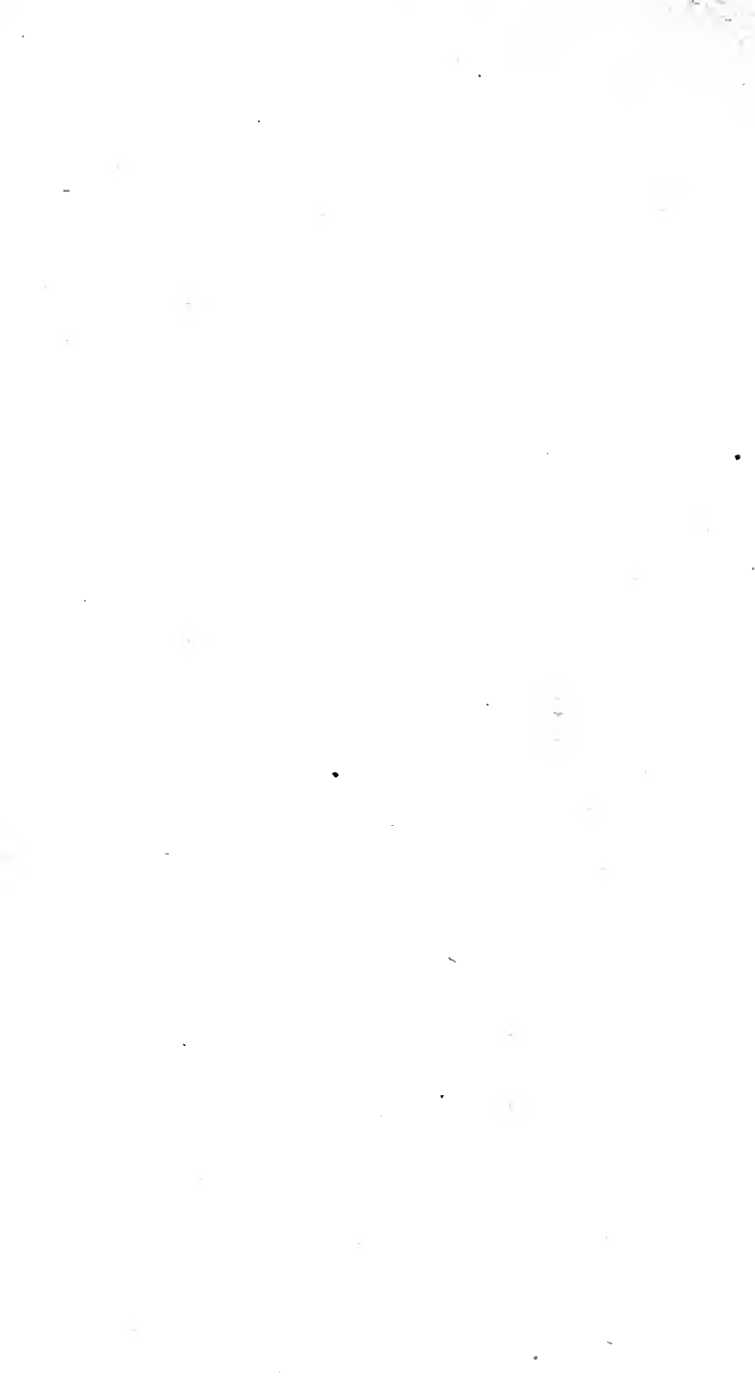


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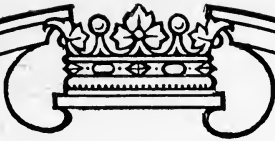
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THE STORY OF TRUSTS

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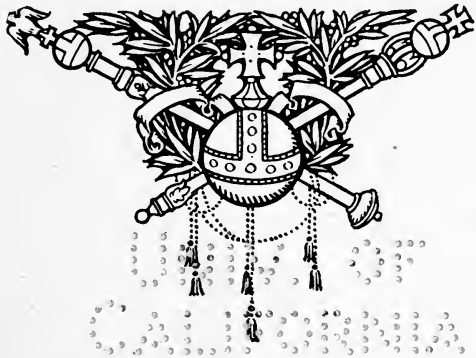
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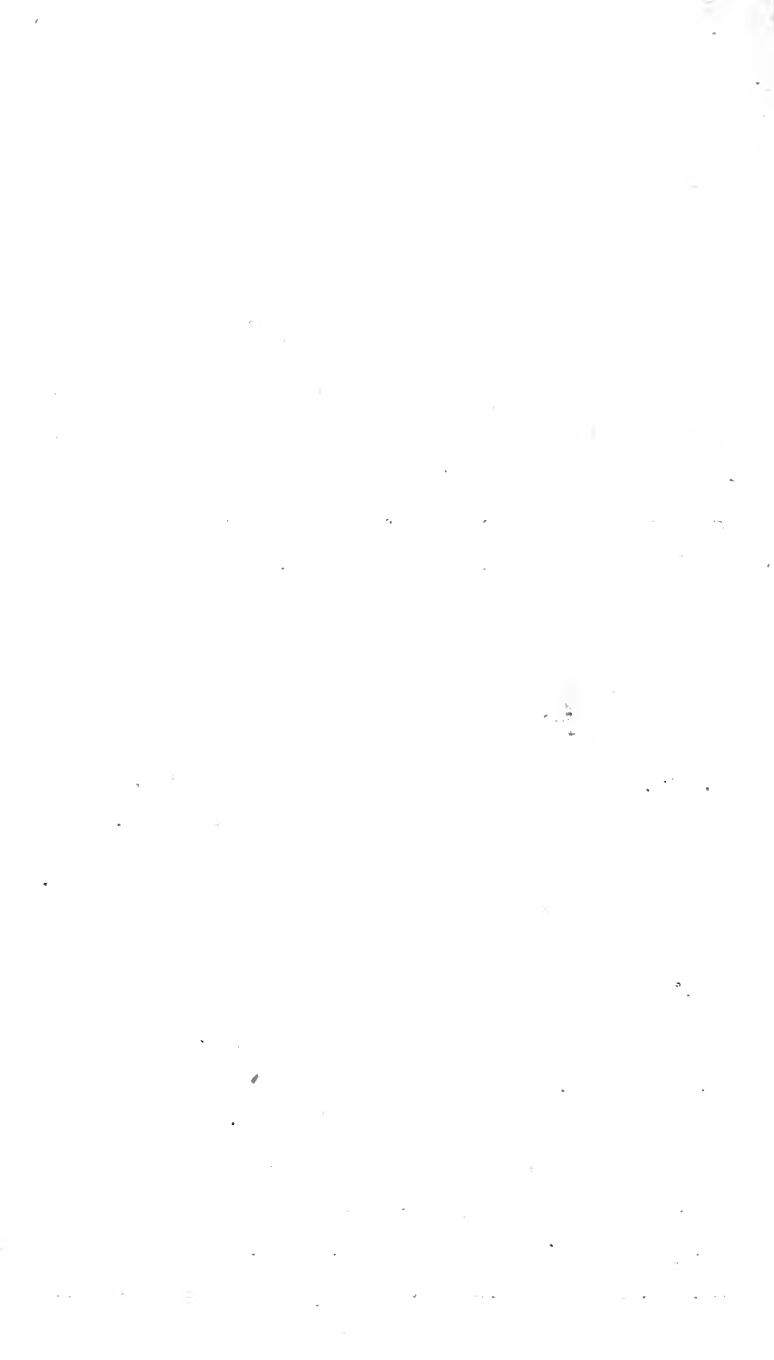
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NOTE

THANKS are due to Dr Josef Redlich, of Vienna, for information concerning recent writings upon Kartells; to the Secretary to the High Commissioner for the Dominion of Canada for the loan of a copy of the Report upon the United Shoe Machinery Company; to the Editor of the *New York Journal of Commerce* for the verification of a reference to that paper; and to my sister, Professor G. M. Hirst, of Columbia University, New York, for much assistance in tracing the course of Trust prosecutions and inquiries during 1912-3. For the use made of such help I alone am responsible.

M. E. H.

July, 1913.



INTRODUCTION

It is not very easy to write an introduction to this book; for the story of Trusts is complete in itself. But there are some preliminary observations which, as an independent critic of finance and a constant student of business conditions at home and abroad for some years past, I may perhaps venture to offer. Of these observations the first and in one way the most important is to remind others, as I constantly remind myself, that we ought to exercise a Christian charity towards all classes of monopolists; for among economic grievances and abuses those of monopoly are by far the most exasperating. And yet almost every one who has tried to make a living, certainly every one who has tried to make a fortune, has been at one time or another (it may be all his working hours) in quest of monopoly. It is by no means necessary—let us hope it is by no means usual—that this quest should be accompanied by doubtful or illegal practices. Indeed, society

recognises that a temporary monopoly may be the proper reward of merit. In two special branches of human activity—authorship and invention—the laws of all civilised countries have assigned to producers a temporary monopoly in the shape of copyright and letters patent, as a stimulus and reward. It would be pure hypocrisy for one who has benefited in some degree by these laws, at the expense of publishers or readers, to profess horror because shipowners, manufacturers, merchants, Trade Unions, and other bodies (corporate or incorporate) are striving by superior enterprise, energy, and organisation to eliminate competition and defeat their rivals, so as to secure for themselves the profits attaching to monopoly.

At the same time, as an attentive reader of this book will easily discover, a real distinction can be drawn between monopolies—a distinction which will explain why the same government may legitimately and consistently protect the author against the piratic publisher (and enable him to affix as high a price as he likes to his book for a term of years), while at the same time it is legislating (unwisely, perhaps, but not illogically) against the operations of monopolistic combinations and

perhaps even prosecuting the individuals who control them. The theme may be varied and elucidated by contrasting the spirit of competition and rivalry with the spirit of monopoly and exclusiveness. Competition enlivens and stimulates. It is true that in business, as I have hinted, manufacturers and merchants often compete in the hope of establishing for themselves a virtual monopoly. Thus, if a manufacturer goes on for some time producing an article of exceptional merit, he may build up a valuable reputation and goodwill almost amounting to a monopoly, and his profits may sometimes be extended again and again by a judicious advertising campaign. This perfectly legitimate process is recognised by the State, which protects him in the use of a trade-mark against imitative rivals. But these monopolies of merit, recognised by patents, copyrights, and in a lesser degree by trade-marks, are intended to encourage invention and industry. Their object and function is to benefit the public; by stimulating invention and industry they will in the long run cheapen production and enrich society.

The case of combinations to restrict trade is very different. 'The spirit of monopolists,'

wrote Gibbon, 'is narrow, lazy, and oppressive; their work is more costly and less productive than that of independent artists, and the new improvements so easily grasped by the competition of freedom are admitted with slow and sullen reluctance in those proud corporations, above the fear of a rival and below the confession of an error.' Gibbon was thinking especially of the two unreformed corporations of Oxford and Cambridge; but the vices which attached to the corporations or colleges of Oxford in the days of tests are equally characteristic of the bloated corporations, Trusts, and Kartels which lie in a half comatose condition under the soporific shade of a protective tariff. Thus at the present moment in the United States there are a number of industries, more especially in the textile group, which have relied more and more upon the tariff and less and less upon efficiency of production. The result is that after repeated doses of protection these combinations, formed to exploit a high tariff, are panic-stricken when they have to face the possibility of the tariff wall, which has shielded them from foreign goods, being reduced by half. Under modern financial conditions, when leading finance houses can always

command the temporary use of huge sums for profitable operations like those which are described in later pages of this volume, a high tariff is almost certain to be capitalised. The financial houses will see to that, if the various and scattered firms and companies are so stupid as to keep up what is called 'cut-throat competition.' The process of capitalisation may be good for everybody except the work-people and the nation. It is good for the financial house which buys up the individual mills and converts them into a Trust or corporation. The house takes what is sure to work out at a fat commission. Then it is good for the millowners, provided they get cash, for the concern is almost always floated off on the public at far more than its real value. It is bad for the work-people because, if it succeeds even moderately, the corporations will certainly raise prices, and higher prices must mean in the long run decreased consumption, restricted output, and unemployment. Finally, it is bad for the nation; the higher the tariff, and the more successfully it is exploited by the Trust, the worse will be the quality and the higher the prices of the clothes or other articles which form the subject of the monopoly.

When competition disappears from an industry or service of any kind, the public authority may adopt one of three courses. It may either (1) let things alone, or (2) purchase and operate the concern, or (3) adopt some intermediate system of control.

To show how many considerations ought to be weighed and balanced by a national or municipal statesman when a particular problem of this kind has to be solved, let us take the case of tramways and railways. A tramway is clearly and inevitably a monopoly, and might be called a natural monopoly to distinguish it from an artificial monopoly like the Post Office, which is created by Parliament and managed by the Government. Obviously it would be absurd to think of having two competitive tramways running down the same street. Consequently if a private company owns the trams, and has acquired the right to do so without any conditions as to charges, it will be able to raise its fares to any height, and will only practice moderation in so far as moderation is profitable. In saying this I am assuming for the moment that there is no competition from other vehicles; for if an expeditious

motor-bus service at 1d. a mile were established at a time when the tramways were charging 2d. a mile over the same route, the tramcars would of course be emptied, and the fares would have to be reduced to a competitive, possibly to an unprofitable, basis. One must observe in passing that the prices charged by a successful monopoly are not so exorbitant as some people would have us believe; for a point arrives, sooner or later, in raising charges, at which a falling-off in custom more than counterbalances an increase in price from the mere standpoint of profit. Thus in the case of tramways a profitable rate for an unregulated monopoly would under ordinary circumstances probably not be more than double the rate which would be fixed under conditions of competition such as I have suggested. As a matter of fact, of course, a tramway company almost invariably agrees to construct and work the tramways under certain conditions in which is included a maximum fare per mile. This fare may properly be fixed at a rate which will yield a good return, say five or six per cent., on the money invested, assuming that the service is managed with reasonable efficiency. Hence, when tramways are about to be adopted by

a town, the real choice lies between a regulated tramway company which charges reasonable fares and pays the municipal authority a reasonable rent for its monopoly, and a municipal tramway operated by executive officials under the supervision and control of a committee of the town council. Of course, when such a question arises, or when it is proposed to municipalise a tramway system on the termination of the lease, there is one political sect—the followers of Marx—which will answer the question in one way, and one way only. To such problems, a Socialist applies the great article of his faith, declaring that, as all the means of production, transportation, and exchange ought to be nationalised or municipalised, and that as this is a transport service, this ought to be municipalised. The formula is very simple, and when once it is accepted no further thinking or argument is required. All the rest follows in logical sequence. But practical people, even though they may be generally favourable to the extension of civic activity, will probably desire to judge each case on its merits. In the nineties, when Birmingham was agitated about the question whether the City Council should take over the tramway

company, I can recall how Mr Joseph Chamberlain, himself a pioneer in municipal enterprise, and not at all disposed to shrink from Socialistic measures, told me that he was not favourable to this particular extension, on the ground that all the councillors and aldermen of the town were already fully engaged, so that the addition of a new and important committee at that time would probably have meant a general decline in the efficiency of municipal administration. In other words, the question whether a particular borough council should take over a new job or not ought to depend very largely upon whether there are enough competent administrators who can be spared for the purpose. The amount of capable public spirit which is available varies of course, from time to time, and from place to place. A municipal tramway may be tolerably well managed in England or Germany, but it might be intolerably ill managed in Mexico or Brazil. There is another difficulty about municipal extensions which will appeal to many people. The revenues of all our municipalities are derived mainly from rates, and the municipal employees are, generally speaking, electors. Hence, as the activities of the municipal council

increase, the proportion of electors, whose wages and salaries depend upon the municipal council, also increase. It is therefore quite conceivable that if the employees of the council came to constitute a large proportion of the electorate they would be able, by pressure at elections, to obtain wages and salaries far above the market level at the expense of their fellow-citizens in the town.

This consideration applies with great force to a gigantic project, now frequently mooted, for the nationalisation of our railway system. It is urged, truly enough, that some of our railways, notably in the South of England, could hardly be worse managed than they are now, even if they were taken over by a department like the War Office. To this it may be replied, that, on the whole, English railways compare favourably in speed, comfort, and convenience, both as regards passenger and goods traffic, with State Railways in other countries. There are, in fact, I believe, only two State systems which British advocates of railway nationalisation venture to compare favourably with our own. For my own part, as a traveller, I prefer our railways to those either of Germany or Belgium. But even allowing that some improvement on some

lines might follow as a result of State ownership, and allowing further that in recent years the competition of the English and Scottish railway companies with one another has become less and less effective, owing to agreements and understandings and amalgamations, there is still the very formidable objection to be encountered that by transferring several hundred thousand railway servants from private to public employment, we should be greatly enlarging the area of parliamentary corruption. One has only to think of the dockyard constituencies, and of the pressure upon candidates which is constantly exerted by Post Office employees, to see what might happen if railwaymen were added to the list.

The mention of dockyard constituencies suggests another topic of high public interest which deserves at least a passing mention. I refer to what is popularly known as 'The Armour-plate Ring.' The business of supplying arms and munitions of war, and of contracting for forts, battleships, cruisers, submarines, torpedoes, naval docks, and all the paraphernalia of modern warfare, is a highly specialised trade in all its branches, requiring, in many of them, a very large capital, and, therefore, very high profits in proportion to the

total output. It is, therefore, a trade not likely to be embarked upon, unless indeed the new-comer has resolute friends among the powers that be. For success in this industry depends largely upon ministerial and official favour. The art of securing orders from Governments in different parts of the world, with varying standards of financial ethics, is one which requires unusual qualities, special connections, and the utmost versatility. A sort of aristocratic commercial traveller with a dash of the diplomatist or journalist seems to be in request. It is for these reasons that the really important armament companies are very few in number. Indeed, those which have an international reputation could be counted on the fingers of both hands. National reasons make it impossible that the leaders in this business, such as Krupp, Armstrong, Creusot, and Vickers should ever amalgamate or convert themselves into a Trust or Kartell. Indeed, if an intelligent person were to arrive to-morrow from the planet Mars, and make himself acquainted through the histories with the theory of mundane patriotism, he would conclude that the armament business must be a strictly national concern. Learning, as he

would do, that almost all the leading countries have been at war with one another in the past, he would naturally assume that the citizens of one country would never dream of supplying a foreign Government with armaments. For, what a terrible scandal must arise, if, after an English manufacturer, let us say, had built a fleet of submarines with all the latest patents and designs for Italy, a war were to break out, and a fine squadron of British Dreadnoughts were sent to the bottom by those British-built submarines! But on inquiry into the facts the visitor would learn that the great armament companies are thoroughly international in their trade, if not in their character. Their agents are all over the world in search of orders, and until the outbreak of war the intercourse of armaments goes on quite unchecked. Some years ago, for example, the British public was carefully taught that it should change its enmities and should henceforth regard Germany, instead of France, as the Continental Power which is always on the point of invading these islands. But this has not prevented our armament manufacturers from using Krupp's patents, or our Admiralty from buying German airships. Nor does the

fact that naval panics are constantly being promoted on the strength of Italy's addition to her fleets, deter one of our great armament companies from enlarging its branch establishments in Italy, and constructing the most powerful ships it can devise for the Italian Government. With fine impartiality our armament firms have also established themselves in Russia and Japan, so that if those Powers should again unhappily go to war, both fleets will be largely of British design and construction. Stranger still, in a war with almost any conceivable Power, or group of Powers, the British Navy would almost certainly be opposed by ships of British design and construction. So also in their wars with barbarous or half civilised troops in Africa and Asia, European armies are shot down by European rifles made in England, Germany, or France.

Although it is impossible to constitute a perfect monopoly in the armament business—for an international Trust of this kind might lead to international control and a ruinous restriction of the trade—monopoly profits can be extracted in various ways. It seems now to be admitted that about the period of the construction of the first

Dreadnoughts a strong armour-plate ring existed in Great Britain which, by secret agreement, was able to force monopolistic prices upon the Admiralty, and obtained, in fact, much higher prices from the home taxpayer than it could extract from foreign Governments. It was pretty well established, for example, that similar battleships were sold to the Turkish Admiralty at a much lower cost per ton than to the British Admiralty. Yet the British Government is the best and most punctual paymaster in the world. Three explanations may be offered. In the first place, the Government shipbuilding yards and establishments are incomplete and comparatively inefficient, so that for its huge and ever-growing programmes the Admiralty is dependent upon private firms. Secondly, of course a Government department managed by politicians and admirals cannot be expected to excel in bargains, especially when it is practically free from financial criticism and Treasury control. Thirdly, the Admiralty is unwilling to beat down the home ring by entertaining tenders from abroad. So that, in this case, you may get a monopoly price in the home market without the aid of a tariff, although superficially the condition appears

to be eminently favourable to cheapness ; for there are several sellers and only one purchaser ! Monopoly prices for rifles, guns, explosives, warships, etc., may also be obtained from poor States which exist by borrowing. For example, before and during the Balkan war the Governments of Turkey, Bulgaria, Servia, and Greece were all ready to sacrifice everything to obtaining the most efficient means of mutual destruction. And as they had no cash or surplus revenues, it was necessary to borrow. But large public loans were not feasible. The matter was therefore arranged in this wise by the great armament firms, in alliance with certain banks and financial houses. The money was lent privately for short terms at very high rates of interest, on condition that the greater part of the loan should be spent in purchasing war material from the particular armament company by which the loan was arranged. Under these conditions the armament firm was obviously able to extract monopoly prices from the foreign government, and when the war is over all these private loans (mainly contracted in Paris) will doubtless be repaid by a refunding loan, and will duly appear in the war debt of each country.

Another branch of monopoly equally interesting to students of social progress and national economy is the land problem—a problem which has produced perhaps as many convulsions in modern society as did religion in past times. Every person who owns land, however small the patch, may be called a monopolist, for he is the exclusive owner and has no competitors. But if, in a large town, every householder owned his house and the land appertaining to it, and supposing, also, that the sale and transfer of these properties were quite easy, and the land in the suburbs was purchasable at reasonable prices, we should rightly say that the property market in that particular town was as free and competitive a market as can well be imagined in this particular business. With an ordinary efflux and influx the vacant houses would be sold at fair competitive prices. In a town owned by one ground landlord the conditions are artificial, and depend entirely upon the policy adopted by the landlord and his agent. He can, if he likes, refuse to allow any one else to be a freeholder in the town, though the Borough Council may have power under certain Acts to compel him to sell a few sites to the

citizens for public purposes. In such a town as this monopolistic conditions certainly exist, and where the owner happens to be crotchety, avaricious, or otherwise unreasonable, it would not be surprising if a good deal of discontent should exist. Indeed, such a town is an ideal place for the propaganda of either Henry George or Karl Marx. In the country, again, competitive conditions and prices may be said to exist where the land is farmed by small freeholders and there is no law of entail or complicated system of transfer to interfere with the free disposal of property. Of course, what has happened before might happen again. Wealthy persons might gradually buy up the small owners, until the *latifundia*, or large estates, which ruined ancient Italy, had taken the place of the system I have been describing.

In Ireland, as every one knows, by the Land Purchase Acts, the large estates are being purchased and divided up into small farms, varying as a rule from thirty to sixty acres, according to the quality of the soil. The difference between the price at which the landlord sells and the price which the tenant gives is covered by a bonus paid out of the rates and taxes. This is the price paid by

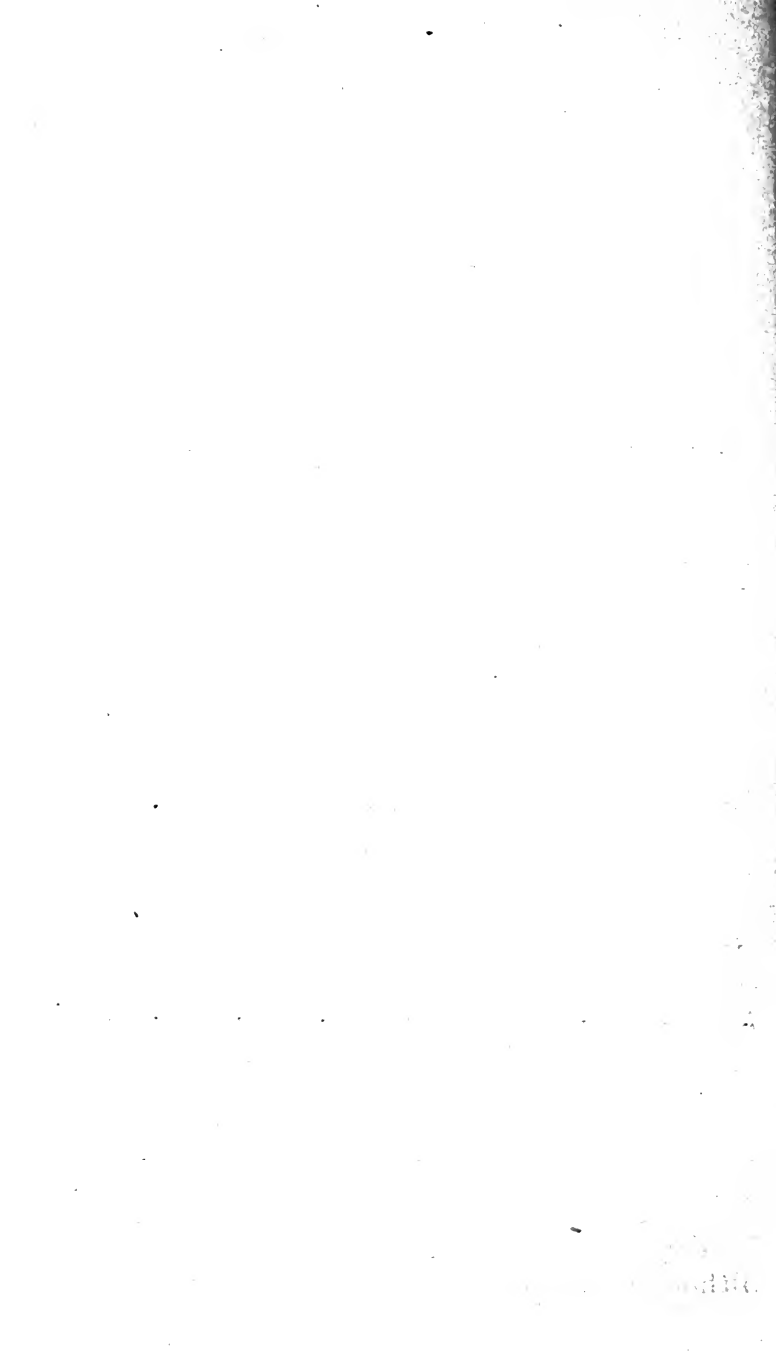
society for a fundamental reform. In some of the self-governing colonies, which are so often held up to us for imitation, an ingenious system in the shape of a graduated land tax has been devised, which encourages large owners to sell off portions of their estates and, at the same time, discourages rich men from accumulating rural properties. The economical argument for a tax of this kind, from which small freehold farmers may be exempted, is that it greatly increases the agricultural output, ensures more intensive farming, and multiplies the number of people who can earn their living healthily by an outdoor life in the country. On the other hand, purists of the *laissez-faire* school object to any tax which has any other purpose than that of raising revenue; while out-and-out defenders of the rights of property ask why any man should be constrained to sell his paternal acres, or to abstain from acquiring a great estate for his children and children's children. Meanwhile, most Socialists affirm that the land ought to belong, not to the people, but to the State. The Government should confiscate or purchase at any price it pleases the whole land of the country, and then distribute it, according to the discretion

of a central bureau, among the inhabitants. It is to be observed that in a country like Ireland, where the majority of the people will soon be peasant proprietors, it is impossible to conceive of this Socialistic system being introduced. I will leave it, however, to the ingenious readers of this work, after balancing the advantages of State-ownership, State-control, and private property in relation to the land and to all other problems which fall within or border upon the province of monopoly, to decide for themselves how they would order things if, by a sudden dispensation of Providence, they were raised to the position of beneficent dictator.

