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THE SO-CALLED TRUSTS

ARE THEY A MENACE TO THE FUTURE WELFARE OF OUR COUNTRY?

by

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This is an era of federation and combination. Great capitalistic corporations and labor unions have become factors of tremendous importance. Individual business men combine to form partnerships. Combinations in the form of corporations permit a still further development along this line. By combining a number of corporations within an industry, cooperation is secured. This combination is commonly called a trust, though it has various forms and is known under various names.[1] Combinations of capital known as corporations were formed before the organization of labor unions. That these unions were formed is an evidence of the fact that the laboring class regarded the capitalistic combinations as a menace to their welfare.

The word "trust" is not defined by all alike. Technically, a trust is a peculiar form of capitalistic combination, but in common usage the term is applied to any aggregation engaged in business other than merely local, and not confined in its operation to the state of its creation. Any large combination, financial, commercial or industrial, organized for the purpose or with the effect of securing control of any commodity or convenience by excluding competition, regulating the amount of the output and the price thereof, is known as a trust,[2] and it is in

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1. Sparling, Business Organization, p. 56
2. "What is a Trust", Outlook 72:391-393; Lawson, American Industrial Problems, pp. 153-157

its popular sense that the term is here considered.

Before the organization of what were technically known as the trusts, various forms of agreements between corporations and individuals were common.[1] These agreements were called pools and the most common were agreements for fixing the price of the product or for dividing the territory. These agreements could not be well enforced and a more compact form of combination was desired. Trusts were originally formed by having competing corporations assign their stock into the hands of a board of trustees.[2] The original stockholders received trust certificates in exchange for their stock and received dividends proportionate to their certificates. Seven or nine trustees composed the board and they managed the business and secured harmony of action. All the earnings were put into a common treasury and whether one of the manufacturing establishments was running or not made no difference in the profits received by the stockholders of that particular company. The Standard Oil Trust, formed in 1882, was the first and most successful trust. The so called Whiskey Trust (Distillers and Cattlefeeders' Trust) and the Sugar Trust were also very prominent organizations.

The courts finally decided that corporations had no right to surrender their stock to trustees. Between 1888 and 1892 many "anti-trust" laws were passed. The hostility of the courts and of public opinion led to a formal dissolution of the

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1. Jenks, The Trust Problem, p.108; Bullock, Introduction to the Study of Economics, p.316
2. Jenks, The Trust Problem, p.108; "What is a Trust", Outlook, 72:391-393; Bullock, Int. to Study of Economics, p.317

trusts. But dissolution meant simply a change of form.[1] In some cases one large corporation bought out the smaller corporations composing the trust. The trusteeship was converted into a corporation by converting the trust certificates into stock. The trustees of the former trust became directors of the new corporation, and the officers of the new corporation remained practically the same as the officers of the trust. It was a change in name and a change in legal form, but no change in the actual management of the organization. The Standard Oil Trust followed a different plan. The nine trustees owned a majority of all the trust certificates. Twenty separate corporations were formed, and the holders of trust certificates were given shares pro rata in each of the corporations. As the former trustees then owned a controlling interest in each of these different corporations, they were able to direct affairs as efficiently as they had done while acting as trustees. A change of form was effected but not a change of fact.

Since the dissolution of the old trusts, the form of organization owning the separate plants has become most common. When a combination is desired each corporation sells its plant and dissolves. When the combination has been completed, there remains only the great corporation, which does not differ in legal aspect from the separate corporations which preceded it. Another method of combination is to form a new corporation whose purpose is to buy up all or at least a controlling share of all

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1. Report of the Industrial Commission, XIII, p.VII; Jenks, The Trust Problem, p.113; "The Trusts: Facts established and problems unsolved", Quar. Journal of Economics, Vol.15, p.46; Bullock, Int. to the Study of Economics p.317

the combining corporations. The different corporations maintain their separate legal existence, but the management is in the control of a single corporation. It is thus seen that the "anti-trust" laws have not prevented combination. The form of combination is immaterial to the promoter.[1] The form has been changed and could be changed again should the laws require it. The form of organization is of little significance to the people,[2] but it is the fact of monopoly and the power which goes with monopoly that have aroused the American public. Nor is the form of combination pertinent to the question.

This short discussion of the different forms of combinations is given to show that the combinations at the present time are not essentially different from the original trusts.

It is alleged that the formation of monopolies in industries where large fixed capitals are required is the natural result of the forces that have led to the replacement of small establishments by large enterprises. Division of labor and the use of special machinery cannot be carried far unless the scale of production is large. The partnership enables individual business men to unite and thus necessary capital is secured for conducting business upon a large scale. But a partnership means unlimited liability of investors, and the number of investors must of necessity be limited. The corporation[3] makes possible an

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1. Lawson, American Industrial Problems, p.173
2. "What is a Trust", Outlook, 72; 391-393
3. Sparling, Business Organization, pp.63-64

unlimited number of stockholders, combined with limited liability for its debts. It permits the investment of funds from many sources for conducting business upon a larger scale than is possible to individual investors or partnerships. It permits one to invest his capital in many enterprises and yet take no part in the management of the concern. The next step is the combination of these corporations in a line of industry in order that monopoly or as near monopoly as possible may be secured.

