the trust, with no function but to carry out orders from headquarters. It would seem that this universal subordination must in the end depress the intellectual level, and lower the average business capacity of the community. No perfection of industrial organisation will compensate a people for the extinction of individuality.

4. The combination of many employers in a trust involves also the combination of the workmen and mechanics in their service. A strike, therefore, when it does occur, applies to a far wider area, and causes a far more serious loss to the community at large, than would otherwise be the case. Prof. Ashley argues, indeed, that such combinations are inevitable, that they tend to avert crises, and promote the stability of industry. This is true, I think, only so far as the trust is successful. A private enterprise may fail, and the country be little the worse. But where a single industry has grown to national dimensions, it is obvious that its collapse involves nothing short of a national disaster. In this connection I would refer to the warning of a well-known financial authority, Mr. Henry Clews, in his circular dated January 4, 1902:—

"High prices have stimulated production and checked buying, so that some sort of natural readjustment seems necessary. In this connection it is important to watch the workings of the trust experiment. These organisations

exert a powerful control over prices, which if used in the same fashion as in copper will produce corresponding results. Those who control these trusts and have securities which they would like to sell may easily be tempted to hold prices at artificial levels, to dam up the natural forces of supply and demand, until such schemes collapse from inherent unsoundness. The trust system appears to have worked very smoothly under prosperity, and it will be interesting to watch its course when the markets begin to move in a downward direction, as they certainly will in due season. There is a vast mass of these securities in the market undigested, and they will be the first to feel the effects of reaction."

5. This danger is, I think, a very real one. The whole colossal fabric of the trust has been, in almost every case, built up by the organising genius of some one man, who directs its operations and dictates its policy. The pyramid is resting on its apex. Who will support it when the dictator falls?

It is significant that most of the students of this movement, like Prof. Ashley and Mr. Macrosty, find the ultimate solution in the State becoming the great man's heir-at-law, and itself taking over the management. For myself, I cannot contemplate the possibility of all the great industries of a country passing into the hands of its political rulers without feelings of the very gravest apprehension.

There are yet many points which I have left untouched, but the above will sufficiently indicate my reasons for doubt as to whether the "trust," with all its attractive features of combination and economy of industry, is likely to prove, in the long run, a beneficial feature in the commercial progress of the world.

How far legislation can avail to check the obvious abuses of the system is very doubtful. The United States law of 1890 is practically a dead letter; the name has been changed, but the thing remains.

Prof. Clark, in a pamphlet on "The Control of Trusts," reviewed in the last number of this JOURNAL, remarks: "The practical point to be decided is what a State can do to span the rift between centralisation and monopoly," and, referring to the overwhelming power of great corporations, he specifies as practices which should be made illegal:

(1) The cutting of prices in special localities, whilst in other parts they are maintained at full rates.

(2) Discrimination between different classes of goods on a general price scale.

(3) Refusing to sell to general dealers, save on their agreeing to boycott rival goods.

Personally, I incline to the belief that American ingenuity

would have no difficulty in walking round, or through, any such enactments. Probably all that can be done is vigilantly to safeguard the rights of the minority; provide that, as far as possible, independent competition shall have a fair field; insist upon entire publicity as to accounts and organisation.

Increased publicity is practically all that has been secured in this country by the Companies Act of 1900, but there exists in the United States a system of bank inspections by Government officials which might conceivably be extended, with advantage to the public, to the case of the great corporations.

Instructed American opinion is well expressed in the terms of President Roosevelt's recent Message :—

“In facing new industrial conditions, the whole history of the world shows that legislation will generally be unwise and ineffective unless undertaken after calm inquiry and with sober self-restraint. In dealing with business interests, for a Government to undertake, by crude and ill-considered legislation, to do what may turn out to be bad, would be to incur a risk of such far-reaching national disaster that it would be preferable to undertake nothing at all. Yet it is true that there are real and grave evils, one of the chief being over-capitalisation, and a resolute practical effort must be made to correct these evils. Combination and concentration should not be prohibited, but supervised, and, within reasonable limits, controlled.”

How far the weight of economic authority tells for or against the trust system, is an interesting inquiry which I cannot discuss here. I surmise that those who regard political economy as a purely abstract science may sum up in its favour. Those who believe that, if economic studies are to have any practical bearing on the life of a nation, the application of their principles must be informed and regulated by a constant reference to ethical and social issues, may come, perhaps, to a different conclusion.

EVELYN HUBBARD.