F. W. HIRST.

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The Story of Trusts

CHAPTER I

INTRODUCTORY: THE GROWTH OF MONOPOLY

The endeavour to secure oneself a monopoly is a general principle of finance.
—ARISTOTLE.

DURING the last quarter of the nineteenth century the word 'Trust' suddenly acquired a new meaning. The average man, up to that time, chiefly associated it with lawyers' offices and solid calf-bound works 'On Trusts,' with picturesque almshouses and quaint charities, and with careful arrangements for safeguarding the interests of those incapable for any reason of managing their own affairs. If he were a man of some standing and repute, in nine cases out of ten he was himself a trustee, singly or jointly, for the children of a dead friend, or for the funds of some religious or charitable institution; and although he might grumble occasionally at the

responsibility and trouble involved, yet his position was honourable rather than invidious.

A Trust was a characteristic institution of English law, respectable from its antiquity, and at times cumbersome and obstructive from that same antiquity. And if at any time our supposed trustee were suddenly asked, 'What is a Trust?' he would answer in the sense, if not in the exact words, of the legal definition: 'a Trust is an arrangement by which property is handed to or vested in a person, in the trust or confidence that he will use or dispose of it for the benefit of another.'

But, about the year 1890, reports began to cross the Atlantic, and to find their way into our journals, of strange dealings with Trusts in the United States. Over there Trusts seemed to be unpopular; their opponents accused them in excited pamphlets of almost every variety of oppression, fraud, chicanery, and general malpractice, they were prosecuted by State Attorneys and dissolved as illegal organisations by State Courts, anti-Trust campaigns were a feature of most elections, and anti-Trust laws their frequent sequel. Most puzzling of all, 'Trust magnates' were reported to have made colossal profits,

and the American journalist or orator found an alternative description of Trusts in the phrase 'these huge and powerful Corporations.' The Englishman, to whom a Trust was the chief example of that peculiarly English contradiction in terms, 'the unincorporate body,' and who knew that a trustee must receive no pecuniary benefit from his office, found all this perplexing enough. But worse was to come. In the course of a few years, whilst allusions to these American Trusts became yet more frequent in the Press, the word was connected with another, unfamiliar this time even in form. 'Trust' and 'Kartell' were linked together, and the inquirer was generally told by a friend with a little knowledge that a Kartell was a 'German Trust.' If later he addressed himself to a well-informed German — and what German is not well informed? — he learned that Trusts were unknown in German law. Meanwhile these new 'Trusts' seemed to be exercising a malign influence in England itself. His tobacconist attributed some sudden fluctuations of price, ending in a higher cost, in his favourite blend of tobacco to a 'Tobacco Trust,' while his wife's draper explained that it was the 'Thread Trust' which was fast

making reels of cotton into expensive luxuries. Some years ago, on opening his halfpenny paper one morning at breakfast, he read in flaming headlines of the attempted formation of an English 'Soap Trust.' His relief was great when he learned a few days later that the attempt had been frustrated, through the exertions of the journal, and that his soap would not cost him more. The last item in this medley of miscellaneous information was acquired at the time of the recent American Presidential Election, when the same journal informed him that the Democratic party hoped to deal with the Trust problem by reductions in the tariff.

While the average Englishman was thus puzzling over the Protean aspects that a simple word may assume, the most brilliant of legal historians was unravelling the tangle in articles remarkable alike for wit, learning, and acute criticism. But the average Englishman does not read English, still less foreign, law-journals.

'In America,' said F. W. Maitland,¹ 'events occurred which have inseparably connected the two words "Trust" and "Corporation."'

¹ *Collected Papers*, Vol. III. Article, 'Trust and Corporation.' Reprinted from Grünhut's *Zeitschrift für das Privat und Oeffentliche Recht*, bd. XXXII.

I am not qualified to state with any precision the reasons which induced American capitalists to avoid the corporate form when they were engaged in constructing the greatest aggregations of capital that the world had yet seen; but I believe that the American Corporation has lived in greater fear of the State than the English Corporation has felt for a long time past. A judgment dissolving a Corporation at the suit of the State Attorney as a penalty for offences it has committed has been well-known in America. We have hardly heard anything of the kind in England since the revolution of 1688. The dissolution of the Civic Corporation of London for its offences in the days of Charles the Second served as a *reductio ad absurdum*. At any rate "Trust" not "Corporation" was the form that the financial and industrial magnates of America chose when they were fashioning their immense designs.

'Since then there has been a change. Certain of the States (especially New Jersey) began to relax their Corporation laws in order to attract the great combinations. A very modest percentage is worth collecting when the capital of the company is reckoned in millions. So nowadays the American "Trust"

(in the sense in which economists and journalists use that term) is almost always, if not quite always, a Corporation. And so this old word, the "Trustis" of the Salica, has acquired a new sense. Any sort of capitalistic combination is popularly called a "Trust" if only it is powerful enough, and Englishmen believe that Germany is full of "Trusts".'

In the following pages the reader will find a short account of modern Trusts in this wide sense of the word—'any sort of capitalistic combination'—an account of their origin, growth, and present position in England and America, with a brief consideration of the German form of industrial union, known as the Kartell.

'The modern Trust has been defined in general terms as 'an arrangement for the control of several companies under one direction, to cheapen expenses, regulate production, and beat down competition.' Such a definition in itself is enough to prove that the Trust is the child of modern industrial conditions. Heavy expenses and fierce competition alike result from the Industrial Revolution of a century ago. No doubt competition, combination, and monopoly are in certain senses as old as industrial life itself.

Aristotle in his study of government found room for a lively account of two famous 'corners' of antiquity.¹ Thales of Miletus proved that a philosopher could easily make a fortune ('if he wished to do so') by buying up all the oil-presses of the neighbourhood in anticipation of an abundant olive harvest, and then letting them out on his own terms. Again, an unnamed Sicilian once cornered the iron of that island and gained a profit of two hundred per cent. Aristotle comments that this device is of universal application, and mediæval laws against 'forestallers and regraters' show that it was often attempted in regard to food supplies. But it is a commonplace of economic textbooks that we can draw no safe analogies between the industrial systems of antiquity or of the Middle Ages and that of our own day.

Not only in social and political life did feudalism impose conditions of status and dependence, but its influence was seen in the close and detailed regulation of industry. Under the charters granted by lord or king there were formed in English and Continental towns Gilds Merchant whose chief aim was to preserve a monopoly of local trade to

¹ Aristotle. *Politics*, I. 12.

inhabitants of the town as members of the Gild, which for this purpose issued elaborate ordinances for the control of all buying and selling within the walls. In return for substantial financial aid the king frequently granted other privileges to the towns or their Gilds, through which the former gradually themselves gained charters and the position of Corporations. As industry became more complex, in addition to the controlling Gilds Merchant, Craft Gilds for the several trades were formed in each town. These enforced upon their members certain conditions as to work and the quality of materials, and by the system of apprenticeship limited the numbers engaged in each trade. Thus we find throughout the Middle Ages industry in the hands of these combinations formed for the purpose of maintaining local monopolies. And the chief building in every town (next to the church, itself often enlarged, adorned, or rebuilt by the wealth and piety of the Gild) was then its Gild Hall.

The statute books prove to us that there was often much complaint against the tyranny and extortion of the Gilds both by the public and by would-be competitors. At their best, however, these unions saw that workers

were trained, work was honest, materials and food of good quality, and prices 'fair'—an elusive term, the *justum pretium* over which Schoolmen quibbled, and which has re-appeared in the modern Trust controversy. Even from this short sketch of mediæval conditions we can see that men had already learnt to combine for economic ends. Thus it was natural when later trade broke its narrow bounds and sought new markets in foreign lands that the old form of a chartered company should be adapted to regulate the venture and to lighten the individual risk—incidentally, also, to bring profit to the charter-granting monarch.

But this new spirit of adventure was itself a part of the great upheaval which shattered the mediæval system. Men wished for independence both in thought and act: part of this independence was the right of each to work for himself and under his own conditions. For centuries, indeed, relics of the power of the Gilds remained in the vexatious regulations which fenced round the entrance to several trades. Even in 1756 James Watt was forbidden by the Corporation of Hammermen in Glasgow to set up as a mechanic in the town; the more enlightened University came

to his aid by appointing him its mathematical instrument maker and giving him a workshop within its precincts. Later, it was in Birmingham, a town entirely free from corporations, and therefore the refuge of the unorthodox and the progressive, that Watt was able to erect his first steam-engine and thus to inaugurate the new age of competitive and mechanical industry.

Yet already in the sixteenth and seventeenth centuries competition had brought about a marked change in industrial life, while the accumulated wealth of the Gilds had tempted monarchs to despoil them. The 'monopolies' or 'patents' of the Tudors and early Stuarts need not detain us long. They were of two kinds: First, patents intended to secure to a town the monopoly of manufacture in some article threatened by competition, for example the monopoly of rope-making granted to Bridport in Dorsetshire by Henry the Eighth. These almost invariably failed in their object. In the second class (of monopolies) were those for the sale of necessities or luxuries, granted to individuals by the Crown, either as a reward for services or in return for a handsome fee. King and courtier profited by these arrangements, but

the abuse of high prices became so great that Elizabeth and James the First were brought to book by their Parliaments. The Statute of Monopolies (1624) checked the evil for a time, but the practice was revived by Charles the First, and only finally abrogated by William and Mary.

These monopolies, however, though injurious and oppressive, were comparatively restricted. They were before the days of 'capitalism,' in its modern sense of the organisation of production on a large scale by means of accumulated wealth. In the Middle Ages businesses on a large scale were rare, and were chiefly confined to industries in which, even then, machinery played an important part, for example, printing or milling. In the early eighteenth century Defoe, in his *Tour through England*, speaks of large factories in the West of England clothing trade, and some fifty years later Arthur Young mentions a silk mill at Sheffield which employed a hundred and fifty hands; but these were only isolated instances.

During the last two centuries mechanical inventions have entirely revolutionised the industrial world, and population has kept pace with the increased power of production.

Modern industry depends in the last resort on coal, iron, and copper, which provide the materials for the machinery and for the steam, gas, or electric power which is its driving force. Coal, iron, steam, and electricity have widened the market for all commodities: they have put a girdle round the earth. In fact, coal and iron have almost supplanted corn as industrial necessities, for though the workman cannot live without food he cannot produce without machinery and power. This widening of markets and this dominance of machinery encourage large-scale organisation. The machinery increases the rate and volume of production, and the new markets are there to absorb the commodities produced; but there is need of considerable capital to procure the necessary plant and labour. Every year machinery grows more elaborate and more expensive. In most industries there are highly-specialised machines to perform various minor operations; these take up space, and depreciate rapidly, so that only a large business can afford to use them. A large business, too, can employ the best and most specialised skill, it can buy its materials in bulk and therefore cheaply, it can ship its products in bulk and so

gain special transport facilities, and it can often obtain better credit than a small firm.¹

These are such marked advantages that in the Western world there has been throughout the nineteenth century a tendency to a growth in the size of businesses. Yet statistics show that in industry as a whole the small business and the individual producer hold their own. But the tendency to concentration and to production on a large scale is seen in very important branches, especially in the transport and metal industries, and in textile and other factory trades. Transport is, of course, a striking example of the modern need for large capital expenditure. So much is required that practically all railways not under State management and most shipping businesses are organised as joint-stock companies. In England and Wales alone the capital invested in railways totals some £900,000,000. Finance throughout the world shows this concentrative tendency very markedly, witness in England the disappearance of the private bank and the rise of the great joint-stock banking and insurance

¹ See, for a further account of these economies, Hobson, *Evolution of Modern Capitalism*, chap v.

companies. In retail trade large 'stores' are obvious examples; and in brewing 'home-brewed' ale has been supplanted by the liquor which a great firm supplies over a wide area to hundreds of 'tied' public-houses.

Yet, as already remarked, the small firm or business still survives, indeed the 'average firm' is small rather than large. For the small firm has special advantages of its own, particularly in branches where production cannot become a mere question of mechanism and where individual skill and taste are essential. The tendency to concentration is strongest in those routine and mechanical trades which provide the necessaries and comforts of life for the bulk of the people. If the tendency were universal the inevitable end would be 'one trade, one business,' but there are limits both to the advantages of increased size and to the possibility of managing an ever-increasing business. A big business succeeds best in trades where responsibility can be devolved; but no business can run itself, and the bigger the business the more difficult it is to apply the controlling hand just where it is required. In real life, whenever a firm staggers beneath the weight of its activities there are always eager

competitors ready to relieve it of part of the burden.

When a firm wishes to extend its business or to produce on a larger scale, to employ more capital and administrative ability, either of two time-honoured methods can be followed. The head may take one or more business men into private partnership, or he may turn his business into a joint-stock company. The latter plan is generally adopted when the business is such (or the ambitious schemes of its owner are such) as to require more capital than a private individual is willing to risk in one venture. Then a public joint-stock company is formed, the shares of which can be bought and sold in the open market. From the business point of view these companies have many advantages: they can be easily organised—too easily, as many shareholders have learned to their cost from the time of the South Sea Bubble till to-day, and so easily that in the last two centuries a new profession, that of the company promoter, has arisen—and they can easily expand and acquire fresh capital by the issue of fresh shares. But they have in a marked degree the disadvantages of all large-scale business: that is, the lack of adequate

knowledge and control by those who run the ultimate risk.

A hundred and fifty years ago there were only a few trades in which economists considered that joint-stock management could succeed. Adam Smith said: 'The only trades in which it seems possible for a Joint-Stock Company to carry on successfully without an exclusive privilege are those of which all the operations are capable of being reduced to what is called a routine, or to such a uniformity of method as admits of little or no variation. Of this kind are—first, the banking trade; secondly, the trade of insurance from fire and from sea-risk or capture in time of war; thirdly, the trade of making or maintaining a navigable cut or canal; and, fourth, the similar trade of bringing water for the supply of a great city.'¹ These are all trades in which either skilled management can be reduced to a minimum or in which the scale of the business or the possession of a natural monopoly limits outside competition. This gives a clue by which to explain the immense growth of joint-stock enterprise during the last sixty years. The immediate cause is, of course, in England the limitation of

¹ *Wealth of Nations*, Book V., chap. i.

liability. Under various laws (consolidated in the Companies Act of 1862) a shareholder in a limited company incurs responsibility only to the extent of the unpaid amount of his own share, a comparatively small risk, which even the small investor is willing to run. But in addition to this, modern improvements in mechanism and business method have given many trades more of a routine and uniform character. The great extension of markets due to the industrial revolution has almost annihilated distance. Goods can travel more safely, infinitely more quickly, and in larger quantities, trade information can be flashed from continent to continent, money or credit can be transmitted with the greatest ease. As a result, we are able to realise the close interdependence of the whole industrial world. The state of the American cotton crop not only means the gain or loss of a fortune to gamblers on the New York Cotton Exchange, but it determines the prosperity or poverty of Lancashire; so the prices at the Australian wool sales help to decide the condition of trade in the West Riding, and the price of coal is of vital moment not only to every housewife but to every manufacturer. With this interdependence comes increasing

specialisation and concentration of manufacturing power. Different branches of trade and commerce settle in the most convenient localities, as water drains to the lower levels of a field. This process helps to standardise industry and to bring it more and more under the control of machinery and routine, and hence the trades in which large-scale production is most successful are those which supply the needs of the great mass of consumers.

But in addition to this general interdependence there are also mutual relations between the firms and companies in the same 'market,' that is, firms producing and selling goods of the same class. There are many instances in which, as production increases, the market (that is, the demand for the goods produced) also expands, and in these cases competition goes on on the same lines as before. But in many cases the market may be subject to natural or artificial restrictions and does not expand as quickly as the power of production. The weaker competitors fall out of the battle or are bought out by their stronger rivals, and a few large firms are left competing fiercely, and each cutting prices in order to outbid the rest for custom. If all produce to their utmost capacity they cannot all make profits.

Then, just as in actual warfare, a truce is called, and negotiations are begun.

The first stage is generally one of formal or informal association for fixing price lists, and sometimes for regulating output. This cannot succeed unless the firms entering into the agreement control a very large proportion of the output and unless they are careful not to overstock the market. And even when such an arrangement is successful for a time it is apt to break down under stress of bad times or outside competition, as has often been the case in the so-called 'gentlemen's agreements,' which rest upon the honour of their members, and have been common in various branches of the iron trade in Great Britain and the United States. A well-known and elaborate price association, with some peculiar features, was the Birmingham Bedstead Makers' 'Alliance,' described in a later chapter, which held its own for a few years, and has been recently revived in a modified form. A looser form of such an agreement, made for a temporary purpose, is usually known as a 'Pool.' Of its very nature a 'pool' is short-lived, and generally collapses after exacting high prices for a few months. A closer and more lasting unity of policy among a few firms controlling

a large market is sometimes called a 'Ring,' a form of combination which is perhaps most frequent in the collecting and distributing branches of trade. A well-known instance has been the 'Beef Trust,' in which some large Chicago firms, the 'Big Four' (later the 'Big Six'), have practically controlled wholesale and retail prices of beef and cattle over most of the United States.

A 'Corner' is the most temporary of all combines: it is an attempt by a few individuals to control all the immediate sources of supply to a market, and to exact famine prices from the buyer. Thus Mr Leiter, in 1898, attempted a corner in wheat in the Chicago market which sent prices up to almost two dollars a bushel (in England to 48s. 1d. a quarter); in 1908-9 Mr Patten carried out the attempt. Taking advantage of the scarcity induced by two successive bad harvests in the States, he acquired during the winter practically all the 'May options' in Chicago wheat to the amount of some thirty million bushels and raised the price to about \$1.25. But, thanks to the enormous extension of the wheat-growing area of the world, there was no wheat famine and prices rose no higher before Mr Patten had disposed

of his stocks. In 1911-2 a Continental syndicate controlled the tin market, and prices rose from £124 per ton in 1908 to over £200. Thus any commodity can be 'cornered,' food products, metals, and other raw materials, loanable money, or stock exchange shares; but the essence of a corner is that it is a temporary expedient to produce or aggravate a temporary scarcity and is not meant to be permanent. No financier, however unscrupulous and powerful, would continue to 'corner' wheat until all consumers had died of famine, or had accustomed themselves to live on rice or rye, or until new harvests had relieved the scarcity. His aim is not to prevent sales, but to make them at the highest possible figure. Aristotle's examples of monopoly, already mentioned, fall into the class of corners. They are the temporary cyclones and earthquakes, not the normal weather of commerce.

The most successful 'pools' have been those in the transport trades. In the United States railway agreements in restraint of competition are illegal, but they are made as freely as, or more freely than, in England, where there are both conferences which fix rates over large areas and traffic-sharing arrangements between nominally competing lines;

for example, between the Midland and the London and North Western. All these forms are combinations in restraint of trade, but not yet complete amalgamations. The firms or companies are under separate management and still compete, but they compete under definite regulations.

Between these temporary or loosely-organised alliances and the fully-developed and permanent monopoly there is an intermediate form—the Kartell—which prevails in the coal, iron, and chemical industries of Belgium, Austria, and Germany. Its features are described in another chapter, but, briefly, the businesses concerned become members of a selling company or 'syndicate,' which fixes uniform prices and regulates the output, while it does not interfere with the management of the separate firms and makes no attempt to arrange a uniform rate of profit. The firms are free to leave the agreement after due notice, but the syndicate usually has power to levy fines for breaches of agreement.

All these arrangements are intended to limit competition, but none have the organic unity of the full-grown Trust. A Trust in the popular sense is essentially a monopoly—

an organisation which controls the whole or a very great proportion of a single branch of industry. Technically, the original American Trusts were businesses organised under bodies of trustees to whom the shareholders of the formerly competing firms or corporations surrendered their control of financial interests in such a way that the trustees had the entire management of the new organisation. The remainder of this book discusses the conditions in the United States which gave rise to these Trusts, the reasons for their comparative scarcity in other countries, and the general influence of large concentrations of capital in modern industrial life.

CHAPTER II

TRUSTS IN AMERICA : THEIR GROWTH

Unless you rid yourselves of avarice, ambition, and luxury, you will suffer a harsher despot at home than any you have encountered in the field : nay, you will yourselves continually breed an intolerable progeny of tyrants.—MILTON : *Second Defence of the People of England*. 1654. (Trans).

IN all studies of monopoly the United States are taken as the native home of the Trusts. It is worth while to inquire what were the industrial and social conditions which favoured the growth there of these huge aggregations of capital. During the sixty years which followed the establishment of independence the history of the States was one of expansion. Their population, increasing at an unprecedented rate, pressed inland from the narrow fringe of territory on the Atlantic sea-board, by steamboat along the great rivers and lakes, by wagon across the wide prairies, through the rich corn and mineral

lands of the Middle West, and, led by the lure of gold, penetrated to the forests and orchards of California and to the blue waters of the Pacific. Spain and France saw their possessions engulfed by the onrush of the new nation. Before 1860 twenty new States were added to the Union of the thirteen 'original' States. From 1830 to 1860 the marvellous railway development (twenty-three miles in 1830 and 30,000 in 1860) gave fresh impetus to this expansion. Only a few years were required to transform frontier forts into huge cities, and riverside hamlets into flourishing manufacturing towns. The pioneers noted and adopted every new and labour-saving invention, especially the machines which were then beginning to revolutionise agriculture, and the States soon took their place among the great wheat-growing countries of the world.

After 1840 the influence of immigration became important. Reactionary government in Europe and the devastating famine in Ireland drove many of the best citizens of the Old World across the Atlantic. The population of the States in 1860 was over thirty-one millions, against five millions in 1800. One section of the country, however, did not share

to the full in this development. The existence of slavery in the South hampered alike its industry and its politics. The slave States had committed themselves to a system of unintelligent and forced labour which made it impossible for them to reap the advantage of the new inventions and improvements. Moreover, the immigrants, 'as if by instinct,' avoided the South. They increased both the numerical preponderance of the free States and their anti-slavery sentiment. The economic situation was aggravated by the Federal tariff policy, which favoured the young manufactures of the North at the expense of the growers and consumers of the South. Conflict was inevitable, and from 1861 to 1865 the dis-United States struggled to decide whether, in Lincoln's words, 'a nation conceived in liberty, and dedicated to the proposition that all men are equal . . . can long endure.' The war abolished slavery, and asserted the power of the nation to coerce a minority of the States. Before many years had gone by, free labour greatly increased the material prosperity of the South.

But during the war marked economic changes had taken place. The vital military necessity for railway connections led the

Government to grant extraordinarily lavish terms in lands and money to new railroad corporations; for example, to the Union Pacific in 1862, and to the Northern Pacific in 1864. The tariff, raised to an average of nearly fifty per cent. on dutiable articles, encouraged a 'hothouse' growth of manufactures, and though these were heavily taxed, yet they were not taxed out of existence. The discovery and exploitation of rich stores of gold, silver, iron, coal, and petroleum, the improvement in transport and decrease in freights owing to competition between the new lines, brought about a trade 'boom' and excited speculation in railroads which culminated in the acute industrial and financial crisis of 1873. This rapid railway extension also led to the growth of large cities, important industrial centres situated on the most favourable trade routes and controlling vast markets which outran the bounds of single States. Hence the power granted by the Constitution to the Federal Government of supervising inter-State commerce gained fresh importance.