The purpose of combination is to increase in every way possible the gains of those immediately concerned,- by preventing competition, cheapening cost of production and controlling prices. The advocates of the trusts claim that many economies are secured.[1] (1) Economy in fixed capital results. Expensive machinery and expensive factory buildings are required for production at the present time. One large building may not cost as much as two small ones, while it may furnish room for the same amount of machinery. Generally a smaller outlay for fixed capital will enable one large factory to turn out as large a product as two smaller ones. This is because no machine is needlessly duplicated in the large factory, while in two small factories some of the machinery may be only half utilized for a portion of the time. (2) There is the advantage of carrying much smaller stocks of goods. A large store need not have on hand twice the stock of finished products that two smaller

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1. Report of the Industrial Commission, Vol.13, p.617; Jenks, The Trust Problem, pp.21-43, 212-213; "The Trusts": Facts established and Problems unsolved", Quar. Journal of Economics, Vol.15, pp.46-47; Bullock, "Trust Literature", Quar. Jour. of Economics, Vol.15 p.167-217; Marshall, Economics of Industry, Bk.IV., ch.XI.

stores may require in order to meet any probable demand of the customers. Thus there is secured economy in the circulating capital. (3) The combinations can employ chemists, inventors, and other experts to improve methods. Invention and experiment are often expensive processes which only a business possessed of large capital can afford. (4) The combinations can often conduct auxiliary or subsidiary processes and thus effect savings. Large oil refiners make their own barrels, tin cans, tanks, pumps, sulphuric acid, etc. Large sugar refiners import their own raw sugar, own their wharves and warehouses, and make their own barrels and boxes. (5) The combinations can often utilize by-products, and in some cases it is claimed that the value of the by-products is equal to that of the product itself. (6) They can specialize the machinery of the separate plants, and thus save the loss that results from changing from one kind of work to another. The use of special machinery and also the adaptation of the workmen and the superintendent to the special departments for which they are best suited results in a great saving. (7) Labor can be more efficiently divided in large business undertakings, and men of exceptional talent can be selected for the particular lines of work for which they are best fitted. (8) There is often through combination a better knowledge and control of credit conditions, so that bad debts may be guarded against. That all these are advantages cannot be denied, but they are not advantages which pertain to monopolies alone. They are advantages which may be secured by large independent companies without combination.

However, other advantages are claimed by advocates of the

trusts. (1)The combinations by filling orders from the nearest plant can effect a great saving in cross-freights. (2) The trusts can draw upon all the patented devices of the constituent companies, and employ only those that are most efficient. (3) Goods can be produced more cheaply by the combination than by separate concerns because all the plants can be kept running at their full capacity, while under competition many establishments can be kept in operation only a part of the time. (4) Raw materials can be purchased more cheaply by the combination than by independent firms. (5) Economies may be secured in advertising and soliciting. (6) Probably the greatest economy claimed is primarily a social one, i.e.,the prevention of panics and periods of depression,through the regulation of production.[1] Where there is no general understanding among producers there is a strong tendency to overproduction, so that markets become demoralized and competition excessive. The combination is able so to fit the supply to the demand that while customers can be fully supplied at reasonable prices, there is no danger of overproduction. These are advantages which pertain to the combinations which approach monopoly. However, monopoly is intolerable to a free people, and it may be well claimed that we should do without these savings rather than have monopolies in control of our necessities and comforts.

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[1] "Moreover, they steady the whole financial and commercial world, like ballast in a great vessel. Labor and capital now look ahead, and the rushing, thoughtless, improvident way of the small trader, with overstocking, panics, and idleness, is a thing of the past. Today, thanks to the trusts, industrial conditions are well understood, and production, distribution, wages, and prices are carefully estimated." - Senator Beveridge in the Review of Reviews,Vol.36,p.90

But laying aside this phase of the question, we still believe that the extent of these economies has been greatly exaggerated. (1) The amount of saving in cross freights is not as large as is claimed, and often there is none at all, for when the product is of a bulky sort the industry is pretty thoroughly localized before combination takes place , and since most of the former independent establishments were producing chiefly for their local constituencies, the trust can save little in cross freights. When, however, the product is light, transportation charges become a matter of small concern. (2) The advantages from the patented devices would be a temporary one, for a reform in our patent laws would make the best processes available for all, if the public should find such a measure necessary for protection against monopoly. (3) If the trusts ever reduce their cost of production so that it is hopeless for an independent to enter the field, it must then be agreed that the case in favor of combination has been established; but so long as it is necessary to employ questionable tactics in order to stifle competition, the theory that the trusts can produce more cheaply can be questioned. (4) Undoubtedly some of the trusts have been able to depress the prices of raw materials, but such a saving represents no social gain. (5) In advertising and soliciting, the wastes of competition are serious, and there is great room for saving; but the opportunities do not always exist. It has been found that the demand for commodities falls off with great rapidity as soon as effort in pushing sales is materially reduced. Except in staple and absolutely necessary commodities, demand is largely created and maintained by advertising and soliciting. (6) The trusts did not prevent a panic

two years ago, but it may be granted that the combination brings greater power of regulating production, and thus the combinations may be of great social benefit.