With these industrial changes, and indeed as their outgrowth, came transformations in social and political life. This period, after

the close of the war, witnessed the rise in the free Republic of a class whose power was based on wealth and whose wealth was gained by success in business or finance. True, the class was potentially open to the entry of any American citizen, but in a country where there was a singular dearth of distinctions to be attained by the enterprising and ambitious this only increased the estimation in which its members were held. The States were, as yet, too much isolated from European learning for the idea of intellectual eminence to make a strong or wide appeal, and after the Civil War was ended there was little that was tempting in a soldier's life. Politics were discredited by the 'spoils' system and were abandoned to the third-rate and the self-seeking. It was the industrial magnate, the 'Railroad King' or the 'Oil Dictator,' who dazzled the imagination of the public. One of these millionaires, with his control of other men's millions, could surround himself with the choicest treasures of art and literature, could restore by his daughter's dowry the fortunes of an ancient English or Italian house, could found and endow a university, could provide pay for the Federal Army (as Mr Pierpont Morgan did in 1887), and, most

spectacular of all, could sway the legislation of States and even of the Republic to suit his will. Business—money-making—industrial or financial monopoly—became the one career at which to aim, and this less for the sake of money or social advantage than from the sheer love of power. Hereditary monarchy and military conquest were not open to the American genius, but it could exercise a still wider, and at times an even more despotic influence. Mr Harriman was asked at a hearing of the Inter-State Commerce Commission, in 1907, whether he would like to consolidate all the railroads of the country. He replied that he would, if the Government would only let him.

Never before in industrial history had circumstances been so favourable to the attainment of great power by individuals. Here was a vast and, on the whole, increasingly prosperous population, which could readily absorb huge quantities of the necessaries and simpler luxuries of life, whilst a complaisant legislature was ready to protect any industry from the consequences of its own miscalculations or from the greater efficiency of some foreign rival. It was an occasion for production in the mass, for lavish outlay of capital,

for keen and unscrupulous competition, and for the use of every possible advantage of skill or cunning. The railroads so minimised distance that concerns in different States could struggle with one another for the control of one wide market. In most of the staple industries of the country there were a few individuals who determined to attain to supreme power, and the peculiarities of the American temperament and the American Constitution helped them in this endeavour. The intense individualism of the American people—a legacy from Puritan and Revolutionary ancestors—inspired a *laissez-faire* in regard to industry which in some respects deserved all the strictures misapplied to the Manchester School. Even to-day in some States no legislative regulation controls the labour of women and children,¹ and in the year 1870 amalgamations of capital, or ‘corporations,’ could be organised in many States under the easiest of conditions, and with the slightest of precautions against fraud or misrepresentation. And while the State did not interfere, the Federal Government could not, for corporation law lay without its sphere and was a jealously guarded

¹ Shadwell. *Industrial Efficiency*, Vol. II., pp. 35–46.

'State Right.' Thus monopolistic corporations gained a clear start of some ten or twenty years' growth before Governments began to grapple with the giants they had themselves created.

But in addition to the negative policy of 'let-alone,' there existed some very positive aids to the growth of monopoly. In some cases the corporation controlled important supplies of raw material, as in various combines in the iron and steel trade, and particularly in that corporation of corporations and fine flower of monopoly finance, the Steel Trust of 1901. Or it had the advantage of specially effective patents—the case of Mr Carnegie in the iron and steel trade and of Mr Havemeyer in sugar-refining. Or the fierce struggle between competing railroads had given it the opportunity of enjoying secret preferential rates of freight and other discriminations, as in the notorious case of the Standard Oil Company. The relation of Trust and Tariff will be discussed later; here it may suffice to say that few responsible observers deny that Protection has some share in stimulating the formation of Trusts, and that, conversely, successful Trusts have had sufficient power to ensure the maintenance or

even the increase of Protection in their own branch of industry.

The story of the combination movement in America begins after 1860 with short-lived pools, notably in the salt, cordage, and whisky trades, which exacted temporary high prices and limited output or divided the market amongst their members. But like all pools these were unstable, for members chafed under the restrictions and broke away. The Michigan Salt Association (1868-71) is a typical instance. A heavy war duty on salt—not reduced until 1872—had tempted large numbers of firms into the business of salt production, and unrestricted competition soon brought the weaker companies into difficulties. In 1868 the Saginaw Bay Salt Company was formed, which was practically a syndicate to purchase the output and arrange the sales of the Michigan salt producers. This lasted until the end of 1871, when it broke down amid mutual recriminations. The breakdown had been preceded by a period of fierce price-cutting against Ohio and New York producers. 'It was a Donnybrook Fair in the salt market. When you saw a head you hit it,' said one combatant. There followed a pool with Ohio under which there was an

immediate rise in price. It collapsed with the local association at the end of the year. In 1876 a more efficient organisation was formed, the Michigan Salt Association, which continued until the year 1899, when most of the firms were absorbed by the National Salt Company of New Jersey. Such pools as these, however, were only faint shadows of the Great American Trust.

In the early 'seventies the vicissitudes in the petroleum trade caused by the rapid exploitation of new wells encouraged John D Rockefeller, a young oil-refiner, in his scheme to attain a monopoly control of the refining interests and through them of the production of crude oil. In 1882 appeared the first-born Trust, the Standard Oil Company of Ohio, in which the trustees held in their own hands the voting power of all the constituent corporations, and thus prevented all competition between them. During the next few years the marvellous success of the 'Standard,' and the Protective tariff of 1883, brought other Trusts into the industrial field. The most important were the Distillers' and Cattle-Feeders' (the 'Whisky') Trust and the Sugar Refineries' Company (the 'Sugar Trust'), both founded in 1887. But independent producers and

consumers were loud in their complaints, and in response to the pressure of public opinion some twenty States in the years 1887-90 passed anti-Trust laws of varying degrees of severity, for the most part merely amplifying the old principle of English common law that contracts in restraint of trade are against public policy and are void. The Federal Government itself began to realise that the new organisations affected the national welfare. In 1887 the Inter-State Commerce Act attacked one aspect of the problem. By it, railways engaged in inter-State commerce were forbidden to exercise discriminations between clients in their rates of freight, and all railroad pools or traffic arrangements were declared illegal. An Inter-State Commerce Commission was established to enforce obedience to the law. In 1890 the 'Sherman' anti-Trust law declared all contracts and combinations in restraint of trade among the several States, or attempts to monopolise such trade, to be misdemeanours punishable by fine or imprisonment. Occasionally a State Attorney had the courage, or a private individual the wealth, to set the law in motion, with the result that in a few States the more important Trusts were declared illegal and

dissolved—the Oil Trust in Ohio in 1892 and the Sugar Trust in New York in 1890.¹ In both these cases the judges swept aside the plea that Trust and corporation were independent agents, and ‘the action of the stockholders, even without any formal action upon the part of the corporation, was held to be corporate action.’² But the ingenuity of the lawyers retained by the great corporations soon found new forms under which to evade the law. In some cases, for instance in the Sugar and Whisky Trusts, the constituent companies fused into one huge corporation under the same management as the Trust had been. Legally the form was changed, practically the organisation went on as before. The Sugar Trust in particular flourished, thanks to the M’Kinley Tariff of 1890, which remitted the import duty on raw sugar while retaining a duty on refined.

The Standard Oil Company adopted a different course. It so re-divided its stock that in each company the majority power was in the hands of the former trustees; but it, too, finally re-absorbed its parts into one corporation on the friendly soil

¹ *People v. The North River Sugar Refining Company*, and *State v. Standard Oil Company*.

² Ripley. *Trusts, Pools, and Corporations*, p. 245.

of New Jersey. For in 1889 'a State was found to pass an act of incorporation which rendered void and of no effect the anti-Trust laws of every State attempting by statute to preserve competition.'¹ The New Jersey Legislature so amended its corporation laws as to empower a corporation formed in New Jersey to purchase and own the stock of any corporation in any State, on complying with a few simple formalities—the payment of a small fee and annual tax, the maintenance of a head office in New Jersey, and the publication of an annual report. Thus there arose the remarkable spectacle of a comparatively insignificant State permitting a corporation to perform in other States operations forbidden by the laws of those States. The formalities are so formal that a single office in a New Jersey town may house hundreds of corporations and one official may act as their representative. The New Jersey Legislature, of course, was out for revenue, and it reaped such a rich harvest that before many years Delaware, West Virginia, Maine, and New York all followed its example in legislation, with in some cases even more liberal provisions. Under these laws many 'holding corporations'

¹ Meade. *Trust Finance*, p. 38.

—or 'Trusts,' as they were still popularly called—were established, but in the severe crisis of 1893 several collapsed, and (with the notorious exception of sugar, discussed in a later chapter) the 'Wilson' Tariff of 1894 gave no fresh encouragement to monopoly. The dull and stagnant years following the crisis were not favourable to business enterprise. Prices of all securities declined, and there was little investment. Temporary pools in the iron and steel trades, for instance the Wire Nail Pool of 1895-6, took the place of more stable unions. At this period an important ruling was given under the Sherman anti-Trust law. In the case *U.S. v. E. C. Knight Co.* (1894) the Court decided that the American Sugar Refining Company and its branches enjoyed a monopoly, but that since it was one in the manufacture of sugar within the several States it fell to the province of the States to regulate it. Any monopoly of inter-State commerce which followed was incidental and could not be dealt with by the Federal Court. At the time it was believed that this decision stultified the law; however, the case of the *Addyston Pipe and Steel Company v. U.S.* (1899) was less favourable to the monopolist. It was that of an agreement

between six formerly competing firms who supplied the markets of thirty-six States. These makers of gas and water pipes, before tendering for public contract, agreed upon a price and allotted the job to one of the 'ring.' In the public negotiations the others then overbid and allowed the chosen firm to obtain the contract. The Court decided that this practice restricted the sale of pipes across State boundaries and thus infringed the Sherman law.

At the opening of a series of good harvests in 1897 trade began to revive, and the Dingley Tariff of the same year was (to quote Professor Taussig) inspired by an 'aggressive spirit of Protection.'¹ Under this two-fold stimulation there was a rapid growth of company promotion: the country was now well equipped with railroads and the investor or speculator turned his attention to industrial amalgamations, which the E. C. Knight case seemed to make secure.

In the three years from 1898 to 1900 149 large combinations were formed with a total capitalisation of \$3,500,000,000. 'Hardly an industry has escaped consolidation. Coal-mining, iron and steel, copper, lead, zinc,

¹ Taussig. *Tariff History*, p. 353.

and silver; paper, leather, rubber, salt, starch, chemicals, cordage, ice, glass, paving, and roofing, practically all of the great industries whose product is used in further production have been in large part consolidated.¹ To these must be added oil, sugar, whisky, beer, tobacco, matches, and sewing cotton. The promoter took full advantage of his opportunity and speculation was rife. Mr C. W. Baker, editor of the *Engineering News* and a student of the question of monopoly, has since declared that 'the great carnival of Trust formation which went on in this country ten or twelve years ago did not come about because thirty or forty manufacturers saw that they could make great economies by combining and forming a Trust. The real forces behind that movement were very simple. A lot of excellent bankers in Wall Street found that they could buy two and two, put them together, and sell to the public for six or seven or eight.'² Behind many of the combines was the great house of Pierpont Morgan. The most sensational flotation was the monster 'Billion Dollar Trust,' the United

¹ Meade. *Trust Finance*, p. 2.

² *Annals of American Academy of Political Science*, p. 263.

States Steel Corporation. Its history is told in another chapter.

The disasters and rough weather, however, which soon overtook some of these newly-launched ventures,¹ amongst them the much-heralded International Mercantile Marine, made speculators pause; and high prices led to general complaints. The great investigation of the Industrial Commission (1899-1902) gave each Trust an opportunity of making its *apologia* to the public, of which the officials readily availed themselves. Unluckily for them, the charges brought by their adversaries seemed to make more impression on the country. The Report of the Commission recommended national supervision of Trusts and the enforcement of a greater degree of publicity in their accounts and transactions. But the constitutional difficulty between the States and the Republic made it difficult to put these suggestions into effect. From 1905 onwards the newly-created Bureau of Corporations at Washington also published exhaustive reports of its inquiries into the industrial and financial methods of the more notorious Trusts.

¹ In the first six months of 1903 forty-four Trusts were in the hands of receivers.

During the Presidencies of Mr Roosevelt, his anti-Trust declamations gave Trust magnates uneasy hours, and the crisis which shook the commercial and financial interests of the United States in 1907 wrecked some of the over-capitalised ventures. But the President's invectives seemed to evaporate in noise, while the favour he showed to the Steel Corporation in the matter of their purchase of the Tennessee Iron and Coal Company in the time of the crisis fettered him to some extent in dealing with other Trusts.¹ The Trust prosecutions presented some features of interest. In the Northern Securities case the Supreme Court decided in 1904 that the 'holding corporation' as well as the 'Trust' proper was illegal. The chief shareholders of two competing railroads—the Northern Pacific and the Great Northern—had formed a third company, the Northern Securities, to hold the stock and to control both lines. The Court held that such a step destroyed competition and that the New Jersey charter was no protection since it could be granted only for 'any lawful purpose.' This decision applied to railroads, but it could be extended to other monopolies, and during President Taft's

¹ *Vide* chap. iv., p. 125.

term of office the Standard Oil and the Tobacco Trusts were dissolved by the Court on suit by the Government, as being both holding corporations and manufacturing monopolies. In 1912 the Court declared that 'licence agreements' in the enamelled ware trade, which had brought about the so-called 'Bath Tub Trust,' were not genuine restrictions to safeguard patent rights, but a mere device by which to attain monopoly. In the case of the Union Pacific Railway, the Court decided that the late Mr Harriman's purchase for this road of the control of Southern Pacific stock—a parallel line—was in restraint of trade, but permitted the acquisition of the Central Pacific, which formed a continuation of the Union road. In February, 1913, the chief officials of the National Cash Register Company were condemned to varying terms of imprisonment for attempted monopoly and unfair methods of competition. During the same year suits were proceeding against the United Shoe Machinery Company, the Sugar Trust, and the Steel Trust. But 'Trust-busting,' although a sport which brings some credit to its votaries, appears to be harmless to the quarry. Trust officials might declare, in the face of booming trade, that the Sherman

Act was a 'blight on the business of the country'; but the hard fact remained that the Standard Oil and Tobacco Trusts after their dissolutions paid larger dividends than before, while the market value of their stock increased. The corporation might be dissolved, but it was into other corporations themselves as large as those of the earlier days of the Trust movement. And there was apparently no power by which the Court could prevent the monopolistic interests from retaining or regaining control.

At the same time, under President Taft's leadership, the 'Payne-Aldrich' Tariff of 1909 scarcely altered the existing level of Protection, and so maintained an atmosphere favourable to Trusts. The need for some settled policy in dealing with the question became evident. Political parties were divided. Many Republicans declared that a stricter application of the Sherman Act was all that was needed. Others brought forward the counsel of despair that Trusts were inevitable and must be accepted; the only palliative was a Federal statute of incorporation (*Anglice*, a national company law), by which the National Government might lay

down conditions to which these bodies must conform. The more advanced wing of the Democrats asserts that the tariff is the root of the evil, and in the new Presidency of Mr Woodrow Wilson they are preparing to lay the axe to that root with hearty goodwill. A large Democratic majority was returned to the Congressional House of Representatives in 1911, and in 1912 Mr Wilson, the Democratic candidate for the Presidency, was elected by an unprecedented plurality of votes over the two other candidates, President Taft (Republican) and ex-President Roosevelt (Progressive). President Wilson and his party were pledged to a sweeping reduction of the tariff, and they at once proceeded to carry out their pledge. The new 'Underwood' Tariff is described in another chapter. It may be summarised as the most determined attack on high Protection made in any country since the days of Sir Robert Peel. Like Peel, too, the Democrats propose to meet any falling-off in revenue by the imposition of a Federal income-tax. In 1885 such a tax was declared illegal by the Courts, but a Constitutional amendment passed by a sufficient majority of States has now made it possible. Before concluding his term of office

as Governor of New Jersey, Mr Woodrow Wilson inspired proposals for a stringent revision and amendment of the Corporation laws of that State. How far the people of the United States are justified in attributing the evils which have accompanied Trust formations in the past to complacent company laws and the shelter of the tariff may appear if we turn to study the history of some individual Trusts.

CHAPTER III

THE STANDARD OIL COMPANY

The Standard Oil Company is a very remarkable and wonderful institution.—Senator PAYNE, in 1888.

This is the original Trust. Its success has been the incentive to the formation of all other Trusts and combinations. *Committee of the Senate of New York, 1888.*

THE story of petroleum oil in the United States until the year 1904 has been so well told by Miss Ida Tarbell¹ that little is left for other writers to glean. The industry is one of comparatively modern growth. Its raw material—petroleum—was known in the early part of the nineteenth century as a thick, oily, inflammable substance found on the surface of springs and streams, and underground mingled with the brine of salt-wells. By the middle of the century it had become a profitable employment to collect and sell this oil as medicine, and occasionally attempts

¹ *History of the Standard Oil Company.* (Heinemann.)
2 vols.

were made to refine it for use as an illuminant or lubricant. In the year 1854 a certain Mr Bissell began to interest himself in the possibilities of this 'rock oil,' as it was then called. Natural oil-springs were abundant in North-West Pennsylvania. Bissell leased land in the district, formed a company to exploit the oil, and sent a sample for analysis to Professor Silliman of Yale. The report of the Professor transformed the oil into a valuable article of commerce. As an illuminant, he said, it was equal or superior to any oil in existence, and from it could also be obtained gas, paraffin, and lubricating oil. 'Your company have in their possession a raw material from which, by simple and not expensive process, they may manufacture very valuable products.' The Professor added to his forecast a statement of fact which, unfortunately, soon ceased to be true. 'It is not monopolised by any one, but carried away freely by all who care to collect it.'

Up to this time oil had only been obtained from the surface of springs or as a by-product from salt wells. The patent medicine was procured in the latter way, and its label bore a picture of an artesian salt-well. It is said that a chance view of this label suggested to

one of the promoters of the new company that the oil itself might be obtained in quantities by artesian drilling. In the year 1858 they sent an agent, Drake by name, to prospect for oil on the ground they had leased. The place was Titusville, a hamlet in a barren district, Oil Creek, near the Alleghany River, forty miles from Erie. After many difficulties and delays, oil was found in August, 1859—a well yielding twenty-five barrels a day. Drake had 'struck oil' in such volume that the phrase became proverbial. When the news was known there was a wild rush to the oil-fields. Everywhere men struggled to buy or lease a patch of ground. Companies were formed to drill for oil, which was obtained in incredible quantities, from some wells at the rate of three and four thousand barrels a day. It was stored hastily in wooden—later in iron—tanks, run into barrels, and carted by farm teams to the river or the railroad. At first this was a difficult and costly business, but before 1865 the chief railroads of Pennsylvania had connected their lines with the oil districts, and carting was only required to transport the oil from the well to the line. The teamsters exacted exorbitant rates and reaped a rich harvest. But their profits were

short-lived. Soon pipe-lines were invented, by which oil could be run or pumped direct from well to railroad. In the year 1866 several of these systems were at work, under the control of 'transportation companies,' in connection with the chief railroads. Many refineries sprang up, both in the oil regions (by this time covering some two thousand square miles of Pennsylvania, Ohio, and New York) and in towns—such as Cleveland—favourably situated for shipping the oil to distant markets. In 1871, 243,000,000 gallons of petroleum were produced, of which 152,000,000 went abroad. There was also a considerable trade in naphtha, benzine, and lubricating oils.

The great evil, however, in these early years of oil production was the fluctuating and speculative character of the market. A steady price was impossible, since production was uncontrolled, and at any moment a fresh flood of oil might pour forth from some new well, for the population of the district, which had leapt to 60,000, was mainly engaged in drilling for oil. In 1859 oil was \$20 a barrel, in 1861 it averaged 52 cents, in 1863 \$8.15, and in 1867 \$2.40. Hence there was naturally much speculation both in oil and in bogus oil

companies, and the progress of the industry was diversified by panics and crises. The three railways—the Pennsylvania, the Erie, and the Central—which competed wildly for the oil traffic, also took a hand in the speculation, and each began to use secret freight discriminations and rebates as a means of attracting custom.

A young Cleveland commission agent, John D. Rockefeller, had become interested in oil, and in 1865 he, with a partner, put his small capital into a refinery. Thanks to his ability, the business grew, branch refineries were opened, until in 1870 Rockefeller, with his brother William and three other partners, combined all the concerns into one company, the 'Standard Oil' of Ohio, of famous name. The great success of the Rockefeller business had already roused the suspicions of other firms. They acknowledged the ability of its heads, but felt that without other secret advantages they could not have reached this commanding position. In fact, when other shippers accused the railroads of giving rebates, they were pacified by concessions to themselves. Competition between producers, competition between refiners, and competition between railroads had utterly

demoralised the business. Each man was either receiving a rebate himself or suspected his neighbour of receiving one, while so many refineries had been started that refined oil, which had averaged about 58 cents a gallon in 1865, was 26 cents a gallon in 1870. Under these circumstances certain Pennsylvania refineries formed a scheme for a secret combine of the more important firms. The idea was simple. They were to persuade the railroads to give them not only rebates on the carriage of their own oil, but 'drawbacks' on the oil carried for independent shippers. This method would soon destroy all the independent refiners, and the combine would be able to control all the output of refined oil and hence its price, which they hoped to advance at least fifty per cent. Fortune at first seemed to favour them: 'at a meeting held in Philadelphia, late in the fall of 1871, a friend of one of the gentlemen interested mentioned to him that a certain estate then in liquidation had a charter for sale which gave its owners the right to carry on any kind of business in any country and in any way; that it could be bought for what it would cost to get a charter under the general laws of the State, and that it would be a favour to the heirs to buy it.

The opportunity was promptly taken. The name of the charter bought was the South Improvement Company.¹

In evidence later, Mr Rockefeller and his partners assured various commissions of inquiry that they had little confidence in the barefaced scheme of highway robbery which lurked under this innocent title. Nevertheless they were the largest shareholders. In 1888 Mr Rockefeller gave some remarkable testimony before a Trust investigation undertaken by a Committee of the New York Senate. 'There was such a company?' (as the South Improvement Company). 'I have heard of such a company,' he replied. 'Were you in it?' 'I was not.' Yet, it is on record that in the original scheme he was a director with an individual holding of 180 shares. Indeed, in the same year (1888) a Committee of the United States House of Representatives, also pursuing Trust investigations, asked Mr Rockefeller for the names of the leading members of the South Improvement Company. His answer, after giving eight names of men well known in the later developments of the Standard Oil, ended with the two significant words, '*and myself.*'

¹ Tarbell. I., p. 56.

It was, of course, essential to the success of the scheme that the chief refiners should be brought into it; indeed, as Mr P. H. Watson, its president, explained with ingenuous frankness to a Committee of Congress in 1872, if it had been carried out in its entirety, 'there would have been nobody left and no hostile interest.' The peace that would have prevailed in the refining trade would have been of the nature of the famous peace once reigning in Warsaw, and its attainment was sought by similar methods of conquest. Some of the refiners gave evidence later about the arguments used by the directors of the South Improvement Company—arguments skilfully composed to instil into the hearts of independents a panic fear before the approach of some dim omnipotent power. A Mr Hewitt told the Hepburn Commission of New York in 1879 that when he consulted Watson about proposals which had been made to him, he met with cold comfort. 'You better sell—you better get clear—better sell out—no help for it,' while Rockefeller clinched his argument by the plain statement, the truth of which was to be abundantly proved in the next twenty-five years: 'I have ways of making money that you know nothing of.' Some of

these 'ways' are revealed in the report by Frank Rockefeller (to a Committee of Congress in 1876) of the conversation in which his brother and other strategists induced him to sell his independent refinery. They said: 'If you don't sell your property to us it will be valueless, because we have got advantages with the railroads.' Under pressure of this argument twenty-one out of the twenty-six Cleveland refineries sold their works in 1872 at prices which they afterwards declared to be far below their value. One firm, for example (Hanna, Baslington & Company), sold for \$45,000 dollars a business for which they themselves had not long before paid \$75,000. Railway discriminations, and the acquisition of rival works at 'bargain' prices, were the two principles upon which the founders of the South Improvement Company hoped to build up their monopoly. Their methods have been described at length because, as will be seen later, they were adopted by the Standard Oil Company, and, pursued with greater ingenuity and discretion, helped it to obtain the monopoly in actual fact.

The South Improvement Company did not succeed. It was born prematurely, and an

astonished and angry public strangled the infant monopoly at birth. On receiving assurances from the promoters of the company that it was, or at all events shortly would be, in control of the whole refining business of the United States, the three 'oil' railroads agreed to contracts by which it was to receive not only the suggested rebates on its own shipments of crude oil and *drawbacks on independent shipments*, but also information about the daily quantities of petroleum carried; in fact, each company undertook (as the contract signed by the Pennsylvania Railroad in January, 1872, phrased it) to go 'as far as it legally might to maintain the business of the South Improvement Company against competition, and to lower or raise the gross rates of transportation for such time or to such extent as might be necessary to overcome the competition.'

This was the secret lever by which the Cleveland, Pittsburg, and Philadelphia members of the company forced their rivals to sell out. The schedule of freight rates against independents was to be raised nearly 100 per cent.; at the end of February, 1872, this schedule came into the hands of a subordinate of the Lake Shore (Erie) Railroad, who in all

innocence put the rates at once into force. The oil producers and the independent refiners were already suspicious, and now their suspicions were confirmed. In the oil regions there was formed a Petroleum Producers' Union, pledged to boycott the South Improvement Company by refusing to sell oil at any price to its members. To the outsider the railroads seemed equally guilty, but it was upon the company that the weight of the producers' indignation fell. 'They expected nothing but robbery from the railroads.'¹ The feeling was so strong that Congress appointed a Committee of Investigation, which traced the history of the company as related here, and discovered, moreover, that it had expected to receive some \$6,000,000 annually from these illegal discriminations, and the railroads about \$1,500,000, while the price of oil was to have been raised to the high level of earlier years. It was evident that the company, which had scarcely lived, was now under sentence of death, and railroad presidents showed undignified haste in their attempts to explain away their share in the contracts as mistakes or inadvertencies. The company died under the verdict of the

¹ Tarbell. I., p. 73.

Committee that it was 'a most gigantic and daring conspiracy,' but much of the odium which had fallen on it was retained by its former members, and especially by the Standard Oil Company and Mr Rockefeller. And, in fact, the Standard did continue to receive secret rebates of very substantial amount. Mr Montague, in his monograph,¹ justifies these discriminations on the ground that it was at that time a common practice, 'inevitable and legitimate,' for railroads wishing to avert disastrous competition to allow special terms to a shipper or a group of large shippers who were willing to act as 'eveners' and to apportion their traffic as occasion required among the roads concerned. Doubtless these 'mutually helpful contracts' (as Mr Montague calls them) would not have been made unless they brought benefit both to the railroads giving and the shippers receiving rebates; but the argument overlooks the interests of the general public, who wished competition to be maintained, and of the competing shippers. Nor does it touch the scandal of the so-called 'drawbacks' secretly levied from these independent shippers. The

¹ *The Rise and Progress of the Standard Oil Company*, p. v. and p. 63.

argument against discrimination is simple. Railroads are, legally and actually, common carriers, and in this capacity are forbidden to grant special favours to individuals.

Strengthened by this rebate, Mr Rockefeller pursued his victorious way, and before the year was ended had become President of a Refiners' Association. Circumstances favoured his plans. The Producers' Association were struggling to restrict the output, for they feared the advent of 'three-dollar oil'—a price, that is, of three dollars a barrel for crude oil. To men accustomed to the extravagant prices of early years, this did not seem a reasonable return, and producer and refiner had at least one apparent interest in common, to keep up the price of oil. Mr Rockefeller offered on behalf of the Refiners' Association to take oil at a higher price than that given by the outside refiners, on condition that the Producers would sell to the Association alone. The Producers' Association agreed, with the one stipulation that the Refiners should cease to receive rebates (a stipulation not easy to enforce). But the alliance had only lasted for a few months when the Producers' Association broke down, being unable to limit their output. 'It seemed as if Nature, outraged

that her generosity should be so manipulated as to benefit only the few, had opened her veins to flood the earth with oil, so that all men might know that here was a light cheap enough for the poorest of them.' ¹ Nor did the Refiners' Association last much longer; in 1873 the larger firms were again competing, and each struggling to gain better terms from the railroads than his neighbours. Mr Rockefeller, however, continued his own policy. He made secret agreements with firms in Pittsburg and New York, and soon had a 'Central Association' working in their joint interests. This was, in effect, a syndicate to regulate the purchases of crude and sales of refined oil, to apportion his quota to each manufacturer, and to negotiate freight rates. By this potent weapon of the rebate the majority of refiners were soon forced into the Central Association—and in the Central Association the Standard was dominant. Such was its reputation that when the first Bill to regulate Inter-State Commerce did not long survive its introduction in 1876 to the House of Representatives, the failure was immediately attributed to the influence of the Standard.

¹ Tarbell. I., p. 125.

During this period (1875-9), it became evident that the transportation of oil by pipeline was a system capable of great extension which might largely supersede transportation by railroad car. The Standard, with its usual prescience, had acquired control of several important lines, but one system, the Empire Transportation Company, was an agency of the Pennsylvania Railroad. Its manager, in the hope of preventing a complete Standard monopoly, had acquired some refineries. The Standard, outraged by this impertinence (for had not Mr Rockefeller announced 'the oil business belongs to us'?) refused to ship by the Pennsylvania, and was supported by the two rival roads, the Erie and the Central, who suddenly reduced their freight rates in the hope of tempting other shippers from the Pennsylvania. The Pennsylvania, in self-defence, had also to cut its rates, and there raged the famous 'oil war' of 1877. The manager of the Pennsylvania admitted later: 'We took anything we could get for transporting their oil,' and in one case oil was carried to New York 'for eight cents less than nothing'—that is, the rebates exceeded the nominal freight rate. But the combatants were not on equal terms, for the Pennsylvania

was hampered by a strike of its employees, while the Standard was reaping enormous profits from an oil 'boom.' Finally, the longest purse won, and at a price of \$3,000,000 the Empire Transportation Company passed into the power of the Standard. This meant that Mr Rockefeller had control of the entire pipeline system, and was able to make his own terms with the railroads.

The curious may inquire how the Standard could afford to write, at the shortest notice, a cheque for three million dollars? The explanation is simple. In 1874 there had been such a flood of crude oil on the market that prices dropped to an average of \$1.15 a barrel. The situation, however, gradually recovered, and in the summer of 1876 oil was again at three dollars. Mr Rockefeller, who by this time controlled at least ninety per cent. of the refineries, raised the price of refined oil to such a level (26 cents a gallon from 13 or 14 cents) that New York firms of exporters to European markets refused to buy. Mr Rockefeller was equally firm in refusing to sell at any lower price, and it was essential to get oil to Europe for the winter season. In November the exporters began to buy at this exorbitant price of 26 cents, and throughout

the winter they were forced to pay from 26 to 35 cents a gallon for refined oil, although the price of crude had not risen in nearly the same proportion. 'Millions of gallons of oil were sold by Mr Rockefeller and his partners at a profit of from 15 to 25 cents. The curious can compute the profits; they certainly ran into the multi-millions.'¹ They were reflected in the 'profits' of the Standard Oil Company (of Ohio), which for this year (1877) paid a total dividend of \$3,248,650 on a capital of \$3,500,000, and two years later one of the shareholders assured an investigating Committee that the company could have paid the dividend twice over without absorbing its whole profit. Hence the cheque of three million dollars to the Empire Transportation did not overstrain the resources of the company. The 'scoop,' however, spectacular as it was, had attendant disadvantages. The high prices encouraged over-production, checked the exports of oil, and induced consumers to have recourse to substitutes, such as gas or electricity. Mr Rockefeller had been less discreet than his wont: the Standard never again made an open distribution of so large a proportion of the profits.

¹ Tarbell. I., p. 190.

The producers now were forced to sell their oil to the Standard (which, as already remarked, had not allowed the price of crude oil to share fully in the boom) or to send it to the exporters in New York over pipe-lines owned and railroads controlled by the Standard. There were loud complaints of the manner in which Standard and railroad officials refused to handle oil, except on terms which left the shippers at their mercy. The producers, in despair, again combined in the endeavour to carry through a pipe-line of their own from the oil districts to the sea, and also induced the State of Pennsylvania to bring a suit against the railroads for neglecting their duty as common carriers. The testimony in this suit, and that given before the Hepburn Commission in New York (which was investigating the widespread complaints against the whole conduct of the Erie and Central roads), and before an Ohio Committee, was so startling that the Producers' Union believed it had sufficient grounds to indict Rockefeller and eight other members of the Company for 'conspiracy for the purpose of acquiring a monopoly.' If they had known of the existence of the original Trust agreement, drawn up in this

year 1879, they might have pursued the case with more success. But while the Standard used all its resources to procure delay and bring about negotiations, the energy of its opponents was dissipated in these various suits and investigations. In 1880 the suits were withdrawn, upon an agreement between the producers, the Standard, and the Pennsylvania Railroad, by which all secret rates were nominally abolished. This marked for the time the end of competition, and many producers either passed under the control of the Standard or gave up business. The only serious rival in any department of the oil business was the new pipe-line, the Tidewater, which was now carrying oil over the Alleghany Mountains to a point where it could be forwarded to New York by a railroad not under Standard control. In 1883 this last shadow on Standard prospects was removed by a contract between the two companies, apportioning the oil traffic, eleven and a half per cent. to the Tidewater, and the remainder to the Standard and its allies. With these pipe-lines to the sea the Standard was practically independent of the railroads as far as its own export traffic was concerned, and could afford to kick away the ladder by which it had

risen. It seemed to have little to fear: the monopoly was practically complete and the oil business perfectly organised by Mr Rockefeller's genius. New markets were constantly being opened up in America, Europe, and Asia, while his subordinates were men of proved ability, whose duty it was to extend and maintain those markets. The dividends, though substantial, were not so high as to attract undue attention, for much of the surplus profit was re-invested in the business. Even the passage of the Inter-State Commerce Act in 1887, and of the Sherman Act in 1890, did not cause the directors much anxiety, for, aided by their secret Trust agreement, carefully composed by skilled lawyers, they hoped to slip through the meshes of any law. This, the original 'Trust' document, was drawn up first in 1879, but in its most familiar form—the agreement of 1882—the 'stockholders and members' of some forty oil companies or 'corporations,' many of them carrying on business under their old names, but all in reality component parts of the Standard Oil Company, handed over their stock to nine trustees—Mr Rockefeller and his colleagues of the Standard—in return for Trust certificates. Dividends were paid

upon these certificates as upon the original stock, but the only power remaining to the holders was that of electing the trustees. 'It shall be the duty of said trustees,' declared the agreement, 'to exercise general supervision over the affairs of said Standard Oil Companies and as far as practicable over the other companies or partnerships, any portion of whose stock is held in said Trust. It shall be their duty as stockholders of said companies to elect as directors and officers thereof faithful and competent men. They may elect themselves to such positions when they see fit to do so. . . . Each trustee shall be entitled to a salary for his services not exceeding twenty-five thousand dollars per annum, except the president of the board, who may be voted a salary not exceeding thirty thousand dollars per annum.'¹ The wording of the agreement was so framed as to make it possible to maintain that the transfer was the work not of the several Standard Oil and other Companies but of the individual stockholders, and that the Trust was not responsible for the actions of the corporations nor the corporations for the actions of the

¹ Standard Oil Trust Agreement, 1882. Sect. III., §§ 15 and 18. Report of Industrial Commission. Vol. I., pp. 1221 foll.

Trust. This was the plea put forward by the defendants when the Attorney-General of Ohio in 1890 prosecuted the Standard Oil Company of Ohio for infringing the laws of that State by transferring its stock to trustees domiciled elsewhere.

But though the Standard had won power, it had not won popularity. Wherever oil producers or retailers met together tales were told of its ill-deeds—of illegal rebates from the railroads, of extortionate charges to independent users of its pipe-lines, of works bought up by *force majeure* and dismantled, of bribes to legislatures and to lawyers, of attempts to make employees of rival firms betray their masters' business, of oil sold at a loss in one district to stifle competition, and at an exorbitant profit in another where the Standard was secure. Nothing was too bad to be believed of the Standard, and some of the tales were the mere inventions of malice or disappointment. But others were well attested. One agreement in 1876 with a Cleveland refinery to share profits and restrict production had been organised with all the secrecy of some dark crime. It was signed under cover of night, and all correspondence was carried on under fictitious names. They

must not even tell their wives of the agreement, said Mr Rockefeller to the members of the firm, and they must not spend their profits too lavishly. Any unusual display of wealth would attract competition in the oil business. On the non-competitive basis of the agreement this one firm made profits of about £150,000 (\$630,000) in four years. Of these profits Mr Rockefeller took half, in return for his investment of \$10,000 and his influence with the railroads. These facts were revealed when Mr Rockefeller sued the Company in 1880 for breach of contract—they had exceeded their allotment of refining! The Courts, of course, refused to enforce the agreement, as being one in restraint of trade.¹ Another notorious case was that of the Cleveland and Marietta Railroad. Mr George Rice, an independent refiner of Marietta, Ohio, one of the Standard's most tenacious and courageous opponents, was able to prove in Court that in 1885 the Standard persuaded the receiver of this line (which was in liquidation) not only to charge a freight rate of ten cents a barrel on Standard oil and thirty-five cents on independent oil, but also to pay the Standard itself the whole of the extra

¹ *Standard Oil Company v. W. S. Scofield et alii.*

profit made by this charge. In his eagerness to keep the Standard trade, the receiver agreed. In all, \$340 was paid to the Standard from profits on the carriage of Mr Rice's oil and more than \$600 each from the freights of two other firms. In October, 1885, Mr Rice sued the railroad; and the Standard, anticipating the judgment, refunded the amount by cheque, and later, the sums due to the other refiners. It was explained afterwards, in evidence before the Industrial Commission, that the affair arose from an agent's 'error,' which apparently was not discovered until eight months had elapsed and the law suit had begun. There is little wonder that the Hepburn Commission in 1879, weary of witnesses' evasions, had described the Standard bitterly as 'a mysterious organisation whose business and transactions are of such a character that its members decline giving a history or description of it lest this testimony be used to convict them of a crime.'

With such cases as these to point its judgment, the Supreme Court of Ohio in 1892 declared the Trust to be an attempted monopoly, and as such contrary to public policy and void. 'It may be true that it has

improved the quality and cheapened the cost of petroleum and its products to the consumer. But such is not one of the usual or general results of a monopoly; and it is the policy of the law to regard, not what may but what usually happens. Experience shows that it is not wise to trust human cupidity when it has an opportunity to aggrandise itself at the expense of others.’¹

The original Ohio Company thus being barred from a share in the advantages of the Trust, the trustees decided upon dissolution, and formulated an ingenious scheme by which they continued in office to carry out the liquidation. They performed this with such deliberation that between 1892 and 1897 only one share in the Ohio Company was cancelled. In the latter year the untiring Mr Rice inspired the Attorney-General of the State to bring suit against the Company for its failure to dissolve, with the result that more than one hundred thousand shares were cancelled in the three months following the opening of the suit. When stock was returned, moreover, in exchange for the Trust certificates, it was not the original holding in one of the constituent corporations,

¹ *State of Ohio v. Standard Oil Company*, 1892.

but a proportionate share in each corporation. Thus the largest holders (who were the nine trustees and their colleagues) still controlled the *disjecta membra* of the Trust. 'By purely informal harmony,' says Mr Montague, 'a unity of action among these corporations was maintained.'¹ To the plain man, the dissolution appeared a mere farce. Informal harmony, however, had its inconveniences, and in 1899 advantage was taken of the easy virtue of still further amendments to the New Jersey Corporation Law to organise the Standard Oil Company of New Jersey as a 'holding corporation' to which the stocks of all the Standard companies were transferred. The capitalisation of this parent corporation was \$100,000,000, in hundred-dollar shares, which during the last fourteen years have stood at prices from seven and a half to four and a half times their par value, while the annual dividends since 1899 have averaged 45 per cent.

Nevertheless, the recent progress of the Trust has not been entirely triumphant. Its arrogant prosperity has tempted rivals into the field. It is true that it controls at least eighty per cent. of the United States

¹ *Rise and Progress of the Standard Oil Company*, p. 127.

oil production, but in 1901 the independent producers and refiners succeeded in carrying a free pipe-line (the 'United States') through to the coast at Bayonne, New Jersey, in the face of strong opposition from the railroads. Having thus an outlet for its export trade the combine of independent producers, the 'Pure Oil Company,' was able to strengthen and extend its markets in Europe. This company, formed in 1895 and enlarged in 1900, was also elaborately organised in Trust form, to prevent any intrusion of the hated Standard interests. It is, however, at the present time a common report in America that the Pure Oil Company has been secretly acquired by its giant rival, although there is no definite proof of this assertion.

The Scotch, Burmese, Russian, and Mexican oil producers have also resisted Standard aggression; indeed, in the English and Eastern markets the Shell Transport and Trading Company, and in Mexico the English-owned Eagle Oil Company, have dealt the Trust some shrewd blows. The latest development has been the proposal of the German Government to form an Imperial petroleum monopoly, and even to take over the Deutsche-Amerikanische Petroleum-

Gesellschaft, which represents Standard interests in Germany.

Nor, at home, could the Trust escape the attention of the Federal and State Governments. The Industrial Commission declared that the Trust had its origin in railway discrimination, and recommended that the receiver as well as the giver of such favour should be punishable at law,¹ while Professor Jenk's penetrating analysis of oil prices disposed of its claim to be a beneficent purveyor of cheap oil. This was followed by two extremely searching and damaging reports by Mr Knox-Smith and Mr Garfield, the successive Commissioners of the newly-formed Bureau of Corporations, *On the Transportation of Petroleum*, 1906, and *On the Petroleum Industry*, 1907. The first asserted, and brought detailed evidence to prove, that 'the Standard Oil Company has habitually received from the railroad companies, and is now receiving, secret rates and other unjust and illegal discriminations.'² The second, with equal vigour and equal wealth of detail, described the Company as an organisation which had aimed, with almost complete

¹ Industrial Commission, Vol. XIII., pp. 361, 482.

² Report, p. xxi.

success, at the monopolisation of the petroleum industry by a dozen men who reaped enormous profits, and at the destruction, 'by vexatious and oppressive attacks,' of all competition.

Meanwhile, an amendment to the Inter-State Commerce Act—the Elkins Law of 1904—followed out the recommendation of the Industrial Commission and declared the receiver of railway rebates guilty of a misdemeanour. Under this law the Standard Oil Company of Indiana incurred a fine of \$29,240,000 (or £6,000,000) in 1907. Vengeance, however, over-reached itself, for this subsidiary of the parent company had a capitalisation of only \$1,000,000, and its appeal to the Supreme Court was successful.

In 1906 the New Jersey Company itself was attacked, as a combination in restraint of trade, by the United States Government in the Circuit Court of Missouri. The Court in 1909 ordered the dissolution of the company, and its decision was confirmed on appeal by the Supreme Court on May 15, 1911.

The dissolution was carried out, and the Rockefellers resigned from the New Jersey directorate, but many complaints followed (some of which are being put to the test in Courts of Law) that it was merely nominal,

and that behind figure-head directors on many of the subsidiary companies the Standard interests are still dominant. The chief result up to the present has been the distribution of huge cash dividends and bonuses to the stockholders of the companies on their reorganisation. The New Jersey Company in February, 1913, paid \$40 a share, making a dividend in all of 67 per cent. since December, 1911. Upon this distribution the \$100 shares in the market rose sharply. The Indiana Company, already mentioned, in March, 1912, increased its capital from \$1,000,000 to \$30,000,000, and the Vacuum Oil Company, another constituent corporation, in June, 1912, from \$2,500,000 to \$15,000,000. The official explanation is that in the general reorganisation assets have been realised and debts collected, from which this new (or newly-revealed) wealth is derived. It remains to be seen whether such disclosures will attract fresh competition in the oil trade, and whether the Trust in its present state of dissolution will be less successful in maintaining its power.

Such is the history of the Standard Oil Company during the forty-two years of its life. It has grown from a small provincial

refinery to a huge organisation controlling the American oil trade and stretching its tentacles over almost every country of the globe. The red wagons of its subsidiary, the Anglo-American Oil Company, are as well known in the villages and towns of England as the steam-roller or the railway lorry. The Colonial Oil Company in South Africa, the Deutsche-Amerikanische-Gesellschaft in Germany, the Imperial Oil Company in Canada, and the Waters-Pierce Company in the Southern States and Mexico, are all mere representatives and agents of the Standard.¹ And though the importance of oil as an illuminant is waning, its use as fuel and as petrol spirit for motors has more than compensated for the decline. The following figures, taken from *The Economist* of April 20, 1912, show England's interest in the matter:—

IMPORTS OF PETROLEUM INTO UNITED KINGDOM
(in Million Gallons).

	Lubri- cating Oil.	Lamp Oil.	Spirit.	Gas Oil.	Other Oil includ- ing Fuel.	Total.
1903 .	44·3	171·3	9·9	53·6	6·6	285·7
1911 .	60·5	142·5	68·1	58	36·5	365·6

¹ Recent telegrams from New York (June, 1913) assert that since the dissolution of the Trust the Waters-Pierce Company has been 'independent,' and that it has now been acquired by Rothschild interests for the purpose of fighting the Standard.

It will be seen that while imports of lamp oil have dropped by 29,000,000 gallons, petrol has risen by 59,000,000, and the demand for oil fuel is chiefly responsible for the increase in 'other oil' of 30,000,000 gallons.

The opponents of the Standard do not deny that under any system the company would have made large and well-deserved profits, that it is organised to the highest pitch of efficiency and economy, and that there is keen internal competition between the different firms to show the best results. Nor do they deny that Mr Rockefeller in private life is a man of unostentatious character, who spends little of his enormous wealth on himself, but large sums on charity, on his foundation, the University of Chicago, and on the American Baptist Church, of which he is a devout member. But they assert that neither efficiency nor benevolence can excuse the methods by which the company has reached its present position, or make that position anything but a menace to the freedom of industry and of the State itself.

The Industrial Commission in 1901 could assert, without fear of contradiction, 'the custom has regularly been for some years for the Standard Oil Company to announce from

day to day the price which it would pay for crude petroleum and the price at which it would sell refined petroleum. This price is generally accepted as the market price and competitors follow.¹ Its influence in politics, though less open, is everywhere admitted.² And in another direction its power is fraught with grave danger. Its huge profits pass mainly into the hands of the small body of men (estimates of the number vary from ten to forty) who are the largest shareholders and control the management. Most of these profits are re-invested. 'Standard' interests are said to control railroads with a total capital of £400,000,000; its members have large holdings in the Steel Corporation, the Sugar Refining Company, Amalgamated Copper, the International Salt Union, several gas companies, and important banking corporations. The Scriptural injunction to make friends with mammon has been very literally fulfilled by Mr Rockefeller and his colleagues, and it is obvious that the mere possession of such power over industry and finance, apart from the unscrupulous use to which it has been put, is a grave danger to the American State.

¹ Industrial Commission., Vol. I., p. 18.

² See chap. viii. *infra*.

It remains true that the two great advantages of the Standard have been due, one to the caprice of nature, the other to the avarice of man. In the early days of the industry it was impossible to monopolise the supply of crude oil, for new wells were constantly discovered; but as they were concentrated mainly in one area, this fact gave better hope of control over the marketing and refining of the crude product. The unscrupulous competition of the railroads, by tempting them to give rebates to important shippers, was the second favouring circumstance which brought about the monopoly and raised the Standard to a secure height of power.

CHAPTER IV

TRUSTS IN AMERICA—*Continued*

These industrial combinations do everything they please—raise and lower prices according to their own will, and to the injury of small merchants.—MARTIN LUTHER: *Trade and Usury.*

1. *The United States Steel Corporation.*—The iron and steel industry of the United States in its present form is due to three influences, operating with varying force at different periods of last century. They are—the protective tariff, the rich and concentrated ore deposits of the country, and the possession by manufacturers of highly valuable patents and processes. The industry was a thriving one in colonial days (Alexander Hamilton singled it out as a case where the assistance of duty or bounty was not required), but from 1815 onwards the charcoal-smelted iron of America had to meet the competition of the coke-iron of Europe and especially of Great Britain. From 1818 to 1833 the American

product was protected by heavy duties (equivalent to forty or fifty per cent. *ad valorem* on pig-iron and a hundred per cent. on bar-iron); but these duties, though they raised the price of iron, had little effect either on the quantity imported or on technical improvements in manufacture.¹ In the period 1833-40 the tariff was reduced. At the same time the use of anthracite coal for the furnaces was introduced both in England and America, and the manufacture of iron at once began to make astonishing progress. It was again protected heavily from 1842 to 1846, and more moderately (thirty to twenty-four per cent. *ad valorem*) from that time to the Civil War. Owing to the vast railroad expansion which began in the 'forties and continued for half a century there was an almost unlimited demand for iron. Nearly a million tons net were produced in 1860 (the estimated production in 1820 was about 20,000 tons), while imports remained heavy. Under the stress of the Civil War duties averaging nearly fifty per cent. were imposed on most branches of manufacture, including iron, and though the internal taxes were remitted at the close of the war the tariff remained substantially

¹ Taussig. *Tariff History of the United States*, chap. v.

without change until 1883, when the duties on iron and steel materials and manufactures were reduced. But, as Professor Taussig remarks, a contemporary fall in prices made the reduction almost nominal.¹ The intricacies and extravagances of the later tariffs need not detain us here. They can scarcely be said to have 'protected' the full-grown industry from foreign competitors. Rather the tariff walls formed a ring fence within which rivals in the home trade fought one with another. Under cover of these same walls when their differences were composed, their bands carried through raids on the buying and investing public.

It was in this period that the natural advantages of the country first began to influence production. Perhaps in no other territory are there richer mineral deposits. From the great beds of ores in the Lake Superior region come some eighty per cent. of the iron manufactured in the States, there are others in the States of New York and New Jersey, and very extensive deposits in the South, in Tennessee, and Alabama. There are also great stores of anthracite and bituminous coal, and although the fields are

¹ Taussig, *op. cit.*, pp. 244-6.

seldom near the iron deposits, yet the cheapness and speed of American transportation and the magnificent waterways of the country have prevented distance from delaying progress. In many cases, as at Pittsburg, the ore is brought to the coal and not the coal to the ore. When we consider in addition the ability of the leaders in the iron trade and their readiness to adopt new processes and inventions, we cannot wonder that the United States leads the world in the volume of its iron and steel production.