Another benefit of combination is the increase in the export of manufactures.[1] More capital is required to introduce a special product into a foreign market than to extend the sale of that product within one's own country. With plenty of capital at their command the combinations have been able to send agents into foreign countries to study conditions, to open branch factories and in other ways to extend their trade. The Standard Oil Co. has pushed its products into practically all the markets of the world, and brings into this country $87,000,000 every year. The Beef Trust brings in $187,000,000 each year. The American Tobacco Company has developed a great market in Japan, India, and in fact throughout all the Far East. This increase in exports is a means of keeping our country supplied with gold needed in our currency, and also a ready means of settling our indebtedness abroad. It is often asserted that exporters of American made goods often sell them in foreign countries at lower prices than are obtained for similar goods at home.[2] It is said, for instance, that the old wirenail combination made such a difference between its home prices and its prices abroad, that it became cheaper for American dealers to buy their wire nails in England and have them returned to the states.[3]

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1. Report of the Industrial Commission, Vol.19, p.626; Jenks, The Trust Problem, p.75; Bryan-Beveridge debate, Review of Reviews, Vol.36, p.90
2. Report of the Industrial Commission, Vol.13, p.726
3. Lawson, American Industrial Problems, pp.264-265.

Some of the trusts acknowledge that their prices are lower abroad than in this country,[1] but maintain that the foreign sales enable them to keep the plants running at full capacity all the time, and thus they are enabled to pay higher wages, and give lower prices to the home consumer than they otherwise could. Undoubtedly many of the exporters give greatly lower prices abroad. However, a study of the foreign and domestic prices of the business interests of the United States shows the fact that, in the majority of cases, prices are no lower abroad than they are for domestic consumers; and in a considerable number of cases the prices are higher.[2]

The combinations of small enterprises into large has aroused much antagonism. There have been many abuses connected with the accumulation of wealth. However, the development of business made possible by the combinations has brought many incidental benefits to the people. Wage earners, farmers and small traders have never been so well off as they are in this country at the present time.

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1. "Mr.Schwab of the U.S.Steel Corporation says that that corporation exported certain grades of steel at about $23 per ton, when the price of the same goods to the home consumers was from $26 to $28 per ton.The reason for the lower prices was that it was desirable to keep the plants running at full capacity. The home demand was not enough to do this. It was not possible to dispose of all the surplus at the home price. In consequence a price was made that would sell the goods. He says that this custom has been general among steel manufacturers in circumstances of that kind. Moreover, if the plants were not kept running at their full capacity, the cost of production would be so much increased that the price to the home consumer would on the whole be higher than if these export goods were sold at a lower rate. Aside from that fact, the laborers would not be kept employed, and it might even be necessary to cut the wages of those who were working". - Report of the Industrial Commission,Vol.13,p.25

2. Ibid.,Vol.13,p.726

Without the captains of industry, who have driven the railway systems across the continent, built up our commerce and developed our manufactures, the material development of which we are so proud would not have taken place. Consider, for example, the railroads of our country. Transportation has been the principal factor in the civilization, development and wealth of all nations. In the construction of a railroad through an undeveloped agricultural country, the farmers, new towns, new industrues, and a general population engaged in every pursuit of life soon follow the grading outfit. The immediate increase of property value is many times the cost of the railroad. The production of the farms, made possible by the railroad, brings to the farmers each year several times the cost of the road. American railroads have contributed more than any other single factor to the building up of the United States.[1] Not only did American railroads open up the country and lay the foundation of a prosperous agriculture, but they created, directly or indirectly, most of the staple industries. They supplied cheap fuel to every industrial center. They furnished the largest and the best markets for domestic iron and steel, and they were the principal importers of foreign labor and capital.

But, even if the above benefits be granted, there is a widespread conviction in the minds of the American people that the great combinations, the so-called trusts, are in certain of

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1. Lawson, American Industrial Problems, Ch.14

their features and tendencies a menace to the general welfare. There is a sincere conviction that combination and concentration should be not necessarily prohibited, but supervised and controlled.[1] Besides, this combination and concentration has not always been accomplished in an entirely legitimate manner. Many of the methods used have not been in accord with the American idea of fair play. Cut-throat competition and the system of rebates have been the greatest aid to the development of these great combinations. For the purpose of crushing rivals and strengthening monopoly, the combinations discriminate in prices between customers. This discrimination, as shown by Professor Clarke of Columbia University, is [illegible] of three kinds;[2] 1st, the great corporation may sell at less than cost in localities where rivals are at work, and recoup itself for the loss by demanding high prices elsewhere; 2nd, as the small competitor usually has only one or two kinds of products, while the combination has many, the latter may make ruinously low, though everywhere uniform, prices for these specific classes which the competitor produces, while keeping high prices on its other products; 3d, it may grant specially favorable terms to those purchasers who buy only its goods, and sometimes trusts have refused to sell their goods to merchants who handled the goods of a competitor. One may easily realize that it is extremely difficult to stop any of these practices. All devices

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1. Jenks, "How Congress may control Trusts", Outlook, Vol.72, pp.880-4
Roosevelt, "The Big Corporations Commonly Called Trusts", Outlook Vol.72, pp.113-121
2. Clarke, The Control of Trusts, pp.33-35; p.64; Jenks, The Trust Problem, pp.350-351

in the nature of rebates are absolutely prohibited since 1887, when the Interstate Commerce law was adopted.[1] The language of the statute is broad enough to cover any conceivable device. In spite of the fact that the rebate offends the American spirit of fairness and is wholly obnoxious to the people, and in spite of the fact that the railroads themselves declared the law to be right, it was not effective, and rebating continued to constitute one of the leading characteristics of our railway system. The law on the subject was materially stregthened by the Elkins Act, approved February 19, 1903. Tne rebates and other forms of favoritism are of course resorted to in secrecy. In many cases, no records are kept, or if kept are destroyed upon the slightest hint that they may be desired as evidence; and as a rule, the railway managers refuse to tell the truth about discrimination. The difficulties of enforcing the law are obvious, but it is generally believed that the law can be enforced so as to punish and prevent every form of rebating. It is commonly believed that rebating is no longer general, but popular agitation against such discriminations may be the cause of this reform, and rebating may be discontinued only so long as the attention of the people is directed towards the railways.