Under the shelter of the tariff new firms were tempted into almost every branch of iron and steel production during the '70's and '80's, and under stress of competition and diminishing cost of production prices fluctuated wildly. In the attempt to remedy this, informal price agreements arose in most branches of the trade, and many of these developed into pools which met with varying success. The Wire Nail Pool of 1895-6 may be taken as an example. The business was chiefly in the hands of a few large companies, who each complained bitterly of ruinous competition. As small firms, however, still survived, the complaint probably meant merely that the high profits of earlier days

had passed away. In any case the makers were willing to listen to any one who would promise them increasing returns. In May, 1895, practically all the firms in the trade entered a pool without, as their official announcement declared, 'any intention of advancing prices unreasonably.' At that time the price of the largest nails in the trade was nominally 85 cents per hundred; in reality various 'extras' made the average \$1.45. In June it had risen to \$1.20 (nominal), and in July to \$1.55. From September, 1895, to March, 1896, the price was quoted at \$2.85, from March to May at \$3, and from May to November at \$3.15. At this point the pool broke, and prices tumbled rapidly to \$1.55. The break was due to the usual circumstances: the sharp rise in prices had greatly disturbed the market and brought outside producers again into the field. Some of these were bought out at heavy expense, but others followed, and throughout the last months of the pool sales were openly made at prices far below those fixed by its members. The older form of 'cut' nails had almost been driven out of the market, but the machinery for their manufacture still remained, and the pool had to spend large sums 'in paying

the owners of these old cut-nail machines to keep them idle.'¹

The pool certainly exacted higher prices for a longer period than seemed probable at the outset, partly because observers were so convinced that the policy was dangerous that several months went by before new competition was attracted. Also, as the cost of nails is a comparatively small item in building, the restriction in demand did not at once make itself felt, while the duty on imported nails prevented any attempt at foreign competition. There is no doubt that the pool made high profits for its members, but these were unaccompanied by any economies or improvements in production, the building trade was hampered, the retail trade in nails was embarrassed, half or two-thirds of the workmen in the trade, it is estimated, were thrown out of work, and at the close of the pool prices returned to their old level, while the competition which the pool had hoped to check again prevailed.

The prices of many other iron and steel products rose sharply at this period, owing partly to other pools formed after the example of the Wire Nail Association. The Bessemer

¹ Ripley. p. 53.

Steel Association (for steel billets) maintained an unsuccessful pool from April to December, 1896, and another in steel beams (1896-7) was also a failure. A rail pool has had a longer life, lasting, with occasional breaks, from 1887 to the present time. The industry enjoys heavy protection and is in the hands of a small number of firms, so that prices are under the makers' control, while the demand for rails is almost unlimited. In most of these cases, Mr Meade has shown, the prices which follow the dissolution of a pool are often lower than those which stimulated its formation.¹ He illustrates this from the history of steel rails. In 1895 their average price was \$21 per ton; the re-organised pool raised this to \$27.50. When it broke in February, 1897, rails were sold at \$17, and did not reach \$21 again until January, 1899.

The M'Kinley Tariff of 1897 and the general trade revival of 1897-8 led, as already remarked, to a great outburst of combination, which was favoured by the further amendment of the New Jersey Corporation Law in 1899. The company promoter was in his element, and his activities were especially marked in the iron and steel trade, where at

¹ Meade. *Trust Finance*, p. 28.

the opening of 1901 consolidation had transferred 'to less than a dozen concerns more than one-half of the steel-making capacity of the country.'¹ Apart from the Carnegie Company, which occupied a position of its own, there were formed the Federal Steel Company (a creation of Mr Morgan with the then unprecedented capitalisation of \$99,000,000) and the National Steel Company, both engaged in the primary processes of manufacture; and the National Tube Company, the American Steel and Wire Company, the American Tin Plate Company, the American Steel Hoop Company, and others, which produced finished goods and were largely supplied by the former companies. These were all holding corporations. There was an enormous demand for all kinds of steel, for rails, for bridges, for railroad cars, and for the framework of those immense buildings which dominate American cities. Prices rose rapidly, and these companies were floated in a period of high prices and abounding prosperity. Their capitalisation reflected the prevailing optimism. To make their position safe it was necessary that high prices should

¹ Report of the Commissioner of Corporations on the Steel Industry, p. 79.

continue, that competition should be absent, and that the profits of the corporations should be applied to the further development of their business. But this policy was difficult and unpopular. Six of these companies in 1900 had a total bonded debt of \$39,000,000 and a capital stock of \$408,000,000, nearly half of which was preference stock. For the sake of popularising the stock in the investment market dividends were regularly paid on the preferred stock throughout this early period, while reserves were accumulated only to the amount of \$32,000,000. None of the 'water' had been squeezed out from these securities. At this point there occurred a slight reaction in steel prices in the autumn of 1900, and the first hint of more pressing competition—from the Carnegie Company.

The movement in the trade towards 'horizontal' combination—pools and corporations—had been accompanied, and indeed preceded, by a policy towards 'vertical' combination or integration, in which a company made it its aim to control the production of steel from the extraction of ore and coal to the delivery of the finished article, and thus to gain independence of price fluctuations in the

raw material. In some cases this was partly attained by 'informal harmony.' Morgan interests, for example, were represented both in the National Tube and the Federal Steel Companies, and the former obtained its coal and ore from the latter. The Carnegie Company, however, of Pittsburg, was the most successful exponent of this policy. Owning valuable patents, and controlled by some of the ablest business brains of the time, its rise had been spectacular. But its immense profits had been mainly devoted to the extension and consolidation of the business. In addition to the great mills, 'all new modern machinery, no men hardly,'¹ it owned coal and ore beds of the richest quality, quarries, railroads, and a small navy of steamers and ore ships on Lake Erie. It produced ten per cent. of the world's steel, and was certainly the leading steel manufacturer in the United States, if not in the world. Hence it was with dismay that the financiers interested in the new Steel Trusts heard towards the end of 1900 that Mr Carnegie was proposing to safeguard his own market for steel by

¹ Evidence of Mr Carnegie before the Stanley Committee, 1911-12.

himself manufacturing tubes and other finished products and by building a new railroad by which he could ship them to the sea. This, the financiers feared, would 'demoralise' the steel trade and the railroad situation; or, as the Chairman of the Stanley Committee put it more crudely, would 'give Morgan trouble both with his manufacturing industry and his common carrier.' A period of falling prices was not a time in which to fight with success. Thus arose the great scheme to buy out Mr Carnegie, and to 'trustify' the whole steel industry of the United States from the ore bed to the ship. The importance of the Carnegie proposals as a factor in that decision has been denied by Mr Gary,¹ but the weight of evidence seems to prove that whether they were genuine or whether (as some members of the Corporation hinted later) they were made to induce Mr Morgan to buy, they certainly precipitated matters. The United States Steel Corporation was formed with an original capital of \$10,000 and gradually extended. 'As each concern came in they would increase a few million or a few hundred millions.' The Corporation included the Carnegie and Federal

¹ Evidence to Stanley Committee, 1911-12.

Steel Companies, the National Tube, National Steel, American Steel and Wire, American Bridge, American Sheet Steel, American Tin Plate, and American Steel Hoop Companies, and the Lake Superior Consolidated Iron Mines, generally known as the 'Rockefeller interests.' Their total capitalisation as separate corporations was approximately \$720,000,000, but United States Steel was launched with a capitalisation of \$1,100,000,000—the 'Billion Dollar Trust.' This excess was accounted for partly by the inflated prices paid for the properties acquired, and partly by the enormous expenses of the promotion and of underwriting—at least \$150,000,000.¹ The largest price was, of course, paid to the Carnegie Company, the 'bull in the china shop,'² which must be quietened at whatever expense. The company was acquired for \$420,000,000, of which Mr Carnegie himself got \$213,000,000 in United States Steel bonds. On this ('all the money I ever want to make') he retired from business to cultivate philanthropy. Telling this story to the Stanley Committee, he added that he had since found 'that it takes a great deal more anxious

¹ Report on the Steel Industry, p. 39.

² Gates. Evidence to the Stanley Committee, 1911-2.
T.S.T. F

thought and labour to distribute money wisely than it ever did me to make it.’¹ There have been lively discussions between Mr Carnegie and the promoters of the Corporation concerning the relation between the price paid and the real value of the property. Later, Mr Gary confessed ruefully that ‘if we paid too much we could not help ourselves; we could not get them without.’² ‘Mr Carnegie had all the plums,’ said another observer.

The new board of directors included not only the leading steelmakers of the subsidiary companies, but representatives of powerful financial and railroad interests, including, of course, Mr Morgan, Mr Rockefeller, and other ‘Standard’ men. The railroads under Mr Morgan’s control and the canning and pipeline activities of the Standard would presumably be good customers of the Steel Corporation.

The subsequent history of the Corporation may be traced in the accompanying table, the figures of which are taken from *The Economist*.³

¹ Carnegie. Evidence to Stanley Committee, 1911-2.

² Gary. Evidence to Stanley Committee, 1911-2.

³ *The Economist*, April 6, 1912; April 12, 1913.

	Net Income Mill. \$	Divi- dends Mill. \$	Rate on Common Stock %	Surplus Mill. \$
1901* .	60	42	2†	18
1902 .	90	56	4	34
1903 .	60	43	3½	17
1904 .	31	25	nil	6
1905 .	68	25	nil	43
1906 .	98	35	2	63
1907 .	115	35	2	80
1908 .	45	35	2	10
1909 .	79	45	4	34
1910 .	87	50	5½	37
1911 .	55	50	5	5
1912 .	54	50	5	3

* 9 months.

† For half-year.

In the fullness and publicity of its accounts the Steel Corporation sets a good example to other American Trusts.

For stock-market reasons it was considered necessary to pay dividends on the common stock at first to improve the financial standing of the Corporation. 1904 was a year of bad trade, when in any case it would have been necessary to pass the dividend, and the large surpluses of the next three years were mainly re-invested in the constituent businesses. The small surplus in 1908 reflects the severe crisis of 1907-8, but the conservative policy of improving the property was immediately resumed. So successful has this been in

'squeezing out the water' that, according to the recent Report of the Bureau of Corporations on the Steel Industry, the real value of the properties is about \$1,187,000,000, while the capitalisation is now about \$1,402,000,000, an excess of about \$215,000,000. The average rate of profit throughout the Corporation for the eleven years has been 12 per cent., a result due not so much to the undoubted efficiency of management in its branches as to its determined effort to maintain high prices. One unintentional result of this policy has been to call fresh competition into the field, and the Corporation's share of the total industry has decreased. From an average of sixty per cent. in 1901 it had fallen to about fifty per cent. in 1910. It indeed seems evident, from the high capitalisation of the Corporation and from the inflated prices it has at various times paid for new ore lands, that it expected to maintain values at a high level. Its control of coal and iron deposits has been a factor in its monopolistic power, but this has grown less important since the general use of the 'open-hearth' process, which can utilise an inferior quality of iron. Since the first incorporation the Steel Trust has acquired three new properties,

one, the Tennessee Coal and Iron Company, under somewhat notorious circumstances. It was taken over from a speculative syndicate in the midst of the crisis of 1907 on the plea that its stock was among the assets of an important New York firm which would fail and precipitate a panic unless it received immediate financial support. The Corporation acquired the company at a high price, on receiving an assurance from President Roosevelt that the Government would not consider the absorption a violation of the Sherman anti-Trust law. Afterwards it appeared that neither the difficulties of the firm nor its holdings of Tennessee stock were as great as had been supposed at the time. The enemies of the Corporation pointed out that by the purchase it had added to its resources nearly half a million acres of valuable mineral (coal and iron) land. Other charges against the Corporation—for example, its treatment of labour, and its ‘dumping’ of its goods in Europe below the American price—will be considered in a later chapter. But a corporation which was the child of the late Mr Pierpont Morgan, and which included Mr Rockefeller amongst its first directors, has never been accused of inefficiency. A considerable amount

of Government attention has been given to the Trust. The Reports of the Commissioner of Corporations (1911-2) and the Stanley Committee's Investigation of the same year throw much light on its present position. Both Committee and Commissioner report that in intent the Trust is essentially a monopoly both in its control of raw materials and of prices. Its influence over the latter extends far beyond its own fifty per cent. of production. The so-called 'Gary dinners' which have been held since 1908 have formed occasions for the consultation of the Trust with outside makers. The result has been an informal 'pool,' which has maintained and, where possible, raised prices. Since 1904 there have been 'international' understandings with various important European firms, by which the parties concerned have not trespassed on each other's home markets, but have concentrated their attack on 'neutral' (*i.e.* non-producing) markets, such as Russia and South America. With such facts as these in view, President Taft's Government in 1911 began the prosecution of the Trust under the Sherman law. Some interesting evidence has been heard—Mr Corey, a former President of the Corporation, testifying not only to the

price policy of the Gary dinners, but also that it was the acquisition of the Tennessee Coal and Iron Company which first brought in the Corporation as a competitor in the manufacture of 'open-hearth' steel.¹ Yet even if the suit ends in a decree for the dissolution of the Trust, it will probably prove as ineffectual as the recent proceedings against the Standard Oil and American Tobacco Companies. A more serious attack has been made, under President Woodrow Wilson, in the provisions of the new Tariff Bill at present under discussion in Congress. By this Bill, on the one hand, the raw material of the industry, pig-iron, is placed upon the free list of imports; but, on the other, steel rails are also free, and the duties on other important products endure drastic reductions. The industry as a whole should benefit by increased supplies of raw material. The other changes in the tariff will no doubt bring prices to a more natural level by making European competition a reality. It will be interesting to see whether the boasted efficiency of the Steel Trust will enable it to maintain its position in these changed circumstances.

¹ *United States v. United States Steel Corporation*—hearing, January 23, 1913.

Thirteen years ago it was asserted before the Industrial Commission, by Mr Guthrie of the Steel Hoop Company, that the American steel manufacturer could beat the Englishman in the English market 'and make money.'¹ And in 1908 Mr Carnegie reiterated the assertion (in the *Century* magazine and before the Committee of Ways and Means at Washington) that the steel industry with its improved methods of production no longer needed the protection of the tariff.

2. *The American Tobacco Company.*—The history of the American Tobacco Company is interesting for two reasons. It affords copious illustrations of the methods at times employed by Trusts to extirpate competition; and it includes two other histories of defensive combinations which the Trust's activities evoked against itself, the one in England and the other amongst the growers of Kentucky. The growth of the Company occupied twelve years; before 1890 the more important brands of American cigarettes were manufactured by five concerns, between whom there was acute competition. In that year they were combined into the American Tobacco Company of New Jersey with a capitalisation

¹ F. W. Hirst. *Monopolies, Trusts, and Kartells*, p. 134.

of twenty-five million dollars, a sum which most investigators of the Trust consider to have been excessive. It controlled at least ninety-five per cent. of the American production of cigarettes, and after three years spent in consolidating its forces it extended its operations into the plug tobacco trade. A 'plug war' followed for five years (the story of the company has throughout a strong military flavour), in which the plug manufacturers and the company cut prices, until the latter alone is said to have lost \$4,000,000. But by the end of the campaign in 1898 it had acquired some of the chief establishments in that branch of the trade, and in company with the leading plug manufacturers a new Trust was formed, the Continental Tobacco Company, to acquire interests throughout the tobacco trade. Its capitalisation was \$75,000,000 (later, \$100,000,000), and it was under the same direction as the American Company. During the next few years these two allies bought up and closed the works of at least thirty competitors, private firms and corporations, whose members had to give guarantees that they would not attempt to re-enter the trade. The Trusts are said to have expended some \$50,000,000

on this policy. Other methods employed to check competition were the 'factory agreements,' by which the wholesale dealers were induced by commissions to sell at fixed prices, and, where possible, not to buy from any other firms. Before 1897 a large number of dealers lost their contracts with the Trust by selling opposition goods or cutting prices.¹ In 1901 the Trust, seeking new worlds to conquer, crossed the Atlantic and purchased the business of Ogden's, Ltd., one of the largest English concerns, and began to cut prices. In their alarm, the thirteen chief English firms combined in the Imperial Tobacco Company with a capital of £14,000,000, to which the great firm of Wills of Bristol contributed nearly £7,000,000.

For a year the 'Tobacco War' was fiercely waged, and both companies tried to gain the victory by cutting prices and by distributing bonuses to their retailers. But the sympathy of the retail trade and of the public was with the English Company, and when it prepared to carry the war into the enemy's country by purchasing a tobacco factory in Virginia, the American Trust thought it wise to make

¹ Documents quoted in Stevens, *Industrial Combinations and Trusts*, pp. 127-30, 145-9.

terms of peace. In September, 1902, two famous treaties were signed: by the one, Ogden's, Ltd., amalgamated with the Imperial Tobacco Company, which, on promising not to compete in the United States, was left in undisturbed possession of the English market; by the second, the Imperial and American Companies combined their export business in a third Trust, the British-American Company, for the extension of their markets in their several colonies and dependencies. The company was registered in the United Kingdom, although the American Company held a two-thirds control. The total capital was £6,000,000. The career of the English Company has on the whole been prosperous. One resultant economy has been very noticeable. Advertisements of tobacco brands have almost disappeared from hoardings, public conveyances, and the periodical press, and those that remain are chiefly due to the efforts of competitors to obtain a footing in the market.

The American retailers, thus abandoned to the mercies of the Trust, began in their turn to resist, and to do their utmost to favour independent manufacturers. A large section of the public have also avoided brands known to be made by the Trust, and this was

especially the case among working-men, who disliked it for its hostility to trade unions. Taking advantage of this, independent manufacturers often advertised their goods as 'union-label,' or 'not made by the Trust.' By a refinement of tactics, the Trust in its turn took advantage of popular sentiment by secretly acquiring several of these concerns while allowing them to remain for some time apparently independent, and to continue their advertisements. More than twenty firms were absorbed on these terms during the period immediately following the British agreement.¹ By these and similar means in the period 1899-1908 the Trust became master of at least 250 tobacco concerns, its capitalisation increased to \$316,000,000, and it controlled about eighty per cent. of all branches of tobacco manufacture in the States, while the insubordinate retailers were punished by the establishment of 'United Cigar Stores,' which carried Trust methods into that department of the trade.

Meanwhile the Southern tobacco growers were also suffering from the Trust, which was practically the only buyer of leaf tobacco in

¹ Report of the Commissioner of Corporations on the Tobacco Industry, 1911.

the market and could make its own price. The planters of Kentucky and Tennessee determined to fight monopoly by monopoly. In 1907 they formed a pooling association to hold their crops out of the market until a fair price could be obtained, and to restrict the area planted for 1908. The local banks made advances on the security of the tobacco, from which the organisers of the pool paid instalments to the members. This policy was successful in raising the price of raw tobacco, whereupon some growers who had remained outside or left the pool began to sell their stocks. This led to grave disorders in the country districts. Bands of masked horsemen ('night-riders') assaulted these independents, destroyed their growing crops, burnt their barns, and in some towns attacked and burnt the warehouses of the Trust. The Growers' Association declared that it was in no way responsible for this campaign of riot and intimidation, but pursued its own policy, while prices soared to double, and more than double, their former level. At last the British Company bought up this 1907 crop at an almost unprecedented price. The high prices were of course passed on by the Trust to the consumer, and complaints were so loud that

a Government prosecution followed. In 1908 the Trust was declared an illegal organisation in restraint of trade, and after a protracted appeal the Supreme Court confirmed the decision and issued a dissolution order in 1911. The Trust, with cheerful alacrity, prepared a scheme of dissolution which was accepted by the Attorney-General, amid protests from all the independent companies, who declared that there was nothing in the scheme to safeguard competition or to prevent the influences dominant in the Trust from regaining control of the industry within a very short period.

Their criticism was given additional point by the Report on the history and management of the Trust, issued about the same time by the Bureau of Corporations. This Report not only set forth the methods of competition and the price extortion practised by the company, but described in detail the way in which it had inflated its capital and increased its profits by financial manipulation. Whenever earnings increased, new securities were issued to the stockholders. Thus one of the original members of the Trust has increased its capital from \$250,000 in 1885 to \$22,000,000 at the present time. The profits

of forty-eight small but fairly prosperous independent businesses for the last few years have averaged sixteen per cent. on tangible assets; those of the American Tobacco Company have averaged forty-one per cent. As profits in the years before the Trust were from fifteen to eighteen per cent., the effect of the monopoly is evident. The consumer has not benefited in the slightest degree; for years there have been loud complaints of higher prices, reduced size of packages, and inferior quality of tobacco. Probably only the fact that tobacco is a luxury and that its consumers distribute their patronage over so many different blends and varieties prevented the discontent from gathering to a head and forcing the Government to take action (ineffective though it has proved) earlier. Since the dissolution the Trust has carried on many of its operations through the British-American Company, which has its headquarters in London, and thus is immune from the Sherman law.

3. *The 'Money Trust.'*—In the winter of 1912-3 American interest in Trust matters was diverted from the long-established and admitted monopolies to one whose very existence was strenuously denied. It had been

evident for some time that a few great financial houses in New York, Boston, and Chicago had much influence in the chief industrial corporations and railroads, and the part of *deus ex machina* played by the late Mr Pierpont Morgan during the crisis of 1907 showed to what extent the control of money and credit was concentrated in a few hands. The *New York Evening Post*¹ has recorded the impression made 'by the command Mr Morgan seems to have taken of the panicky situation, and the ease with which he was able to gather some \$25,000,000 and distribute it almost within the twinkling of an eye in such a way that the rate for call money dropped practically instanter from over 100 to 6 per cent. and less.' Such power in the hands of members of great corporations might mean not only undue extensions of credit to the corporations themselves, but unjust refusals of credit to their competitors.

The National Monetary Commission has had these conditions under review for a considerable time, but in the autumn of 1912 the Federal House of Representatives appointed a Committee of its own—known as the 'Pujo Committee,' from the name of

¹ November 20, 1912.

its chairman—to investigate banking and currency matters. The general facts which emerged were held by the Democrat majority on the Committee to prove the existence of a 'Money Trust.' Eighteen financial houses in New York, Boston, and Chicago were represented by one or more directors on the boards of one hundred and thirty-four corporations, the capitals of which aggregated \$250,000,000. In many cases the same individuals were directors in several companies, and these 'interlocking directorates' were considered by Mr Untermeyer, counsel for the Committee, to indicate substantial control. In addition, Mr Morgan's firm and its associates were largely represented in and indeed have often organised the 'voting Trusts' which chose the directorates of many corporations.

Mr Pierpont Morgan himself, in December, 1912, gave evidence before the Committee, and declared with energy that there was no monopoly control. 'There could be no Money Trust. All the banks in Christendom could not control money. The question of control is personal as to money and credit.' Nevertheless Mr Morgan very frankly made admissions of great importance. When he took over the

Equitable Life Assurance Society from Mr Ryan (of Tobacco Trust fame), 'I told him I thought it was a good thing for me to have it. . . . He hesitated about it, but finally sold it.' He had not appointed the directorate of the Steel Corporation, but probably had said 'who should not stay on' the board. Throughout the examination Mr Morgan hardly seemed to realise the different perspective in which he and the man in the street viewed financial matters. When asked if he were not a large shareholder in a certain bank he replied, ingenuously, 'Not very large. I guess it's a million,' and evoked 'laughter.' One dictum of his evidence has already become famous. 'I would rather have combination than competition. I like a little competition, but I like combination better. Control is the important thing.'¹ His friend and associate, Mr Baker, the President of the First National Bank of New York, also gave evidence of great value. He admitted that the concentration of credit had 'gone about far enough. In good hands, I do not think it would do any harm. If it got into bad hands it would be very bad.' 'Do you think,' asked

¹ Evidence, House Committee on Banking and Currency ('Pujo Committee'), December 19, 1912.

Mr Untermeyer, 'that is a comfortable situation for a great country to be in?' 'Not entirely.'¹

After an exhaustive and discursive inquiry the Committee reported in March, 1913. The Democrat majority asserted the existence of a Money Trust in the sense of Mr Untermeyer's definition: 'an established identity and community of interest between a few leaders of finance which has been created and is held together by stockholders, interlocking directorates, and other forms of domination over banks, trust companies, railroads, public service, and industrial corporations, and which has resulted in vast and growing concentration and control of money and credit in the hands of a few men.'² The Republican minority—with one exception—while denying the name of Trust, admitted a dangerous concentration of credit in New York, and to a lesser extent in Boston and Chicago. The Committee's proposals—new stock exchange regulations and currency reform—are of less importance than the fact it has established.

Some witnesses declared that nowhere was banking more highly concentrated than in

¹ Evidence, 'Pujo Committee,' January 12, 1913.

² 'Pujo Committee,' January 10, 1913.

England; but in England etiquette or custom forbids 'interlocking directorates' between the chief banks. In the United States the shelter of the tariff wall encourages manufacturers to combine, and they naturally are eager to be supported by the name and funds of some great financier. Mr Baker declared to the Committee that although he held fifty directorships, none were the result of his own request, and he felt himself that they were too many. Thus Wall Street helps in the creation of industrial Trusts and they, in turn, in the creation of a 'Money Trust.'

CHAPTER V

TRUSTS' IN ENGLAND

Competition is the life of trade.—*English Proverb.*

'TRUSTS' in the technical American sense are unknown in English industry, for English amalgamations of capital have never evinced such anxiety as those of the United States to escape from the cognisance of the law, although the law has laid down stricter conditions to which they must conform.¹ Trusts, however, in the general sense of monopolistic combinations have been attempted in England, and a few have succeeded; but a looser form of union, analogous to the German Kartell, has been more popular. Until recently the English public took little interest in the problem of monopoly, and though of late there have been spasmodic outbursts of indignation against individual 'Trusts,' often stimulated by the

¹The chief English Companies Act is that of 1862: some promotion scandals brought about an amending Act in 1900, and the law on the subject was consolidated in the Companies Act, 1908.

Press, the effects of combination on prices and general conditions have not been so marked as to arouse opposition. The English law has always refused to recognise contracts in restraint of trade, but special Trust legislation or prosecution is unknown, and, in contrast to both Germany and the United States, the economic and political aspects of the question have received little investigation. The truth is, that although there are many large amalgamations of capital in the United Kingdom few are monopolistic in character, and those which are so, are restricted in their working by certain circumstances in which our country differs from other industrial nations. As Professor Levy¹ has expressed it, in his searching investigation of the subject, conditions in England are 'defective.'

What, then, are the conditions in any trade which especially favour the establishment of a monopoly? The most important are the following :—

The concentration of raw materials, particularly minerals, within comparatively narrow limits so that it is easy to establish a predominance in the area and to prevent new competitors from acquiring a foothold.

¹ *Monopoly and Competition.* (Macmillan.)

Diamonds in the Transvaal and potash in Germany may be taken as examples. In some cases the mineral is only found in one country, in others the freight charges are so heavy that imports are not profitable, and thus foreign competition is shut out. This absence of foreign competition is another favouring condition of monopoly, and it is often attained by means of a protective tariff. Again, competition is checked and monopoly favoured if the trade is one in which each separate firm requires a large amount of fixed capital and expenses of production are heavy. New rivals are unlikely to appear, and the long-established firms can come to an agreement. It is, of course, obvious that amalgamation is easier if production is already in a few hands. The American Tobacco Company was built up on the foundations of five firms, and the Steel Trust was the culmination of a Trust movement in all branches of iron and steel manufacture.

Taking English industry as a whole, these conditions are singularly lacking. As against the rest of the world she possesses no monopoly in any mineral. Coal is incomparably her most important product, and no foreign coal

is imported. Throughout the seventeenth and eighteenth centuries, indeed, an intermittent 'Vend' or Kartell in the Newcastle district met with some success in restricting output and regulating prices. But it broke down when the railway development exposed it to competition from coal from other districts. And even earlier, it, like modern Kartells, was forced to dispose of its stock by 'dumping.' In the early nineteenth century 'the same quality of coals which, if shipped to London, were charged at 30s. 6d. per Newcastle chaldron, were sold to foreigners at 18s. for that quantity, giving a preference to the foreign buyer of 40 per cent.'¹ Since then there has been active competition throughout the country between Newcastle and Durham, Scottish, Lancashire, Yorkshire, Midland, and Welsh coal. A proposal by Sir George Elliot in 1893 to form a huge Coal Trust failed because it was impossible to arrange satisfactory terms amid the multitude of interests involved (some two or three thousand mines), and equally impossible to buy them out without ruining the enterprise in the attempt. At the present time there is one small but profitable coal

¹ Porter. *Progress of the Nation* (1912 edition), p. 220.

combination in South Wales, Mr D. A. Thomas's Cambrian Trust, Limited, which produces about 5,000,000 tons annually. But the whole output of Great Britain is 272,000,000 tons! There are, of course, often price agreements among the mine owners in a particular district. As to the second condition, it is needless to say that England has no protective tariff. This fact does not necessarily prevent monopoly or the rise of powerful combinations. It does, however, prevent such organisations in many cases from exacting monopoly prices, since excessive profits, even if they do not rouse competition at home, may tempt foreign rivals to come forward. Professor Levy remarks that the paper trade in England is one of large factories and concentrated production, which, nevertheless, 'has not been able to bring about an agreement as to a rise in price, because the position of prices is too strongly affected by the possibility of foreign competition.'¹

With regard to home competition, England is *par excellence* the home of 'finishing trades.' It produces a great variety of goods of high grade and elaborate workmanship; in these branches individual manufacturers may gain

¹ Levy, p. 202.

a footing for themselves with a comparatively small expenditure of capital. Not infrequently so many different varieties are manufactured—in woollen yarns, for example—that there is little direct competition and hence little impulse towards combination.

But, it may be repeated, businesses on a large scale and highly successful amalgamations do not necessarily mean 'Trusts,' and do not spell monopoly. London is the home of large hotels, and of groups of large hotels run by limited companies; it is also the home of huge shops and stores. Yet no one would assert that London suffered from an Hotel Trust or a Drapery Trust. Concentration and combination may prepare the ground for monopoly, but they do not imply it.

Loosely organised and temporary pools and associations are prevalent in many trades, especially in iron and steel, milling, and chemicals. They suffer from the usual difficulties of such forms of union. Either they are successful at first in obtaining higher prices, and this success invites fresh competition from without, or the organisation does not fulfil expectations, and then members, secretly or openly, break away from the price agreement. A particularly bad form of association

was that of the West of Scotland steelmakers, who sold ship-plates and boiler materials at fixed non-competitive prices in their own district, where they were largely protected by cost of transport, but competed with each other and undersold English makers in Belfast and the Midlands. In these markets they 'dumped' the balance of their stock, causing more confusion and financial loss to their fellow-subjects than any foreign dumpings on record have done. This practice was ended for a time in 1905 by a wider agreement, the Anglo-Scottish Steel Association, but complaints of its revival have been made within the last three years. There have been of late years many other agreements and attempts at amalgamation in other branches of the Scottish iron and steel trade. The makers of malleable iron (bars and hoops) after several unsuccessful attempts united their interests in 1912 in the Scottish Iron and Steel Company, Limited, with a capital of £1,000,000. The amalgamation was comparatively easy, as only thirteen firms were concerned. Seven 'mixed' works (producing steel as well as bars and hoops) remained outside the agreement, so that it is in no sense a monopoly. In October, 1911, English and

Scottish steelmakers agreed to pay customers who bought only from them a rebate of 5s. a ton on their purchases. Since the contracts were agreed on, however, the makers have raised prices so sharply that buyers have gained no advantage from the rebate. These combines as a rule have chequered careers. Formed in prosperity, they cannot withstand the winds of adversity.

A peculiar form of association was in vogue in the metal and minor manufacturing trades of Birmingham and district during the period 1892 to 1900. Mr E. J. Smith,¹ a metallic bedstead maker, projected in his own and other trades agreements known as 'alliances.' His cardinal doctrine was that no one should make or sell an article 'without making a profit.' In accordance with this, the cost of production was estimated for each firm, and minimum price lists were fixed to ensure a profit. At the same time agreements were made with the unions of workmen in the trade to maintain wages and labour conditions at the existing level, to pay a bonus on wages, and to employ none but union men. In return the men agreed to work only for

¹ See his own account, *A New Trade Combination Movement*. (Rivingtons.) 1899.

masters who were members of the Association. If an employer broke his agreement and cut prices, the Association with the consent of the union at once called out his workmen, who were supported from a general fund. Thus capital and labour were to present a united front to competitors and consumers. At first results seemed highly satisfactory, for prices and wages almost doubled. But soon demand fell off, foreign competitors began to undersell, and members to break away from the Association. In 1900 so many firms had revolted from the Bedstead Alliance that at last the Association was unable to provide strike pay for all the workers called out, and it was forced to dissolve, whereupon prices fell to a natural level. Its imitators in other trades had already predeceased it.

In 1911 a new combine, resembling a Kartell, was formed in the bedstead trade, which, while offering a rebate to retailers, also raised selling prices on the plea that raw materials had also advanced. In this scheme, however, the workmen were not included.

The freights on most ocean routes except the Atlantic are governed by Shipping Conferences or ‘Rings.’ These are international; but, as British shipping is almost half the

total tonnage of the world's water transport (more than half if ocean-going ships alone are considered), the monopoly is in effect British. They act by means of a 'deferred rebate,' a practice which grew up in the late 'seventies, when the shipping trade was feeling the full effect of the change from sails to steam, and competition was excessively severe. The rebate on freight to 'loyal' shippers, who ship exclusively by steamers belonging to the Conference, is not returned until six months after the voyage in question. Hence any shipper who breaks away from the Ring must suffer pecuniary loss, and in many cases he cannot find an outside line of steamers to take his goods. A Royal Commission inquired into the question in 1909, but the majority of its members reported that although the Rings maintained freights above a competitive level, yet this and other disadvantages were offset by regularity and economy of service, efficiency of steamers, and uniformity of rates. In other words, although the shipper pays more for his transport than under a competitive régime, it is also worth more. The minority of the Commissioners considered the accompanying disadvantages more serious, and both sections agreed that stricter control

by the Board of Trade and greater publicity of tariffs would help to remedy the evil.

The most famous combination in this trade, however, is the Shipping Trust, or, to give it its official title, the International Mercantile Marine Company. Projected in America by the enterprise of Mr Morgan, it was a huge combine of leading English and American lines, which, according to the hopes of its friends and the fears of its foes, was to establish a monopoly control of Atlantic shipping, to 'Morganise' the ocean, and, incidentally, to revive the mercantile marine of the United States. It is curious to look back at these swelling predictions over eleven years of depreciated capital and postponed dividends, and to see the amalgamation now controlled by British interests under the White Star Line. The story of the Trust, in outline, is as follows. The International Navigation Company, incorporated in New Jersey in 1893, had acquired and Americanised the (English) Inman Line. Early in 1902 the Corporation increased its capital and changed its name to the International Mercantile Marine. Throughout the year the Trust was actively organised, and in the autumn it was registered in its new form with a share capital of \$120,000,000, half

ordinary, half preference shares at six per cent. interest, and \$50,000,000 of debentures at four and a half per cent. The five lines in the Trust were the Leyland (Anglo-American), the White Star, and the Dominion (British), and the American and the Atlantic Transport (American). There was a working agreement with Harland & Wolff, the great ship-builders of Belfast. All new ships and repairs required by the Trust on this side of the Atlantic were given to them, on condition that they built for no one else as long as these commissions gave them sufficient employment. An agreement was made with the North German Lloyd and Hamburg-America Lines to prevent a rate war; and it was hoped that the railroads controlled by Mr Morgan would supply the combine with much custom, while there were rumours of a coming subsidy from Congress.

The Trust owned 136 steamships in use and in construction, with an aggregate tonnage of more than a million. Yet, after all this impressive preparation, the first year's working of the Trust could be described as a 'conspicuous failure,'¹ and at the present time no dividends have yet been paid on its

¹ *Economist*, January 19, 1904.

preferred, still less on its common stock. Its life had not been long when Mr Morgan allowed British interests to regain control.

The first and most obvious reason for this inglorious career was the over-capitalisation of the concern.¹ The value of its shares was estimated on the supposition that the revival in the shipping trade, due largely to the demands of the Boer War, would continue, and that the economies of combination would still further increase earnings. But the course of freights is notoriously uncertain, and, as a matter of fact, trade was still further depressed during the years following the organisation of the Trust. The capitalisation was taken at ten years' purchase of the various companies' earnings in 1900, a year of exceptional profits. This worked out at an average price of £20 per ton; the average value per ton of nine leading British shipping companies, including the Leyland Line, in 1902, was £11 7s. per ton.² Thus the Trust has had to carry a capitalisation of which nearly half represents unfulfilled expectations.

Mr Morgan's earlier venture, the Steel Corporation, had also been over-capitalised

¹ *Vide* Ripley: *Trusts, Pools, and Corporations*, pp. 105-20.

² Raffalovich. *Trusts, Cartels, et Syndicate*, p. 198.

in about the same proportion. But the Steel Trust controlled sixty per cent. of the market and was cut off from foreign competition by the tariff. Under such conditions its directors could fix prices, accumulate huge profits, and expend those profits on 'squeezing out the water.' In the case of the Shipping Trust, the hope of an American subsidy was disappointed, and so far from establishing a monopoly, it had to face the competition of the Cunard and eight other important British lines, and in a lesser degree of the two great German companies. Burdened by the extravagant prices paid for its ships, it has never been able to meet this competition on equal terms. An English amalgamation has been more successful. The Royal Mail Steam Packet Company now owns or controls the Pacific Mail Steamship Company, Elder-Dempster and Company, and the Union-Castle Line. The ordinary stock of the last-named was purchased (for £5,000,000) in 1911. Sir Owen Phillips's venture is now paying 6 per cent. on its ordinary stock.

The other industries in which Trusts or Kartells have been attempted fall, as Professor Levy has shown, into three classes, all sheltered from foreign competition to a greater

or less degree. In the first class, freights are heavy, or the foreign imports are of inferior quality. This is true in the cement trade. Yet the Associated Portland Cement Manufacturers on the Thames and Medway have met with little success in their price policy since they united in 1900, as the depression in the building trade has checked the demand for cement, or led builders to substitute the foreign article. An attempt has recently been made to extend the combine. English wall-papers are of better quality than foreign, and their dimensions are different. Hence the Wall-paper Manufacturers, Limited, which controls about ninety-eight per cent. of the home trade, has little foreign competition to fear as long as it does not raise prices to an unreasonable height.

Salt is a product practically immune from foreign competition and largely concentrated in Cheshire. Thus the conditions were favourable to the establishment of a Trust, and the Salt Union, formed in 1888 by the agreement of sixty-four firms, at first had a monopoly. During the early years of the Union it raised prices between four and five shillings a ton; but this at once attracted competition, and the Union now controls less than fifty per

cent. of the trade. Production and sales are regulated by the North-Western Salt Company, a syndicate formed in 1906, to which both the Union and its competitors belong.

Whisky is under the control of a Trust. The manufacture was already concentrated in the hands of a few leading firms, and there was of course no foreign competition to fear. Hence the Distillers' Company, which gradually absorbed the seventeen leading firms of the United Kingdom in the thirty years from 1877 to 1907, was in a strong position, and has been able since the final amalgamation to raise and maintain prices for some years. The bad grain harvest of 1912, however, compelled a reduction. Within the last few months there has been a new development; eight large Irish distilleries have combined with a capital of £1,000,000, and a declaration that circumstances would not permit of any reduction in price.

In oil, the Anglo-Dutch 'Shell Transport' Company is now merely a holding company for its subsidiaries. Practically all supplies of petroleum oil not under 'Standard' control are held by the 'Shell' or by the Mexican Eagle Oil Company. The recent increase in

oil prices has been attributed to an understanding between the Shell and the Standard.

The English textile trades in most branches are secured against foreign competition, not by a tariff, but by excellence of goods produced, in which the French are our most serious rivals. At the time of the great Trust movement in America (1898 to 1901) a sympathetic impulse towards combination was felt in Lancashire and Yorkshire. But Professor Clapham says of the Yorkshire trade (and the same holds good of Lancashire cotton): 'The promoters of a combination have to deal with special obstacles, not the least of which is the strong local feeling and pronounced individualism of the manufacturer . . . [and] the great variety of yarns and fabrics turned out by the various mills.'¹ The Fine Cotton Spinners' and Doublers' Association and the Bradford Dyers' Association were formed in 1898, the Calico Printers' and the Yorkshire Woolcombers' in 1899, the British Cotton and Wool Dyers' and the Bleachers' Associations in 1900. Of these the first two enjoy practical monopolies. The spinning of fine counts is a highly skilled

¹ J. H. Clapham. *The Woollen and Worsted Industries*, p. 154.

trade, requiring expensive machinery, and favoured by the humid air of Lancashire. The firms who combined had already well-established reputations. The Association now comprises nearly fifty firms, with a capital of four and a half millions, pays good dividends, and has accumulated strong reserves. The Bradford Dyers' had also a local monopoly in the hands of a small number of firms, partly owing to their control of the available water supply. These are not, of course, dyers of faded clothing, but dyers and finishers of piece goods for local manufacturers. After the formation of the combine it was accused of abusing its power, and the Bradford Chamber of Commerce in 1902 established a 'Piece Dyeing Board' to negotiate price agreements between the Association and its customers. The Bradford Dyers' has always contrived to pay a dividend on its ordinary shares, although its rate has declined since the early days of the monopoly; for the last two years it has been six per cent. The Bleachers' Association and the British Cotton and Wool Dyers' were both heavily over-capitalised, but of late years good financial management appears to be relieving them of this severe handicap. Last year they paid

dividends on ordinary stock of six per cent. and seven per cent. respectively.

The history of the Calico Printers' Association illustrates difficulties which British individualism throws in the way of a Trust organiser. The forty-six firms concerned only agreed to the amalgamation with the proviso that they might all continue to run their works independently for five years, while the board of directors, representing the shareholders, was swollen beyond all manageable proportions. Professor Levy describes the result as 'a loosely organised Kartell,' and Mr Macrosty, more pungently, as 'a spectacle of mismanagement that is likely to become classic . . . a mob of eighty-four directors with no real authority, another mob of 114 vendor-managers who kept on competing with each other out of ignorance or trade jealousy, and custom slipping away while the two mobs raged furiously together.'¹ In 1902 it was reorganised by Mr Philippi (of Coats & Co.), who to some extent centralised the management and brought the combine into a dividend-paying condition, although the dividend was at the modest rate of 2½ per cent. In 1908 Mr Philippi

¹ Macrosty (in Ashley, *British Industries*, p. 224.)

became chairman of directors, and the power of the central body was still further increased. The dividend in 1912 was at the rate of $3\frac{3}{4}$ per cent.

The Yorkshire Woolcombers' had a disastrous career of over-capitalisation and financial mismanagement. While the two most important combing firms in Bradford remained outside as competitors, concerns of the most worthless character were acquired for huge sums. It would be incredible, if it were not on record, that the Association acquired for £43,700 a business which almost simultaneously suspended payment with a deficiency of £25,000. The total capitalisation of the company was £1,500,000. The directors practically asked for inflation by allowing the sale prices to be fixed by the company promoter, who received a commission on the amounts, while they agreed to remain in mutual ignorance of the terms each vendor received. Such a concern, of course, could not struggle against the trade depression engendered by the South African War. A receiver was appointed in 1902. In 1904 the firm of J. & P. Coats brought an action against the directors of the company, in which they had made large investments, for damages

sustained by mis-statements in the prospectus, and Mr Justice Swinfen Eady, on August 12, gave judgment against the defendants, stating that, with one exception, they had been 'guilty of a gross dereliction of duty,' and 'recklessly careless' as to the truth of the prospectus.

In the same year Woolcombers Ltd. was formed to take over the affairs of the company, with a modest capital of £300,000—£250,000 in preference shares and £50,000 in ordinary stock. Dividends have been paid on the latter, of five per cent. in 1906, ten per cent. for the three following years, and eleven per cent. for 1910 and 1911.

It will be seen that though Trusts exist in British textiles, they only flourish where the amalgamating firms were already prosperous and efficient. Two other genuinely successful Trusts present some features of special interest.

The Imperial Tobacco Company has all the prestige of its victory over the invading American Trust and of the advantageous treaty which concluded that campaign. But before the Trust was formed the industry was strongly concentrated. Although only thirteen firms combined, their union produced a virtual monopoly, and half the

capital of the amalgamation came from one firm, Wills of Bristol—nearly £7,000,000 out of the total of £12,000,000. Its capital has now increased to £15,500,000, and it pays dividends of 20 per cent. upon its deferred shares. The Trust has escaped the unpopularity of its American ally, although there are at times complaints that it bullies retailers, and by its bonus scheme tries to choke competition.

But the most notable example of a successful monopoly in the United Kingdom is that in sewing cotton. It is in some ways analogous to the Standard Oil of America, for it is due to the progress of one great firm and it is now international in character. But the questionable and more than questionable methods freely attributed to the Standard directors by their fellow-citizens have never been alleged against J. & P. Coats.

This firm began to manufacture sewing cotton in Paisley in 1826, and was converted into a private company in 1884, and a limited company in 1890. In the interval between these changes the firm's annual profits averaged more than £400,000, and its capitalisation in 1890 was £5,750,000. In 1895 and 1896 this single company was joined by its four

chief competitors (Clarke, Chadwick, and others), and its capital was increased by £4,000,000. In the period 1897 to 1899 the smaller outside firms also united in the English Sewing Cotton Company, with a capital of £3,000,000. Coats made large investments in this company, while both acquired controlling interests in the newly-formed American Thread Trust. In 1899 Coats bought its chief foreign rival, a Belgian firm, and the English Sewing Cotton Company is now practically also a member of the amalgamation as far as export sales are concerned. The Trust has large factories on the Continent and in America, and is now an international monopoly. Its huge profits (it distributes dividends amounting to 35 per cent. annually) are due largely to the efficiency and reputation of Coats & Co., and to that firm's prescience in amalgamating only with other efficient concerns. 'If they had from the beginning bought up weak outsiders they might well have suffered the disadvantages of over-capitalisation.'¹ Of recent years the commanding position of the Trust has been signalised by a rise in the price of sewing cotton both at home and in America.

¹ Levy, p. 183.

Passing over the 'Soda Trust,' or International Alkali agreement, in which again one firm, Brunner, Mond & Co., occupies a dominant position, and the great newspaper amalgamations, which are an unpleasant development in the modern Press, there may be noticed finally a curious episode in the soap trade.

Soap manufacturing is carried on by between fifty and sixty firms, all, of course, with special and widely advertised makes. A working arrangement had been in force for many years, but in 1906, largely at the instance of Mr (now Sir) William Lever of Port Sunlight, a new association was projected between several leading firms for the control of sales and the division of the market. The high price of raw materials made some arrangement necessary, and the scheme was by no means a monopoly, as some of the most important makers were unaffected by it. Among the changes projected, however, were an increase in the price of soap to the retailer and a decrease in weight of one ounce per bar. This became known before the agreement was concluded, and some halfpenny papers at once worked up an extremely lively 'Soap Trust' scare. Cynics remarked that one

effect of the scheme would have been a decrease in advertisements, and that this, in itself, would not prejudice the Press in its favour. At all events, the agitation succeeded, the public was roused, and the project was abandoned.

The attitude of the public on this occasion and during the Tobacco War of 1901 is significant as showing its general mistrust of monopoly, which kindles into anger at any attempted interference with the liberty of retail trade. In America anti-Trust agitations are more frequent and more violent, but seldom as effectual.

CHAPTER VI

KARTELLS : GOVERNMENT MONOPOLIES :
INTERNATIONAL AGREEMENTS

The forming of Kartells . . . is a step serving the best interests of the country as a whole.—*Supreme Court of the Empire, Leipzig, 1897.*

Cette politique de la cherté à l'intérieur et du bon marché au dehors.—Prof. A. RAFFALOVICH.

A KARTELL has already been defined as an intermediate form between a temporary alliance and a fully-developed amalgamation or Trust. It is the form of union prevalent on the Continent, and especially in Germany, whilst some of the English agreements described in the last chapter are also practically Kartells. An English economist has recently remarked that political atmosphere seems to have little influence on industrial growths, since 'it is in the great Republic that economic despotism is represented by the Trust, and it is under a very strong despotism that the representative government of industry is

maintained by the Cartels.’¹ The paradox is tempting, but on closer inspection its keenness seems to disappear. Kartells are very numerous in Germany, for Germany is one of the three great industrial nations of the world; but they are common in the French Republic and under the Belgian and Austrian constitutional monarchies, and they have met with some success in Switzerland and Italy. The liberty of individual members of the Kartell is much restricted, and German writers themselves have attributed part of the success of the organisation to the ‘education in submission’ received by Germans in their youth during the period of military service. The American individualist prefers to control a whole industry as director of a giant corporation rather than to regulate the output of his single works at the direction of a sales syndicate.

It is, however, indisputable that Germany is the chief home of the Kartell, and, for reasons of brevity, the present discussion will be confined to this form of combination as it appears in the Fatherland. One reason which hinders there the growth of Trusts

¹ D. H. Macgregor. *Industrial Combination*, p. 140; *vide also his Evolution of Industry*, p. 217.

is the excellence of the German company law, which checks the vagaries and excesses of Trust finance. Again, the most important railways are under State control, and thus it is impossible to build up a monopoly with the aid of discriminations and rebates. On the other hand, the State and Imperial Governments have shown no hostility to Kartells as such, but have directly encouraged their formation or maintenance in several cases, and in others have themselves become members of such unions. Moreover, in German law, industrial combinations are perfectly legal, and price-cutting and the boycott are recognised trade weapons. There is, however, a law to prevent unfair competition (passed 1896, amended 1909), and though for the most part it is aimed against definite fraud and dishonesty, one of the recent amendments has included all practices 'contrary to good morals' (gegen gute Sitten). Under this, and under a similar phrase in section 138 of the civil code, applying to all agreements, Kartells have often been attacked in the Courts, but the final decisions of the Supreme Imperial Court have upheld the contracts.¹

¹ *Vide* Francis Walker. Policy of Germany, etc., toward Combinations (*Annals of American Academy of Political Science*, July, 1912, pp. 183-201).

The original causes of German Kartells were the same as those which have led to similar agreements in other lands. Artificially-stimulated industry brought about over-production and reckless competition, which depressed prices and profits. Then unions were formed with the aim of restricting production and maintaining prices. The first stimulus to German industry was the unexpectedly rapid payment of the French indemnity after the war of 1870. These £200,000,000 were lavishly spent on public works of all kinds, and businesses which supplied the raw materials or semi-finished articles required for these constructions were expanded to meet the new demand. But much of such expenditure—for example, that on fortifications—was not truly productive; when the indemnity was exhausted, German industry with a greatly increased capacity of production had to face a lessened demand. The crisis of 1873 was followed by a long period of depression and unemployment, and the familiar cry for Protection from foreign competition arose. Bismarck was theoretically a Free Trader, but his army and navy schemes required heavy expenditure, and the money could be most easily obtained by

indirect taxation. Thus in 1879 a tariff was passed which was intended to be revenue-producing, and yet to afford a moderate amount of Protection. The duties averaged twenty per cent. Since that time successive tariffs have raised the duties to a prohibitive level.

Kartells were first formed after the crisis of 1873, but their most rapid growth has been under the strong Protection of recent years. The Reichstag inquiry of 1906 gave a list of 384 Kartells, and a recent writer¹ has estimated the present number at between 550 and 600. This estimate, however, includes local or sectional Kartells which are themselves members of larger bodies; the various steel Kartells, for example, are united in the Stahlwerksverband.

A Kartell, in general terms, is a joint-stock company composed of the representatives of a number of firms forming a Central Board or 'Syndicate.' The internal management of the works is left free, but the syndicate apportions to each its share of the output, pays for it at a fixed price, and markets the whole stock at prices which depend on market conditions. The profit is divided among members in proportion to their output, a bonus

¹ Tschierschky. *Kartell und Trust*, p. 52.

or compensation is given to any firm which has not produced the whole of its allotment, and fines exacted from any which have exceeded. The bonus cannot exceed a certain maximum, so that no firm can enjoy a profitable leisure by closing down its works altogether. One essential feature of a Kartell is that it is a terminable association, and must be renewed or dissolved at the end of a fixed period. Here, again, it differs from the permanently-organised Trust.