Many of the necessities of life are in the control of monopolies. So great has this evil grown that in some instances, the people have not waited for the action of their servants in

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1 Newcomb, For the Railroads, pp.117-118; p.91

Congress, but have taken the initiative, and by a system of boycotting have refused to purchase the articles offered. According to the Census Bureau there are 183 industrial combinations in the United States, which have one or more of the distinctive characteristics of trusts - control of the other industrial companies either by holding or otherwise; undue influence over their respective markets, or excessive capitalization - and may be classed as such.[1] As near as it can be ascertained, the true value of the capital invested in them is 1458&1/2 million dollars, while the par value of their stocks and bonds exceeds 3085 million dollars. It would thus seem that more than half of their nominal capital is water. These 183 industrial combinations control 20% of the total manufactured products of the United States. It certainly does not seem healthy for a community that the handful of multi-millionaires at the head of these corporations should have over 400,000 employees in their power; or that they should have the paying out of over $200,000,000 a year in wages and salaries, with $152,000,000 additional for miscellaneous expenses. These figures express only in a measure the power of the combinations.

In the testimony before the Industrial Commission it was shown that many of the combinations are able to control a very large portion of the entire output of the country, so that they have, perhaps, the power to fix prices.[2] The American Smelting and Refining Company controls practically all of the trade since

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1. Lawson, American Industrial Problems, pp.170-171; Report of the Industrial Commission, Vol.19, p.601
2. Report of the Industrial Commission, Vol.13, p.17

its union with the Guggenheimers, and before that combination it controlled about 85% of the entire smelting business of the country. The United States Rubber Company and the Rubber Goods Manufacturing Company control from 55% to 60% of the rubber trade of the United States. Some articles are protected by patents, so that the company has entire monopoly. The Pittsburg Coal Company controls the bulk of the lake trade in coal. Although there is a little competition from southern Ohio and western Virginia, it is so situated that it can practically dictate the prices in its entire market. The International Paper Company produces about 65% of the new print paper of the United States. The American Thread Company with the Coats Company probably controls more than 65% of the thread output of the United States. The Coats Company is a prominent stockholder in the American Thread Company, so there is no competition between these companies. The American Salt Cpmpany produces between 80% and 90% of the output of fine salt east of the Rocky Mountains. The Pittsburg Plate Glass Company produces about 72&1/2% of the plate glass product of this country. The National Starch Company probably produces more than 90% of the box starch used, and a very large percentage of starch of other kinds.

The price of meat, the article which forms, next to bread, the most important food for our people, is fixed by less than half a dozen monopolists.[1] Armour, Swift, Nelson & Morris, and

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1. Von Halle, The Trusts, p.21

Hammond rule the cattle and meat market of the country. Meat has risen in price. This country supplies a great part of the world with meats, so it is not the lack of cattle that has caused the rise in price. The expenses of administration of the packing houses are not excessive, for in these plants the scientific disposition of all material tends to utilize all of the substance handled and to minimize waste. The cattle growers do not get their share from the gain of the packer, for the trust dictates prices, both for the raw material purchased and for the products sold by it. While prices within the United States have been advanced continually, those charged European consumers have been adapted to the local state of each market. Thus American meats are cheaper in London or Liverpool than in New York or Chicago, - the frozen meats of Australia and free trade necessitating the reduction. The existence of this trust has become possible by reason of its relation to the transportation companies. Cold storage on cars and steamboats, reduced freight rates, and the preferences given to these large concerns in railroad car service, have made individual competition impossible.

The Standard Oil Company is probably the nearest complete monopoly. The influences of railroad discrimination are here plainly seen. John D.Rockefeller began life with no capital, but he early saw the possibilities in the Oil business, and became a partner in a small company. His extraordinary capacity for bargaining and borrowing resulted in the growth of the business, until in 1870 the Standard Oil Company was organized in Cleveland,Ohio, where there were some twenty competitors in

the oil-refining business. At the outset it had little, if any advantage over its rivals, in either method or means of business, but early turned its attention to special agencies. Prominent among these were combinations with railroads for mutual advantages, to an extent then unknown. Every device that an expert could suggest for giving the Standard an unfair, or even unlawful advantage over its competitors, appears to have been used by the railroads of the United States.[1] It may well be said that the Standard Oil Company is a product of unjust discrimination in freight rates, and it has been fattened upon such discrimination at the expense of many independent refiners, who were driven out of business by the unjust practices against which it was useless to protest. The laws should have been enforced many years ago for the restraint and punishment of the corporation and railroad companies who conspired with it to oppress and rob. In this connection it should not be overlooked that the Oil Company's officers exert great influence in many railroad companies, by reason of their holdings of stock and their directorships.[2] One of the officers, Vice-President William Rockefeller, is a director in nineteen railroad companies, among these being the New Haven and the New York Central. Other prominent officers hold places on the boards of great railroad systems, and are thus in a position to influence the policy of the roads.

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1. "The Oil Trust and the Railroads", Independent, Vol.60, pp.1116-17
2. Ibid. Also Report of the Industrial Commission Vol.I, pp.147-49

One of the subordinate corporations created by the Standard Oil Company for special uses, was the South Improvement Company, having in view the control of all the freight business of the oil regions[1]. So successful was the agency that its managers were able to induce three trunk line railways(the Pennsylvania, Erie and New York Central) to make a secret contract under which they were to have on all freight bills rebates ranging from 40 cents to $3.07 per barrel of oil, while they were auaranteed against loss or injury by competition of other shippers. They were also to receive rebates on all oil carried for other parties. Unexpected exposure, followed by emphatic protest from oil producers prevented execution of these scheme. However, arrangements for special concessions were made with the three railroads named above, and the Standard, by virtue of its advantages in transportation, was able to sell oil in New York at less than first cost at the refineries with open freight rates added. The result was almost entire destruction of independent refineries. In the case of Taylor et al. vs. the Standard Oil Company, it was shown that the defendant was allowed a rebate of $1.00 per barrel of oil by the railroads, which alone in the space of eighteen months amounted to the enormous sum of $10,000,000[2]. It was further found that the profits of the Standards business consisted almost wholly of levies upon competing refineries, enforced throght the railways.

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1. Report of the Industrial Commission,Vol.1,pp.147-149
2. Ibid.,Vol.1,p.151

The Standard's policy of monopoly is not limited to refining or transportation of oil. It has been no less relentless as to trade in oil.[1] The marketing department of the Standard Oil Company is organized to cover the entire country, and aims to sell all the oil sold in each od its divisions. To forestall or meet competition it has organized an elaborate secret service for locating the quantity, quality and selling price of independent shipments. Having located an order for independent oil with a dealer, it endeavors to persuade him to countermand the order. If this is impossible, it threatens "predatory competition"; that is, to sell at cost, or less, until the rival is worn out. If the dealer is still obstinate, it institutes an "oil war" In late years, the cutting and the "oil wars" are often intrusted to bogus companies, who retire when the real independent is put out of the way. The price then goes back to the former figure, or higher. Tales are told of crippled men selling independent oil from hand carts, whose trade had been wiped out by Standard carts which followed them day by day, practically giving away oil. Grocers have been driven out of business by their attempts to stand by a refiner. By such means as these the Standard has obtained almost complete monopoly. It has obtained complete monopoly of the pipe lines, and there seems to be no hope for the independent in the market.[2] In 1872 Mr.Rockefeller owned a successful refinery in Cleveland. He had the advantages of water transportation part of the year, access to two great trunk lines the year round.

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1. Report of the Industrial Commission,Vol.1,pp.112-122,136-143; also Vol.XIII,p.CXVIII
2. Ibid,Vol.19,p.229

Under the management that he could give it, his concern was bound to go on. When he went into the South Improvement Company, it was not to save his own business, but to destroy others. When he worked so persistently to secure rebates, it was not to save his own business. Every great campaign which the Standard Oil Company has carried on, has been inaugurated not to save its life, but to build up and maintain a monopoly in the oil industry, and it has hesitated at no means to attain this end. The effects on the men who have to fight these methods are deplorable. Brought into competition with the trust, badgered, foiled, spied upon, they come to feel as if anything is fair when the Standard is the opponent. The bitterness against the Standard Oil Company in many parts of Pennsylvania and Ohio is such that a verdict from a jury on the merits of the evidence is almost impossible. Even in the case of an oil producer who acknowledged that for two years he had been stealing oil from the Standard by means of a small pipe line, the jury gave a verdict of Not Guilty. They seemed to feel that though the guilt was acknowledged, there was probably a Standard trick concealed somewhere. Anyway, the Standard Oil Company deserved to be stolen from. Men who conduct their own business with scrupulous fairness say that they would not condemn a man who stole from the Standard. Of course, such a atate of feeling undermines the whole moral integrity of a community.

As has been said before, the Standard Oil Company is probably the nearest complete monopoly, but the object of the other combinations is the same, and the effects may be the same. Un-

doubtedly, a great deal of the success of the Standard has been due to the good management of its various branches, not only by John D.Rockefeller, but by other excellent managers in the combination. Other captains of industry are building up other lines of industry, and where this will all end, it is difficult to see. The greatest trust now in existence is the so-called Steel Trust, alias the Billion Dollar Trust.[1] The United States Steel Corporation as originally formed contained ten separate companies, most of which were combinations of other concerns. Some of the combines were in the fourth or fifth generation, and each generation had been well watered at its birth. Later, an eleventh member was added to the combination, the Shelby Steel Tube Company. The Steel Corporation is made up of companies engaged in various lines of business, from mining to finishing the higher grades of steel, and it is able to control the greater part of the steel industry of the United States.[2]

In considering whether the trusts have been a benefit or not to the people, we must consider whether they have benefited the consumers of the finished products or the producers of the raw material.[3] Have they reduced the price and raised the quality of the product? Have they enlarged the market and raised the price of the raw material? The study of the large combinations shows that they have not materially benefited either the consumer or the producer. A change in price after a combination is often due to causes other than the combination itself. The

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1. Lawson, American Industrial Problems, Chs.12-13.
2. Report of the Industrial Commission, Vol.13, p.17.
3. Ibid. Vol.19, p.620, p.631

general tendency in every developing industry is for prices to fall. Improvements in production and distribution are being made continually. This is the normal condition of American industry, and combination is one of its many means. If combinations are able to effect large savings, as is claimed, it becomes evident that they can lower the margin between the cost of the raw material and of the finished product, thus giving to the owners larger profits than before. If the combination has practically a monopoly it becomes possible for it to increase the margin between cost of materials and price of finished products, so as to make large profits, not merely through the lessening of the cost o f production, but through sheer power over the market. Thus in two ways, through savings and through the power of monopoly, the profits may be increased.