German economists, with the thoroughness of their nation, have subdivided Kartells into many different genera and species, according to the closer or looser form taken by the union, but this description will suffice here.

Kartells dominate the coal industry (19), the iron and steel trades (61), and the chemical trades (46). There are a considerable number in the various manufactures of building materials, and 31 in the textile trades; but here, for the reasons already given in reference to English textiles, the individual firm is able to offer more serious competition. Two Kartells are especially powerful, the Rhenish-Westphalian Coal Syndicate and the Stahlwerksverband. The Coal Kartell was founded in 1893 and has been twice renewed. It

enjoys a practical monopoly in the Ruhr district, with an output of more than ninety million tons. During the long depression of 1908 and 1909 there were many complaints by trade and private consumers of the stubborn policy of the Kartell in maintaining, and at times even advancing, prices. In the coast districts the competition of English coal at last forced a reduction, but not elsewhere. For German Kartells often adopt a 'zone system' of markets, charging not 'what the traffic will bear,' but what the district can be forced to pay. The Coal Syndicate even tried to meet the diminished demand in 1908 by restricting output and thus still further starved industry of its 'black bread.' In the meantime it was an admitted fact that it sold coal in foreign countries—for example, Belgium and Holland—considerably below the home price. This 'dumping' policy, which is a characteristic of Kartells, was encouraged by the cheap rates granted by the German State Railways on goods for export, and also by the actual export bounties granted to their members by various coal, iron, and steel Kartells during the period from 1897 to 1906, and still granted by some to-day.

The Stahlwerksverband, as already explained, is a Kartell of Kartells. First formed in 1904, it controlled most of the steel production of Germany through various sectional syndicates, and exercised much influence over the pig-iron syndicates—of which at that time there were four—through its purchases of the metal. Three of the pig-iron syndicates dissolved during the troubles of 1908 and 1909, but the fourth was enlarged and reconstituted in August, 1911. The Steel Verband was renewed in 1907 and again in 1912, but under changed conditions. It is obvious that the interests of coal and pig-iron producers conflict to some extent with those of the steel manufacturers who require these raw materials. To avoid paying Kartell prices, steel works have shown a growing tendency to acquire iron and coal mines and to manufacture every variety of steel products. These fusions or integrations place a firm like the famous Phoenix Works of Ruhrort in a comparatively independent position, and these 'mixed' works have a great advantage over the so-called 'pure' works, which produce only finished steel goods. The latter suffer both from the high prices of their raw materials and from the 'dumping' of these same raw

materials in other countries, to the great benefit of their foreign competitors. A few years ago, in a tender to build a gasometer at Copenhagen, a British firm cut out a German because the former could obtain the necessary materials more cheaply—from Germany.¹ Again, iron ore can be imported free by the ‘mixed’ works, while the ‘pure’ works must either buy half-finished steel from them or pay heavy duties on their imports. Apart from these complaints, the syndicates are often endangered by their more powerful members, who tend to break away and cut prices when dissatisfied with their allotments. This was the cause of the breakdown of one pig-iron syndicate in 1908, through the withdrawal of the Niederrheinische Hütte, a great furnace company. The half-year before each renewal of the Steel Verband has been

¹ Report of British Consul-General at Frankfort, 1907. Dipl. and Cons. Reports. Annual Series, No. 4084. On the other hand, there were in February, 1912, only two tenders for tram-rails brought before the Birmingham City Council—from the Phoenix Works and a Leeds firm. The German estimate worked out at nearly £1 per ton cheaper than the English, and experts declared that German rails had proved in the past to be of better quality. The scarcity of English tenders was attributed to a ‘ring’ in the highly-concentrated steel rail industry. Nevertheless a majority of councillors voted for the inferior and more expensive English article. The price of Phoenix rails in Germany did not appear (vide *Birmingham Daily Post*, February 7, 1912).

filled with rumours of internal strife and exorbitant claims for allotment. In fact, the terms of the last renewal have borne witness to the intensity of the struggle. Formerly the syndicate controlled the production and sale of 'A' products (semi-finished steel rails, billets, and girders), and also allotted to its members the output of the more highly-finished 'B' products (bars, sheets, wire, tin plates, tubes, etc.), although their sale was left to the individual firms. Under the new agreement 'B' products are left entirely unregulated, but the Verband continues as far as 'A' products are concerned. This means not only that the manufacture of highly-finished steel goods is now on a competitive basis, but that the small 'pure' works will no longer gain any advantage from the Verband, while they will be forced to buy raw materials at Verband prices. In agriculture Kartells do not flourish, since the Sugar Kartells in Austria and Germany collapsed after the bounties they had enjoyed were nullified by the Brussels Sugar Convention in 1902. There is, however, a Spirit Kartell amongst agriculturists.

Whilst the Government attitude towards Kartells is benign and indulgent, there are

constant and bitter complaints by the consumers of Kartellised goods. These complaints fall under three heads : first, the price policy of the Kartell in the home market is too rigid and does not allow for changing conditions ; secondly, the home industries which consume Kartell products suffer from the cheap export policy, which benefits their foreign rivals ; thirdly, the trading conditions imposed by Kartells are often extremely onerous. The first complaint is borne out by the policy of the Westphalian Coal Syndicate, already described. Instances of the second practice abound, particularly in times of industrial depression. In 1901 German beet sugar was sold for 23·75 marks in Switzerland per hundred kilogrammes, and for 62 marks at home—or for 38·75 marks if the sugar tax and sugar bounty are deducted.

In many cases Kartells refuse to make sales except to other syndicates, so that consumers are forced to combine in order to obtain their raw materials. The Westphalian Coke Kartell was particularly notorious for its tyranny during the depression of 1901–2. It had made contracts with ironmasters, by which they were forced to buy at a fixed price and to take a (large) minimum quantity per

annum. By a special clause, if the price of iron had risen, that of coke would have followed, but there was no similar provision in the case of a fall in price.¹

When the Westphalian Coal Kartell was reconstituted in 1903, 'the contracts made with foundries included the provision that the coal purchased must be used for their own consumption, and the private consumption of the workmen of such foundries, but must under no circumstances be sold. The contract with coal merchants included the provisions that the merchants must not sell to iron and steel foundries, railway or gas companies, without leave from the syndicate; that they must under no condition sell to brick or lime burners; that they must not buy from non-syndicated mines within the Ruhr district (otherwise the price of each ton bought from the syndicate was raised by 50 pfennig).'²

The general hostility to Kartells evinced by the public and some important Chambers of Commerce led the Imperial Government to appoint Commissions of Investigation between 1903 and 1906. The inquiry of

¹ Macgregor. *Industrial Combination*, p. 75.

² Foreign Office Report, 3221, p. 64, quoted by Macgregor, p. 80.

1902-3 took the form of a public hearing of the case for and against the syndicates, as presented by their chief opponents and supporters. The official report (*Kontradiktorische Verhandlungen über deutsche Kartelle*) contained a mine of information about the history of specific Kartells, but did not recommend any legislative action.

The Prussian and Imperial Governments, however, have more than once intervened in Kartell affairs. The Prussian Government, which owns potash mines, was a member of the old Potash Syndicate. When this broke down in 1909, private firms made contracts with American buyers at prices about 50 per cent. below those of the syndicate. The Prussian Government, in its indignation, appealed to the Imperial Government to lend its aid in maintaining prices, and by the law of 1910 there has been established practically a Government recognition of monopoly and regulation of prices and output. Its chief aim has been to help the German agriculturist by preventing exorbitant prices for the fertiliser, and at the present time the Potash Syndicate's export prices are considerably higher than those to the home consumer. By various tax laws

the Government also regulates the output of spirits, beer, and matches. The Kartell in the first trade has been mentioned. One was recently formed in the match industry, but broke down.

The relations of the Prussian Government with the Westphalian Coal Kartell have been interesting. The Government is a large owner of mines in the Saar and Ruhr district; after the renewal of the Kartell agreement in 1904 it tried to enter the syndicate by secretly acquiring control of the important 'Hibernia' mine. This attempt, however, failed; and though the syndicate offered to admit the Government to membership, the offer was declined. In 1908 the Government lowered the price of its coal before the syndicate had made any change, and in 1911 the Budget Commission recommended that the Government should enter the syndicate in order to obtain more control of prices. This was done in January, 1912. The Prussian Office of Mines became a member of the Coal Syndicate, and sold its surplus coal from its Westphalian mines through that organisation. It had, however, reserved the right to withdraw if the price policy of the syndicate did not meet with its approval, and in October it exercised

that right. The syndicate had already raised the price, and threatened further advances in 1913 and 1914 which would overpass the previous highest record of 1901. The Prussian Minister of Trade, considering this policy prejudicial to the public welfare, dissolved the agreement.

Several Governments, of course, have established State Kartells and other forms of monopoly, but their aim has usually been the production of revenue. Austria, France, and Italy all have tobacco monopolies which are successful instruments of taxation. The quality of the French and Italian products is poor, but Austrian cigars and tobacco are of good flavour. Austria also tried to protect her sugar producers during the validity of the Brussels Sugar Convention by fixing and allotting the annual output of sugar. The Russian Government in 1886 formed a State Kartell, the 'Normiruwka,' to which all sugar factories must belong. The German Government has recently projected an Imperial monopoly of petroleum, in the hope of dislodging the Standard Oil Company from its position of predominance. The Roumanian Government since 1908 has apportioned the output of petroleum among the various

refineries of the country, and in 1906 the Italian Government established a compulsory Kartell in the Sicilian sulphur industry. In these last two cases, however, the aim of the State has been chiefly to maintain prices and to prevent the waste of national resources. The Indian opium monopoly brings in a very profitable revenue to the Indian Government, but it also raises a serious question of international morality, since most of the revenue is derived from exports to China, and of late years Chinese Governments and reformers have made strenuous and partially-successful efforts to suppress the vice of opium-smoking. The Indian Government has been accused of only lukewarm sympathy with Chinese endeavours. Our own Government, however, has recently announced the termination of Indian opium exports to China.

In Japan four articles are Government monopolies—opium, tobacco, camphor, and salt. The use and importation of opium, except as medicine, is prohibited in Japan, but opium-smoking prevails in its dependency, the island of Formosa. Since the Japanese acquired the island they have made the drug a Government monopoly, with the ostensible aim of suppressing the vice by degrees. The

monopoly brings in a considerable revenue, but as the average annual importation of opium into the island since its establishment has increased, it has not proved a very effectual instrument of morality.

Camphor is a natural monopoly in Formosa, where alone the tree is found, and the Japanese have also put it under Government control since 1899. The price has risen sharply, but, judging from the value of the exports, the production has fallen off and the resulting revenue is small. Tobacco yields a considerable revenue, which is, of course, mainly a tax upon the consumer; the same is true of the salt monopoly, established in 1906, which has more than doubled the price and presses hardly upon the poor.

Our Colonies are also grappling with the Trust problem. Canada¹ and New Zealand have passed anti-Trust laws. The Commercial Trusts Act of New Zealand (1910) only applies to a limited number of commodities (agricultural implements, coal, tobacco, oil, and various food products). A sugar-refining company was lately proceeded against for price discrimination against individual producers and in favour of the Merchants'

¹ V., p. 194.

Association of Wellington. The Chief-Justice imposed a fine of £5000, but the case is now under appeal. In May, 1913, the Australian Labour Party appealed to the people on behalf of a constitutional amendment granting the Federal Government more power to deal with Trusts. On a referendum, however, the proposal was defeated.

The final development of producers' agreements is their extension to the international market. The phrase international is at times loosely used of monopolistic concerns whose power to control prices extends into foreign trade. Thus the Standard Oil has at times enjoyed an almost world-wide monopoly, and a few years ago it was feared that the American Beef Trust was able to control prices in the Smithfield Market. The Report of the Departmental Committee which investigated the matter, however, might be summarised as 'The Trust would if it could, but it can't,' owing to the wideness of the market and the great amount of competition. Again, the firm of J. & P. Coats, with its allied concerns, exercises an international control over the manufacture and price of sewing cotton. The International Mercantile Marine was an attempt, which failed, to

control and monopolise by means of American capital the Anglo-American shipping trade.

International agreements, in the strict sense, are formed in the same trade between monopolistic combinations of different countries, by means of which prices are maintained and markets are divided among the parties concerned.

Naturally, such agreements have been most frequent in the iron and steel trades, which in all industrial countries seem most susceptible to these influences. More than thirty years ago there was an international (English, German, American) agreement in the screw trade, and the steel rail trade (a manufacture in all countries concentrated in a few large businesses) was syndicated from 1883 to 1886. This agreement was renewed and extended on several occasions. In 1907-8 it included the United States, England, Germany, France, Belgium, and Russia. In England 'steel rails rose in 1907 from £6 15s. to £7, after costing £4 to £5 during the three preceding years, while at the same time American home prices were only £5 12s.,¹ yet no American rails were exported to

¹ Levy. *Monopoly and Competition*, p. 261.

England. In the recent suit against the Steel Trust, Mr Cory, its former president, admitted in evidence that there had been an armour-plate pool, in which 'competition was confined to neutral markets. Germany, France, England, and America let each other alone, but they all sought business in Russia, South America, Turkey, and wherever else armour-plate is not manufactured. There was quite a discussion, soon after the incorporation of the Trust, on the advisability of helping Japan to build an armour-producing plant.'¹ In 1911 Judge Gary, at Brussels, presided over a conference summoned to arrange an agreement to cover the whole iron and steel trade, but further developments have not yet been made public.

The so-called 'Soda Trust' is due to a three-fold agreement in 1906 between the United Alkali Company (whose component firms employ the Le Blanc process of manufacture), the Continental makers who use the more modern and cheaper ammonia process, and the very strong English independent firm, Brunner, Mond & Company, which also uses the ammonia process and has close connections with the German makers. Owing

¹ *New York Evening Post*, January 24, 1913.

to the agreement, prices in the chemical trade have of late years remained very steady.

The English-American Tobacco agreement, by which two strong Trusts agreed to respect each other's markets but to work together in the further extension of their trade, has already been described.

Some students of the Trust problem believe that these international agreements are destined to spread over the whole industrial field, and that such a development would be hastened by the removal or reduction of tariffs, since the Trusts of different nations would be brought into direct competition. This reasoning does not seem well-founded, as there would be other possibilities open to the competitors. If the industry were one which owed its existence to the tariff, and was left in a weak position by its removal, foreign manufacturers would be able to compete with it successfully, and they would have no inducement to enter into an agreement. On the other hand, if the industry were itself prosperous, a general tariff reduction would lower many of its costs of production and put it in a favourable situation for competing in other markets.

CHAPTER VII

TRUSTS AND TARIFFS

The Tariff is the mother of Trusts.—
Mr HAVEMEYER.

The Trusts do not belong to the period
of infant industries.—President WOODROW
WILSON.

A PROTECTIVE tariff, as its very name implies, aims at fostering industry. Under its shelter, the promoters hope existing trades will expand and new ones will be called into life. Years ago, however, that most judicial of economists, Professor Henry Sidgwick, wrote of 'the difficulty of securing in any actual Government sufficient wisdom, strength, and singleness of aim to introduce protection only so far as it is advantageous to the community, and to withdraw it inexorably as soon as the public interest requires its withdrawal.'¹

An unsuccessful industry complains of foreign competition, and a benign Government adds a clause to the tariff placing a stiff

¹ H. Sidgwick. *Principles of Political Economy*, p. 486.

duty upon the foreign article. But the knowledge that the industry is now safeguarded encourages other producers to enter the field, and, as far as the earlier producers are concerned, the competition is none the less severe because the goods have not crossed an ocean or a political frontier.

Quinquaginta atris immanis hiatibus Hydra
Saevior *intus* habet sedem.

Competition means lowering of prices, and the manufacturer sees the extra profit slipping away which he hoped to extract from the buyer by prices screwed up to meet the tariff. It is at this point that one of the competitors is struck by a great thought. The tariff has aggravated the disease, but it can also provide a remedy. Foreign competition is shut out; if the home producers come to terms they will have the control of the output and of prices in their hands. This general enunciation of the origin of monopolistic combinations may be supported by a two-fold proof. First, in cases where their existence is not due to a tariff they are nevertheless sheltered by other circumstances from foreign competition—by a natural monopoly, by cost of carriage, or by production of a

special class of goods. Conversely, a Trust has never been formed in an industry exposed to the competition of foreign goods of a similar quality. Thus the tariff, by an artificial limitation of the field of competition and by an equally artificial stimulation of the industry, doubly encourages Trusts.

Of all European countries Russia has surrounded herself with the highest tariff wall—an average *ad valorem* duty of 131 per cent. According to the estimate of a recent investigator, Russia has also created a record in Trusts. M. Leroux-Zuyeff declares that there are at least nineteen hundred Trusts and Syndicates in different parts of the Empire. Some are in the same class of goods, since communication is bad, and thus even internal competition is hampered. 'The syndicates of manufactured goods, however, flourish mainly not as a result of the slow and dear railways, but of the tariff wall. This is shown by the fact that there are syndicates which keep up prices in districts of the Vistula Provinces, where, were it not for the tariff, cheap German goods would be obtainable at Berlin or Dresden prices.'¹

¹ Leroux-Zuyeff. 'Growth of Syndicates 1899-1911,' quoted by *Westminster Gazette*, March 26, 1913.

The prices of manufactured articles are on the average twice as dear as in Germany; the peasant suffers, since he must pay exorbitantly for his implements, nails, wire fencing, and corrugated iron; the manufacturers in the finishing trades suffer, since they must buy so dear the semi-finished articles which serve as their raw materials. The intermediate producers make profits, but in general efficiency and enterprise they are far behind makers in other countries. So acknowledged is the evil, that the Government has under consideration a scheme for the State control of Trusts. The Prime Minister, M. Kokovtsov, has confessed that the real method by which to rescue the nation from the Trusts would be a reduction of the tariff, but that this would be followed by such a collapse of industry that the remedy would be worse than the disease. In other words, after twenty years of high Protection, Russian manufactures cannot yet stand alone. The statement also throws a curious light on the assertion often made that the Trust and the Syndicate are especially efficient forms of industrial organisation.

Although the German tariff aims first and foremost at the protection of agriculture, in

which for obvious reasons combination is less feasible, it also, as has been shown, protects manufacturers, and more particularly the manufactures in which Kartells have flourished. In fact, the tariff of 1879 is said to have been the result of an agreement between ironmasters and the agricultural party, by which the former supported protection to agriculture and gained in return duties upon iron and steel. Coal, which is not benefited by the tariff, enjoys a natural protection through cost of transport; but it is noteworthy that the Coal Kartell's weakest zone is the coastal district, where it meets the competition of sea-borne coal. The connection between Kartell and Tariff is acknowledged in Germany. Dr Tschierschky, the editor of the *Kartell-Rundschau*, a monthly periodical which is the organ of the theory and practice of the Kartell movement, is naturally a strong supporter of these organisations; in a recent textbook¹ he speaks with no uncertain voice on the Tariff question. He has no doubt, he says, that the majority of German and Austrian industries would not be able to adopt the Kartell form without the aid of a protective tariff. 'And,'

¹ Tschierschky. *Kartell und Trust*, 1911, p. 28.

he adds, 'I am of the opinion that a number of our strongly organised Kartells—for example, those in the iron industry—would very soon have been shattered by foreign competition if the recent German tariff had reduced the protective taxes instead of retaining them at their former level.' Dr Tschierschky also gives a singularly frank description of the working of this joint Kartell and Tariff system. Protected industries are able, by the means of Kartells, to take full advantage of the tariff in the home market. The profits they gain from these high prices enable them to expand their production till it outstrips the home demand (the demand, that is, at the high prices) and must find an outlet abroad, even at lower prices. To protect themselves against such dumping, other nations raise their tariff walls. 'So one thing leads to another (the inevitable result of any form of Protection), and forces the Kartells to dispose of their exports under increasingly unfavourable conditions. Under a protective policy such exports are an occasional necessity of all highly developed industries, without which their level of production could not be maintained. But the combination of Protection

with the Kartell system transforms this policy in certain circumstances into a serious economic danger, since it not only becomes customary but also has a most prejudicial reflex action on consumers at home, since the loss is compensated by an addition to the home price.¹

Also, as such 'dumping' usually occurs with raw materials and semi-finished articles, the German finishing trades are doubly hit, by the cheap sales to their rivals and the high prices they must themselves pay. Dr Tschierschky's own remedy for these evils is a more thorough and 'systematic Kartellisation' of all German industries, that they may fight on more even terms for their share of the plunder.

Across the Atlantic, in a younger industrial country, the connection of Tariff and combine is also admitted by candid observers. Canadian Protection has been less stringent than that of the United States; but in many lines of industry it is effective, and the small market (a population of 7,000,000) makes it easy for producers to restrict or abolish competition. A few years ago a deputation of farmers told the Canadian Minister of

¹ Tschierschky, pp. 86-7.

Finance that there were at least sixty manufactures in the Dominion in which production was in the hands of five firms or less. Sugar refining is one. In this the refiners sell to a syndicate of wholesale merchants, and the two bodies agree to maintain prices at a level raised by the full amount of the tariff. Until 1910 the iron and steel industries received bounties, as well as protection, and these are still given to petroleum, manilla fibre, and lead. Canadians justify these last by the Tariff policy of the United States, in which there is a prohibitive duty on lead, while fibre from the Philippines pays an export duty when shipped to countries other than the United States. The iron and steel bounties during the last year of their existence amounted to nearly two million dollars. Production naturally increased under this stimulus, and in some branches of manufacture, such as agricultural implements, Canada has a considerable export trade. Yet the home consumer has not benefited. In 1911 a Canadian-made harvester, which cost £37 in Alberta, could be delivered in England for £29.¹ There is little wonder that in 1911-2 the revolt of the Western farmers took articulate form.

¹ *The Economist*, May 20, 1911.

The relation between Tariff and Trust is clearly seen in a curious attempt at remedial legislation, passed in 1910, by which the Government, when satisfied that a Combine is controlling the production or sale of any article, can diminish or abolish the duty in that particular case. Thus piece-meal Free Trade is suggested as the only remedy for monopoly. A clause in the Customs Act had given the Government this power in cases where the Supreme Court had decided that a monopoly existed, but under the recent law the Government may, on the complaint of any six persons, appoint a board of inquiry and act on its report. So far it has only once been put into force, against the United Shoe Machinery Company, a subsidiary of the New Jersey Trust. The application was made in November, 1910, and after many delays had been interposed by the combine, the Board got to work in October, 1911. In November, 1912, its Report¹ was published. Two of the three Commissioners stated that the company will not sell its machines, but leases them to manufacturers on such 'tying' conditions that the manufacturer is practically compelled

¹ Dominion of Canada, *Labour Gazette*, November, 1912, pp. 464-76.

to take the complete equipment of his factory from the combine. Competition is almost impossible, and of the 145 Canadian boot and shoe manufacturers 138 are its customers. The Report recommends that no proceedings shall be taken in regard to the fines to which the combine is liable, for at least six months. This proviso perhaps arises from the fact that the parent Trust is under prosecution in the United States.

The United States is a country abounding in natural resources, possessing a vast market and unrivalled means of communication within its own boundaries, nourishing a race of citizens who show special ability, invention, and enterprise in all branches of industry and commerce. In many respects it combines the advantages of the Old and New Worlds. Protection seems wasted on such an industrial giant. Yet for nearly fifty years the United States has been under a system of more consistent far-reaching and carefully considered Protection than any other country has experienced for an equal length of time. The average *ad valorem* rate of duty on all dutiable articles in the various tariffs since 1864 has ranged from forty to fifty per cent. On many articles it has been, of course, far

higher, and in fact prohibitive. The general outline of American Tariff history has been given in a previous chapter; here it may suffice to bring out a few salient facts. There are in America at the present time many great Trusts (for we may neglect judicial orders for their dissolution) whose connection with the Tariff has never been denied. Chief among them are—the United States Steel Corporation, with its constituent companies (such as the American Tin Plate Company), the American Sugar Refining Company, the ‘Beef Trust,’ the National Cash Register Company, the International Harvester Company, the International Paper Company, and the American Woollen Company. These Trusts all control at least sixty per cent. of the national production in their own line of business, and supply American people with such necessities as iron and steel manufactures of all kinds, sugar, meat, agricultural machinery, printing paper, woollen clothing, and blankets. The American Tobacco Company controls nearly the whole output of the people’s favourite luxury. Under the last American Tariff—the ‘Payne-Aldrich Tariff’ of 1909—imports of all foreign commodities of these classes were subject to heavy duties.

Much of the tariff is complicated by an intricate system of combined specific and *ad valorem* duties, but the averages given below err, if at all, on the side of under-statement:—

COMMODITY.	DUTY.
Iron and Steel Manufactures	30 to 45 per cent. <i>ad valorem</i> .
<i>Examples</i> —Wire	35 to 45 per cent „ „
Screws	3 to 10 cents per lb.
Tin Plates	1·2 cents per lb.
Sugar (raw and refined)	.95 to 1·95 cents per lb.
Saccharine	65 cents per lb.
Molasses	3 to 6 cents per lb.
Cattle	27½ per cent. <i>ad valorem</i> .
Sheep	\$1·50 per head.
Beef and Mutton	1½ cents per lb.
Cash Registers	30 per cent. <i>ad valorem</i> .
Machinery and Steam Engines	30 per cent. „ „
Printing Paper	\$6 a ton.
Woollen Goods	(average) 92 per cent. <i>ad valorem</i> .
Tobacco (manufactured)	35 to 50 cents per lb.
„ (Cigar wrappers)	\$1·85 to \$2·50 per lb.
„ (Snuff)	55 cents per lb.
„ (Cigars and Cigarettes)	\$4·50 per lb. and 25 per cent. <i>ad valorem</i> .