The Industrial Commission made a careful comparison of the margin between the cost of materials and the price of the finished products in several lines of industry - such as sugar-refining, oil refining, iron and steel manufacture, and others.[1] The general result of the study shows that in most cases the combination has exerted an appreciable power over prices, and in practically all cases it has increased the margin between raw materials and finished products. Since there is reason to believe that the cost of production has lessened, we must conclude that the combinations have increased their profits. It is claimed for the trusts that they have cheapened the commodities to consumers; and the Standard Oil Company is pointed

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1. Report of the Industrial Committee, Vol.19, pp.620-631

to as an example. Refined oil is selling today at less than it was in the early period of the industry, but the trust has not been a factor in this cheapening process, for the great reduction in price came before the organization of the trust. It did not introduce the pipe line system, and it has not been shown that it invented any new drilling tools or discovered any cheaper methods of refining oil. However, the trust has made progress in developing the by-products of oil, which should have cheapened refined oil to the consumers. There have been great discoveries and economies in the production of crude oil, and the actual reduction in cost of refined oil is accounted for by these discoveries and economies. This is seen from the fact the difference between crude and refined prices is greater than would be expected, considering the value of the by-products, which is claimed to be equal to that of the oil itself. Prices have not been lowered as they would have been with free competition, nor as they have been from competition in other industries. This is shown from the fact that the dividends of the Standard Oil Company increased from 5 1/4 % in 1882 to 48 % in 1901. It is also very probable that its surplus and undivided profits are very great.

If a combination controls 80% or 90% of the output of any product,[1] it is enabled to put prices considerably higher than could any one of tenactive competitors, each of whom controlled no more than 10% of the output. The combination can put its

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1. Jenks, The Trust Problem, p.60; Report of the Industrial Commission, Vol.19, p.631

prices down, and compel its competitors to follow; and if it puts prices above competitive rates, it can still control sales, because the other sources of supply cannot fill the demand. Of course, prices cannot be kept exhorbitantly high, for any great length of time without calling competition into the field, but in many instances a rival powerful enough to make really effective competition would coat possibly several millions of dollars, and a plant could not be built and equiped in less than two or three years. Thus, there is at least a temporary monopoly. The policy of the trusts has been to cut prices when competion appears, in order to drive out the competitor before he can obtain a firm foothold. Professor Jenks,[1] in "The Trust Problem" shows by means of charts the effect of combination upon prices and profits in various industries, such as sugar, oil, whiskey, etc. The charts show clearly that the combinations have kept prices and profits high, and that competition has meant lower prices and thus lower profits.

The power of combination is seen at times in the control of prices of raw materials,[2] but ordinarily the effect is less marked than in the case of selling prices. The trusts like the Sugar Trust and the Standard Oil Company have not been able to entirely monopolize the raw materials, because of the large number of small producers, but they have used their power as the principal purchasers of the raw materials, to depress the

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1. Jenks, The Trust Problem, Ch.VIII
2. Van Halle, The Trusts, p.70; Report of the Industrial Commission Vol.19, pp.620, 631

the prices. There can be no doubt that the Standard has been able for many years to fix the prices of crude petroleum, because of its control of the pipe lines. Officials of the American Sugar Refining Company admit that owing to its power in the market, that company is able to buy at slightly better rates than its competitors. The United States Leather Company, which controls all the sole leather tanneries of the country, succeeded in reducing prices immediately after its formation. The American Tobacco Company reduced the purchasing price of cigarette tobacco in the leaf by several percent soon after it began business.

There seems to be no indication that combinations are attempting to lower the wages of the working men.[1] The combinations have apparently raised wages as willingly as individuals, and have given their employees priveleges of all kinds, with no more hesitation. However, advances in wages in recent years are doubtless due as largely to business prosperity as to combinations. If the working men throughout an industry are sufficiently well organized into unions intelligently and efficiently managed, it is probable that they will be able tto secure for themselves a fair proportion of the savings made by the combination. The leaders of some of the strongest unions believe that the power of the unions can be increased as rapidly as the power of the capitalists. If the organization of capital by meanef its savings creates a fund from which the la-

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[1] Report of the Industrial Commission,Vol.19,p.625; VonHalle The Trusts,p.130

borers could draw if they had the power, these union leaders are inclined to believe that they can secure their full share of this fund. But as the combination has secured additional power over the producers of raw materials, and over the consumers of the finished products, it is probable that this power may be extended over the working men, so that in the event of a disinclination to meet their full demands for higher wages, or an inclination to lower their actual wages, the combination would have more power in carrying out its wishes than would competing companies. If the combination is substantially the only employer of labor in its special line of industry, men who are trained only in that line of work would find practically only the one employer to work for. This would to a great extent put them in the power of the employer in the same way that the consumers are in the power of a combination which controls 80% or 90% of the product of any industry of which they must buy the product.

The best results will be reached in the long run if the savings of combination should give to the capitalist a fair return upon investments, a goodly share both to the wage earners and to the producers of raw materials, and a large part to the consumers in the form of lower prices. If these results could be brought about, it would seem that the combinations are not a menace to the future welfare of our country. But can this result be obtained? For naturally the managers of the combinations will strive to secure as large profits as possible, and to retain for themselves the largest proportion of these added gains.

It is generally believed that the railroads and the large industrial combinations are able to influence to a great extent

the acts of our legislatures, and even the decisions of our courts.[1] It is claimed that through the legislatures they control the United States Senate, and have filled that body with their creatures, and that Federal Judges are the obedient servants of these trusts, and do not hesitate to construe the law against the poeple. This influence of the trusts is thought by many to constitute their chief manace to the welfare of our country. It is doubtless true that corruption of the legislatures and even of the courts by the large corporations is not infrequent. However this evil applies also to partnership and wealthy individuals, though no doubt, the evil is greater where the power is greater, that is, in combination.

Through the influence of the trusts it has become difficult for young men to start business independently in industries where combinations exist, and young men are forced into the positions of mere employees.[2] It is claimed that this state of affairs has a strong tendency to lessen the power of individual initiative and to impair the ability of men for self-government. They work for an employer, whom they never see, and who knows them not, and they are subjected to an overseer who,himself must produce results from the men under him, or lose his position. It is probable that in many cases men have been prevented from securing positions as influential and as useful as they might have secured under a competitive regime,

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1. Report of the Industrial Commission,Vol.13,p.138; Jenks, The Trust Problem,pp.190-194; W.P.Hill,Symptoms of National Decay and the Remedy,pp.4-5;"The Trusts;Facts established and Problems Unsolved",Quar.Journal of Economics,Vol.15

2. Jenks, The Trust Problem,pp.94-211; W.P.Hill,Symptoms of Natl. Decay and the Remedy,pp.4-5; "The Trusts":Facts Established and Problems Unsolved,Quar.Jour? Ec. Vol.15

but in other cases men have been given opportunities for developing their really great powers , and in some cases men have been able to accomplish more than they could if they had remained independent. Most employers will trust to the fullest extent any employee who shows himself worthy of confidence, and thus the trusts afford greater scope for individual development than has been ordinarily supposed. Thus the effects in this direction are not all bad, though they may be exceedingly unpleasant to those who are in competition when the organization begins work.

Another great evil of the trust is overcapitalization, and this evil is regarded by many as the greatest and also the source of the minor ones.[1] In the great majority of industrial combinations which have been formed in recent years in the United States, there has been a great amount of overcapitalization. Overcapitalization puts an extravagant value upon property, and represents that value in stocks and bonds. It is a means of concealment of large profits, and thus lessens the temptation to rivals to enter the business, and also lessens the danger of popular disapproval, which is often expressed against those who make large profits upon capital invested. It is generally believed that in the endeavor to pay interest[2]

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1 "The Trusts",Quar.Jour.of Economics;Knox, "Evils and Remedies" Outlook,Vol.72,pp.427-428; "The Evils of the Trust",Outlook, Vol.62,p.103.

2."There can be no doubt,too, that a high capitalization brings pressure to bear upon officers of corporations to raise prices of their products. Payment of dividends is likely to seem their first duty, and they push prices as high as the market will bear'
- Jenks,Trust Problem,p.105.

upon the excessive capitalization, the combinations raise the prices of their products. Over -capitalization is a fraud upon those who contribute the real capital, because it is an imposition upon an undertaking of a liability without a corresponding asset. Investors have been persuaded to pay higher for their stock than business could in the long run justify. And through the stimulation of speculation and unsound methods of doing business, the industrial community as a whole has been greatly injured.

This stock watering, as well as many other evils of the trusts, is made possible because of the secrecy with which the business of these combinations is conducted.[1] Investors of capital are often wronged by concealment of facts, and by deceptions practised by promoters at the time an industry is organized, and later, through misrepresentations concerning conditions of the business, and the methods of management. Few people except those connected with the management of the combinations are able to get an accurate knowledge of the actual values of the properties, or even of their earnings or methods of business. Speculative cliques often obtain the management of the companies so that to them alone is available any knowledge regarding the actual conditions of the business, and they so manipulate the stock that they as individuals buying and selling at suitable times, may make large profits at the expense of the majority of stockholders. Directors not infrequently manage the business so that it is really unprofitable

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1. Report of the Industrial Commission, Vol.13, p.916; Jenks, The Trust Problem, pp.102, 213; Clarke, Control of Trusts, p.23

or is made to appear unprofitable, in order to depress the stock on the market, and thus enable themselves, through gambling speculations, to reap large profits. Thus small investors are often "frozen out" of a business which in reality is or should be a very profitable investment, and the clique is enabled to buy their stock at much below the actual worth. Such evils as these are of course serious, but they would be greatly lessened by the enactment and enforcement of strict publicity laws.[1]

In every line of industry, capable of being organized on a large scale, great magnates have arisen or are arising to prominence and power. Not only are the staple products of the factory in the hands of the so-called trusts; not only are the important railways under the control of a few combinations, but in the world of banking also the progress of centralization has begun.[2] And these financial combinations have been brought about by the same capital that controls the manufacturing and transportation interests of the country. Consolidation has reached a stage of development that would have seemed impossible a generation ago, and a small group of multimillionaires possess almost unlimited power. It is intolerable to the people that any man or anybody of men, should be permitted to control such necessaries to modern civilized life, as oil, coal, beef, sugar, flour, transportation, steel and iron. The Anglo-Saxon people have inherited the determination

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1 Jenks, The Trust Problem, p.224
2. Bullock, "Trusts and Public Policy", Atlantic Monthly, Vol.87, p.737

to be free in their industrial activities as in their political actions and in their religious opinions. Because so many of these necessaries of life are in the hands of monopolies, the people believe that their industrial and economic liberties are in serious peril, and they are aroused over the trust question as they have not been aroused over any question since the Civil War.

The States in the Union are not able to exercise the nexessary governmental control over the combinations[1] because the state has no sovereign authority beyond its own geographical boundaries, and the operations of the great industrial combinations are not confined within the boundaries of any state. Frequently the corporation has nothing whatever to do with the state in which it is incorporated, and all its business may be done in entirely different communities, and these communities may object very much to the method of incorporation in the state named. In such cases there is no interest on the part of the state which created it to deal with it, and it is responsible to no creator. It is thus seen that control over the great industrial combinations to be effective must be exercised by the Federal Government.

There has been much popular agitation against the trusts. Their evil are recognized by the people as a whole. The leading political parties have declared in their platforms for the

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1. Roosevelt's speech in Outlook,Vol.72,p.113; "The Trust Problem" Outlook,Vol.72,p.198; Bullock,"Trusts and Public Policy", Atlantic Mon.Vol.87,p.745,says:"A national law, applicable to all companies doing business outside the state in which they are chartered is almost certainly our only hope of securing an effectual control of corporate enterprise".

regulation and control of the trusts. Twenty-seven of the states and territories have passed statutes with the intention of defining monopoly more closely in order to meet modern conditions, and to prevent the formation of monopolies, by fit regualtions and penalties.[1] Fifteen states have articles in the constitutions tending to the same end. Several states have gone so far as to prohibit certain trusts from doing business within the state. In 1887 the Inter-State Commerce Act was passed. Its object was to establish equal rights for shippers of freight, to make railway rebates criminal, and to prohibit pools, associations, or combinations that interfered with the principle of free competition. Three years later, the growth of corporations became so great that the Sherman Anti-Trust Law was passed, the substance of which is found in the following sentence: " Every contract, combination in the form of trust or otherwise, or conspiracy, in restraint of trade or commerce among the several states, or with foreign nations, is hereby declared illegal". These two acts have been sustained by frequent decisions of the Supreme Court. They give expression to two great economic principles,- the abolition of special privilege, and the prohibition of unjust, unreasonable and despotic industrial combination, which have the support of the people, but the laws have not proved effective. And it is often claimed that the combinations have grown so strong that they cannot be controlled, and that Federal control of combinations would only mean Federal control by combinations. If this be true, the liberties of the people are indeed in serious

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[1] Report of the Ind. Com. Vol.2,pp.3-4; Jenks,Trust Prob.pp.217-219

danger. However, we do not believe that the combinations are superior to or independent of governmental control, and we believe that the public will give but one answer to the question as to whether the great combinations shall control the government or the government shall control the great combinations.[1]

Although combination seems to be the watchword in every line of industry, and judging from the progress of combination in the last twenty-five years, there would seem to be no limit to it, the field of activity of industrial combinations is limited.[2] In some industries, organization on a large scale cannot be successfully conducted; in others, the business is more successful if conducted on a small scale; and in others, where only little capital is needed to start an establishment, competition against the combinations is so easy that they can seldom secure control of the entire field. There have been few combinations in agriculture, for the small farmer outstrips the large, or in lines of work where individual work is required. There is reason to be thankful that the field of combination is considerably more limited than has been generally supposed

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1. "People will have capital so organized that it can compete successfully with any capital in the world. What they will not have is capital so endowed with special and abnormal powers that it can do a plundering work, as well as a productive one" - Clark, Control of Trusts, p.6

2. "So far, they have proved to be successful with apparently a degree of permanence, only in those industries which require much capital for successful prosecution; in which the product is uniform in its nature and the productive work of a routine character; those in which the product is bulky, and there is a wide distribution of freight; or those in which others somewhat similar characteristics of a special nature, such as very expensive advertising, patents, etc. serve to encourage the combination of capital".-Jenks, Trust Problem, p.208.

and that fields of activity will still remain where capable independent workers may find opportunities. However, the advantages of combination (to those who combine) are such that when the industry is one which is especially adapted for organization on a large scale, a combination will be made.

Benefits coming from the combinations have beyond doubt been established. Evils connected with the combinations have likewise been established beyond a doubt.[1] But as the combinations exist today, the benefits for the most part do not come to the people, and the power which the great magnates possess is a menace to the welfare of our country. The combinations are here to stay in some form, and for some time, but it is believed that through Federal control a goodly share of the benefits of combination can be secured by the people, and the result will be a well guarded trust surrounded with severe restrictions against the abuse of its power.

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1. "The country that shall utilize the power of the trust for good, while curbing its power for evil, will have as its reward national profit and a position of leadership among nations". - Clark, Control of Trusts, p.82.