Several of these duties show reduction of rates from those imposed under the M'Kinley or the Dingley Tariffs, yet they afford very efficient shelter to their beneficiaries. This shelter, in several cases, is not against foreign competition, for foreign competition

was scarcely felt ; it has been used as a cover under which to form huge combinations and to exact high prices. The Wilson Tariff of 1894 had made in some directions timid experiments in lowered duties; the Dingley Tariff of 1897 was a 'return to the policy of high and all-embracing Protection.'¹ Its passage was followed, from 1898 to 1901, by the greatest outburst of manufacturing activity in one special branch that the United States had yet seen. That branch was the manufacture of Trusts. In these four years at least 150 large combines were formed, with a total capitalisation of more than \$5,000,000,000. The Paper Trust is an excellent example of the process. Before the Dingley Tariff there was a ten per cent. duty on imported wood pulp (paper's raw material) and a fifteen per cent. on news-print paper. But none was imported. The United States, with its great forest lands and its improved machinery, could make paper as cheaply and efficiently as any other country, and could export to Europe when its own wants were supplied. But like other trades it suffered from the prevailing high prices, and when the Committee of Ways and Means were considering the coming tariff in

¹ Taussig. *Tariff History*, p. 321.

1896, representatives of the paper manufacturers appeared before it to plead, not for a general reduction of the tariff, but for an increase in their own schedule. The future president of the Trust promised an amalgamation which would produce economy, efficiency, and lower prices, while he scouted the suggestion that it would ever be led to restrict output. The duty on paper was raised to thirty per cent., that on wood pulp to \$1.67 per ton, and the International Paper Company was formed with a capital of \$45,000,000 and a control of at least eighty per cent. of the output. The stock had been well watered, and to pay dividends it was necessary to advance the price of paper continuously. According to the testimony of newspaper owners before the Industrial Commission in 1901, the total advance amounted to more than \$8 a ton at that time (the increase of duty being \$3 a ton), and the yearly cost to two important newspapers was \$150,000.

In the present year¹ the Newspapers' Association has charged the Trust before the Ways and Means Committee of Congress with the monopolisation of wood lands and the systematic restriction of home output, while

¹ January 17, 1913.

its exports were maintained and sold at cheaper rates.

Another admitted child of the Tariff has been the American Tin Plate Company, now a constituent of the United States Steel Corporation. Before the M'Kinley Tariff of 1890 there was no real effort to manufacture tin plate in the States, and the duty of 1 cent per lb. did not check large importations of the Welsh product. The M'Kinley Tariff imposed a duty of 2·2 cents per lb., the protective intention of which was shown by a provision that it should be repealed in 1896 unless it could be shown that the home output for any of the intervening years was equal to one-third of the imports for the same or any other of those years. Thus the advocates of the duty were free to compare the year of largest domestic production with the year of smallest importation. Pig-tin, the only raw material of the industry not produced to any extent in the United States, was admitted free after 1894, and the general fall in iron prices after 1890 made the duty of 1·2 cents in 1894 and of 1·5 cents since 1897 as protective as the earlier tariff. The tariff certainly established the industry; owing to the lack of skilled American labour, a large immigration

of Welsh tin-plate workers was induced by the offer of high wages; the output increased from 13,000,000 pounds in 1892 to 446,000,000 in 1897, while imports fell off in nearly the same proportion. By 1898 forty-one firms were engaged in the manufacture with a total capitalisation of about \$5,000,000. This is one side of the picture. The colours on the other side are less brilliant, but the general effect is even more striking. The American consumers—the various canning companies—have had to pay in the last twenty years from 65 to 95 cents per box more for their tin plate. By 1897 there were more than enough mills to supply the market and ‘demoralisation’ (that is, lower prices) was feared. It may be noted that the original promoters of the duty had assured Congress that they could sell at a cheaper rate than the Welsh importers. In 1897 even its friends admitted that the trade was in an unhealthy state, and during 1898–9 the remedy of combination was sought. Thirty-nine plants (fifteen of them in grave financial difficulties) combined in the American Tin Plate Company. It was wildly over-capitalised—\$48,000,000—although, as already remarked, the most liberal estimate could not place the amount of

capital in the firms before the union at more than \$5,000,000. The price of tin plate was, of course, raised, and for two years the company paid small dividends on its stock, at the expense of its reserve fund. Then it thankfully passed, at a further inflated valuation, into the hands of the United States Steel Corporation, and has shared in its vicissitudes. The complaints of the canning industries have been met by a clause of the Dingley Tariff, by which the duty on tin plate is refunded if the finished receptacle is used for export. Thus the fruit canning, tinned meat, and Standard Oil industries are allowed to benefit by Welsh tin plate, while the American consumer must support the exotic industry in its forcing-house. The Standard Oil was also a beneficiary of the Tariff in another way, as, though petroleum was nominally on the free list of the Dingley Tariff, there was nevertheless a provision that a countervailing duty should be imposed against any country imposing a duty on American exports of petroleum. Thus Russian petroleum, which was at that time the Standard's most serious rival, was kept out of the United States.

The Sugar Trust, again, was the immediate

product of excessive competition. Out of forty refineries eighteen had perished before the formation of the Trust, and of the survivors only six were kept running by the organisers. But this competition was itself due to the duty on refined sugar, which had attracted an overplus of capital into the home refining trade. The Trust was formed in 1887. The M'Kinley Tariff of 1890, while admitting raw sugar free, maintained a duty on refined, and compensated the home sugar grower by a bounty. Under the Wilson Bill of 1894 this bounty was abolished, but an *ad valorem* duty of 40 per cent. imposed, and the duty on refined was kept with an additional impost on foreign bounty-fed sugar. By the Dingley Bill the duty on raw sugar was increased and made specific on both raw and refined sugar, but the latter's special advantage was retained. Both in 1894 and 1897 the American Sugar Refining Company exercised a notorious influence on the Senate's Tariff deliberations, so notorious that an investigation was held in which it was proved that Senators had at the time made profits by speculation in sugar stock. Mr Havemeyer, President of the Trust, testified that it was the practice of the Company to contribute

to Republican party funds in Republican States, and to Democratic in Democratic States. 'We get a good deal of protection from our contributions,' he admitted. Later, before the Industrial Commission of 1898-1902, he also gave some illuminating evidence. 'As a business proposition it is right to get out of the consumer all that you can. . . . I do not care two cents for your ethics. I do not know enough of them to apply them. . . . There is probably not an industry that requires a protection of more than ten per cent. *ad valorem*.' He was asked to name the industries that were over-protected, and replied: 'Well, I have said already that there is only one that is not, and that is the Sugar industry.' Yet a few years before he had estimated the profits derived by the Trust from the tariff at twelve million dollars a year.

Perhaps the frankest exposition of the protected manufacturer's view of the functions of the guardians of the national well-being occurs in his innocent complaint of the treatment the Sugar Trust had experienced in 1897, when it was still unpopular from the scandal of 1894. All its efforts had only succeeded in maintaining the duty on refined sugar, not in raising it.

‘Why, I can recollect,’ groaned Mr Havemeyer to the Industrial Commission, ‘when I went down to Washington as an individual, as one of the firm of Havemeyer & Elder—now I want you to bear that in mind—the invitation was, “Come in. What do you want? A cent a pound? You should have it. Of course we will give it to you; you deserve it.” When I went down there as a representative of five times the capacity of Havemeyer and Elder, because I was in a Corporation, the greeting was, “Get out of here. You cannot get anything, no matter what it is, now.”’¹

The International Harvester Company was formed in 1902 by a merger of five firms. It now controls about eighty to ninety per cent. of the trade in agricultural implements, and is at present under suit by the Government for various alleged illegal and injurious practices. The National Cash Register Company of Dayton, Ohio, whose ingenious products are seen in almost every shop, was formed in 1890, and enjoys not only the protection of its patent, but of the same duty as the Harvester Company. On February 17, 1913, its president and twenty-eight other

¹ *Vide* for these quotations, Mr Havemeyer’s evidence before the Industrial Commission. Vol. I., pp. 101, 118, 133-4.

officials were sentenced to varying terms of imprisonment for illegal business methods. The Judge, in pronouncing sentence, declared: 'I have never heard of a legitimate concern having a competition department whose sole duties were, not to sell goods but to prevent the sale of goods by competitors. The only way I can characterise them is by saying that they were mean and petty. This concern made a cash register which was of such value to the business world that millions of dollars could have been made legitimately.'¹ An appeal has been lodged against the sentence, and the company has since softened some hearts among its fellow-citizens by great exertions for the relief of sufferers from the Ohio floods.

It would be monotonous to go through Trust after Trust, showing its dependence on the tariff. One more instance may suffice, and it shall be taken from the Trust which has wrought the most widespread evil to the general public. Except for the three years of the Wilson Tariff, the United States has for years maintained high duties on imported wool for the benefit of the American grower. Then to compensate the American

¹ *New York World Report*, February 18, 1913.

manufacturer, there was erected an elaborate and towering edifice of *ad valorem* and specific duties on imported woollen goods, which are equivalent in some cases to more than 200 per cent. *ad valorem*. This edifice in its latest form is the famous 'Schedule K' of the Payne-Aldrich Tariff of 1909. The protection of the woollen industry has had some remarkable results. In the first place, the quantity of wool consumed in America has decreased in the last twenty years by about fifteen per cent. The population in the same period has, of course, increased, so has the consumption of cotton. In other words, the American population is at present wearing very little pure wool, and a great deal of mixed wool and cotton. 'Very few Americans now sleep under all-woollen blankets.'¹ Yet the woollen mills are not able to produce cloth of sufficiently good quality to satisfy the rich American. He or she buys clothes in England or France, or pays double for the imported article in America. It is not necessary to labour this point, which is admitted by all Americans, by all visitors to the States, and by the price lists of high-class American tailors.²

¹ *New York World*.

² *Vide* Shadwell. *Industrial Efficiency*, II., p. 242

Meanwhile the vast bulk of the American population shivers in high-priced 'cotton substitutes for wool,' and one of the most earnest agitators against the woollen tariff is the National Society for the Prevention of Tuberculosis. The American Woollen Company, formed in 1899, with a capital of \$50,000,000, has made its profits out of the health of the people, and there has been an evil alliance between the wool growers of the West and the manufacturers of the East against the consumer. It was said, at the time of the Dingley Tariff, that the president of the Wool Manufacturers' Association urged his colleagues to leave their mills to be run by the office boy if need be, that they might be present to exercise their influence on the revision of the Tariff at Washington.

But since the Presidential Election of November, 1912, a change has, for the time at any rate, come over the spirit of American politics. A Democrat, Woodrow Wilson, pledged to reduce the Tariff, was returned by an unprecedented majority. The great obstacle to Tariff reduction in the past, apart from the interests involved, had been the revenue received from the non-prohibitive duties and the difficulty of raising it, under

the Constitution, from other sources. In the year 1912-3, however, a sufficient majority of States have passed a Constitutional amendment legalising a national income-tax. This, at rates of from 1 to 4 per cent., is to be imposed on all incomes over \$5000 (£800), to compensate for Tariff reductions. The new ('Underwood') Tariff Bill is the most serious attempt to alter the Tariff which has been made since the Civil War. Its character may be realised from the changes it makes in the duties already quoted in this chapter. On the new free list are placed meat, wool, coal, iron ore, wood pulp, agricultural implements, cash registers, steel rails, fence wire, nails, and printing paper. On many other articles of steel and iron manufacture the duties are greatly reduced, on tin plates to 20 per cent. *ad valorem*. The duty on raw and refined sugar is at present reduced by 25 per cent.; after three years sugar will be admitted free. Live cattle and sheep are charged 10 per cent. *ad valorem*. In woollen goods the specific duties are swept away, wearing apparel is reduced from an average of 80 to 90 per cent. to 35 per cent., flannel from 93 to 30 per cent., and blankets from 72 to 25 per cent. Protectionists say that

industry will be ruined; Democrats declare that Trusts will be swept away; impartial observers in America and Europe see the first opportunity for the United States to test her often-asserted efficiency by the touchstone of moderate outside competition, and for the American consumer to buy in a more natural market.

CHAPTER VIII

THE UNPOPULARITY OF TRUSTS

Corporations are not in business for their health.—Mr HAVEMEYER.

Companies corporate, dwelling in diverse parts of the realm oftentimes . . . made among themselves many unlawful and unreasonable ordinances as well in prices of ware and other things, for their own singular profit, and to the common hurt and damage of the people.—*Act of Parliament*, 1437.

THE monopolist has never been a popular member of society, and the complaints brought against him, though differing in detail, have always been the same in outline. In the *locus classicus* of English law, the 'Case of Monopolies' (Darcy v. Allein, 1602), the Court declared that three evils always attended upon monopoly. First, 'the price of the same commodity will be raised, for he who has the sole selling of any commodity may and will make the price as he pleases ;' second, 'the commodity is not so good and merchantable

as it was before;’ third, the monopoly ‘tends to the impoverishment of divers artificers and others.’ High prices, inferior goods, questionable methods of competition and finance—these are still the chief heads under which modern Trusts are arraigned. Even their defenders, unless they possess the frankness of Mr Havemeyer, do not attempt to justify some episodes in Trust history, but prefer to pass them over as regrettable incidents or errors of judgment. The verdict of one impartial American economist is incisive. ‘Only two rather small classes are probably ready to give thanks for the concentrations of industrial and social power which go by the name of Trusts—those who draw wealth and power from them, and those who, desiring a general absorption of the control of production by society, think that the Trusts are forwarding their aim; and some of the former class perhaps would not give thanks without certain haltings of conscience, while many of the latter account the case as one of those in which God makes the wrath of man to praise Him.’¹

Previous chapters have shown that Trusts

¹ C. E. Edgerton in Ripley. *Trusts, Pools, and Corporations*, p. 70.

in general, and various Trusts in particular, are unpopular in America. This chapter will consider the attitude of different classes of the people. The producer, the competing manufacturer, the workman, the consumer, the investor, each in his own capacity has his own grievance against the Trust, and in the universal capacity of American citizen each shares in the general grievance against organisations which are asserted to be a menace to public life.

1. *Producers and Competitors.*—Those who supply materials or tools to any industry are at once at a disadvantage when the industry is organised as a Trust. Even when the Trust has not completely monopolised the market, it yet can exercise sufficient control to hold prices at the level which seems good to it. Thus the Standard Oil fixes the price of crude petroleum, and the great beef and meat-packing firms control cattle prices over large areas of the United States. There are two possible remedies for the producers. They may combine together and attempt to fight monopoly by monopoly. This the oil-men did with little success in the early years of the Standard, and the Kentucky tobacco growers, with considerably more effect, in 1907 and

1908. Or they may strike a bargain with the Trust and secure for themselves some advantage. This will not be feasible unless they are themselves a strong and comparatively small body, and unless by an extra turn of the screw the additional profit can be extracted from the ultimate consumer. So wool grower and manufacturer, sugar producer and refiner, have helped one another in the past to secure the tariff duties they each desired. The Wire Nail pool of 1895-6 had an agreement with the manufacturers of nail-making machines, by which the latter refused to sell to companies outside the pool.¹ Thus men attracted to the business by the high prices which the pool obtained found the way blocked at the outset. In recent years there has been a triple agreement between the Sugar Trust, Hawaiian sugar producers, and the beet sugar manufacturers of California. Under the Payne-Aldrich Tariff, sugar from Hawaii and the American Colonies was admitted free, but the Trust by this agreement took the bulk of it at a quarter of a cent below the market price per lb. This was said to be a token of gratitude from the Californian manufacturer to the Trust for the latter's

¹ Ripley. *Trusts, Pools, and Corporations*, p. 52.

support of the duty on raw sugar. As a result, the great fruit-growing State of California has been unable to establish a successful jam industry owing to the high cost of sugar.¹

The Trust is formed to eliminate competition, and the methods by which it strives to attain that end are not always too scrupulously chosen. They have, indeed, included practices which judges have declared to be criminal or fraudulent; the following examples are taken from sworn testimony in the Courts or before Government Commissions. The Standard Oil and other Trusts (for example, the Explosives combination) have systematically cut prices and undersold their rivals in districts where competition was strong, recouping themselves by higher prices in places where the monopoly was secure. The Standard, through its influence with the railroads, is alleged to get secret information of the shipments and destinations of 'independents,' and on more than one occasion Standard employees have been found taking samples of rival oil from the tank-car—episodes explained as 'mistakes' by higher officials. The Standard in its earlier years, the American Tobacco Company from 1901

¹ *The Economist*, December 24, 1910.

to 1905, and the International Harvester Company in 1903, all acquired independent firms and continued for some years to carry them on under their old names without acknowledging the connection. These 'bogus independents' were at times put forward in proof that the Trusts in question were not monopolistic. The boycott of middlemen and retailers who handle independent goods, and the enforcement of contracts for exclusive dealing, are practices so common that there is no need to specify particular Trusts in this connection. It must be remembered, too, that in many cases firms bought out by the Trusts yielded up their independence with great reluctance, and often had the bitter experience of seeing their old works shut down or dismantled.

That these methods are not obsolete has been proved several times within the past few months. In March, 1913, the Commissioner of Corporations reported on the International Harvester Company that it had been able to secure its 'high degree of monopoly' by the use of 'objectionable competitive methods,' some of which are described above; it has also an advantage over independent firms in its power to grant long credits. This

power was due partly to the large resources (a capital of \$140,000,000) it had acquired by combination and also to 'financial support of an exceptional character through its connection with J. P. Morgan & Co., its fiscal agents. The company has also secured large loans from John D. Rockefeller,' whose son-in-law was a member of the combination.

The sentence of the National Cash Register officials in February, 1913, has already been described. Amongst the charges brought against them were buying out competing businesses, making unworkable imitations of competing machines, and harassing applicants for patents with suits based on alleged previous applications.

2. *Workmen.*—Advocates of Trusts and the Tariff often claim that under these benignant influences American labour enjoys steadier employment, higher wages, and better conditions than would otherwise be the case. It is worth while to examine the claim more closely. The invariable sequel of a Trust formation is the closing down of some mills. Hence, at the outset at all events, unemployment is not reduced. But, in addition to this, Trusts show themselves quite as ready as single firms to meet times of crisis by

restricting output and dismissing superfluous workmen. During the Wire Nail pool of 1895 one company, which at its full capacity employed a thousand hands, met the slackened demand due to the pool's high prices by cutting its staff down to three hundred.¹ It was notorious in the crisis of 1907 that unemployment was at least as rife in 'Trusted' industries as elsewhere. From the Steel Corporation's own report for 1908 we learn that it had reduced the number of men employed by twenty per cent., while retaining the dividend to shareholders at the rate of the previous year. The effects of Trusts on industrial conditions was among the questions debated in 1912 by a symposium of the American Academy of Political and Social Science.² It was several times asserted that in the Steel Corporation, the largest and most typical of all the Trusts, the average rate for unskilled labourers was sixteen to seventeen and a half cents per hour, and that these labourers (two-thirds of the Steel Corporation's employees) cannot earn even \$800 a year, an income taken by American social statisticians as the necessary minimum for

¹ Ripley. *Trusts, Pools, and Corporations*, p. 62.

² Vide *Annals of the Academy*. Philadelphia, July, 1912, pp. 3-59.

a family of five persons. A large number of the workmen have a twelve-hour day, and, in some special processes where continuity is desirable, a seven-day week. These facts were not denied by supporters of the Trusts, but they urged that wages had increased by twenty-five per cent. since the formation of the Corporation, that 'many business and professional men' also work a twelve-hour day, and that the Corporation had taken steps to safeguard the working processes, to organise hospitals for injured men, and to provide pension and profit-sharing schemes. These schemes, however, are themselves criticised by trade unionists and other advocates of labour. The pension scheme only applies to those who have been for twenty years in the service of the Corporation or its original companies, and a dismissed man has no claim on it, while the rules of the profit-sharing plan state that the benefits proposed 'are to go, not as a matter of right to each employee who holds stock, but only to those whom the executive officials may consider loyal.'¹

These provisions make it both difficult and dangerous for a workman to attempt to

¹ *Annals of the American Academy of Political and Social Science*, p. 17.

better conditions of work, and among the older men submission is especially politic, for if discharged after eighteen or nineteen years' service their pensions are forfeit. Labour organisations declare that the policy of Trusts is to crush out all attempts at unionism, while Trust officials reply that they are merely maintaining the principle of the 'open shop.' The fact remains that there is no official recognition of labour organisations; the heads of the Corporation have often expressed their willingness to get in touch with the workmen, but any complaints or requests must pass through the hands of so many subordinate officials that it is easy to interpose delays and even threats.

Since 1892, when amid scenes of violence and bloodshed unionism was driven from the Carnegie mills at Homestead, there has been little labour organisation amongst the large iron and steel works. When the Steel Corporation was formed in 1901 very few of the plants amongst its constituent companies employed union labour, and since that date strikes, in which the Corporation has always been successful, have ended in the practical elimination of unionism from all its branches, and its power over labour is practically unrestricted.

For it must be remembered that the American law takes much less cognisance of industrial conditions than the English, so that their improvement can only come about through the goodwill of the employer or through bargaining between masters and men. The single unskilled worker can hardly strike a very favourable bargain with a 'billion dollar' Trust.

The historians of Trade Unionism, Mr and Mrs Webb, say of the Trust: 'In the employment of labour, especially of a low grade, it may impose very nearly whatever conditions it chooses. It can shut down here and build up there, without let or hindrance. It can maintain whatever brutalising or deteriorating conditions of labour it thinks profitable to itself; it can disregard with impunity all precautions against disease or accident; it can exact whatever degree of speed it pleases . . . while it may, as a matter of convenience, come to terms with the small minority of skilled and well-paid workmen who might have stiffened the rest.'¹

One reason why labour organisations do not flourish in the Trust atmosphere is that a large

¹ *Vide* S. and B. Webb. *Problems of Modern Industry*, Introd., p. xix.

proportion of the workers are recent immigrants from Southern and Eastern Europe. This is especially true of the metal and textile trades. Mr John Fitch says of the steel workers: 'You will not find an Anglo-Saxon among the unskilled; you will hardly find one in ten who is American born. Sixty per cent. of them are unnaturalised, and a third are unable to speak the American language.'¹ When in the crisis of 1907 the Steel Corporation were forced to issue 'certificates' (or inconvertible paper money) in lieu of cash wages to their employees at Pittsburg the explanatory text was printed in half a dozen of the more remote European languages. In a subsidiary industry of the Harvester Company—a twine factory at Auburn—550 of the 700 workpeople were unskilled immigrants. Of the condition in this factory the Wagner Commission of Investigation reported that 'they showed absolute disregard for existing provisions of the law.' Recently these employees struck, whereupon the company threatened to dismantle its works and to transfer its industry to Europe—a threat which shows little tenderness for American labour.

¹ *Annals of the American Academy*, p. 10.

An English visitor¹ has described 'Hunkeyville,' a suburb of the Steel Corporation's model works and town of Gary on Lake Michigan. Here live the Poles, Croats, Roumanians, Russians, and Servians who form the bulk of the labourers in the works. 'Every second house seemed to be a saloon. . . . The Hunkeys live in parties consisting of from eight to as many as thirty members, generally occupying two or three small rooms. . . . In most cases dirt and disorder ruled supreme.' The impression made on Mr Zimmern by this squalid district is summed up in his comment on the exclusion of professed Anarchists from the States. 'It is only part of the general American policy of Protection. The Trusts prefer to make their own Anarchists.' This description might be attributed to the prejudices of a hasty observer, had not Mr Shadwell's careful comparative investigations in England, Germany, and America pointed to a similar conclusion. He found American factory laws 'elementary and very imperfectly observed,' and conditions of living in the iron districts unspeakably hideous. 'Compared with Pittsburg and its neighbourhood, Sheffield is a pleasure resort,'

¹ Mr A. E. Zimmern, in *The Highway*, May, 1912.

while the 'unrelieved gloom and grime' of Homestead surpasses Pittsburg. In most cases these alien workers are single men, or men who have left their families in Europe. A family could not be supported in the States on the wages they receive.¹

These industrial conditions are not peculiar to the Trusts: they prevail on a smaller scale in the independent works; but there is apparently a general opinion amongst American observers that conditions of unskilled labour have undergone little improvement in the last fifteen years, during which time the Trusts might have been expected to exert some influence. Individual employers and corporations are, of course, known for the care and interest they show for their employees' welfare. The advertisements of the National Cash Register Company have familiarised English readers with the pleasant conditions that exist in their factories at Dayton.

But on the whole, inside and outside the Trusts, unskilled labour receives a bare subsistence wage, factory laws are laxly observed, no interest is taken in housing conditions, and trade unionism is discouraged.

¹ Shadwell. *Industrial Efficiency*, II., p. 46; I., pp. 822-84.

3. *The Consumer*.—Little more need be said on the question of prices; if the Trust cannot control them it is, from the point of view of its promoters, a failure. Indeed, Trusts themselves seldom assert that their prices are lower than under a competitive régime: the claim is rather that prices are steadier. The same claim is put forward for Kartells. To this it has been replied that 'it might be better if prices are to rule high that they should not be steady; for although an equable climate is a desideratum, there is no graver charge against some climates than that they are so equable.'¹

Professor Jenks's exhaustive investigation of the Sugar and Oil Trusts in 1899 brought him to the conclusion that, except in years when competition threatened, the difference between the price of the crude and the refined products, in spite of progressive improvements and economies of manufacture, had always been considerably higher than before the organisations were formed, while there had been 'little if any effect towards steadying prices.' In fact, if we consider the admitted practice of price discrimination between competitive and non-competitive districts by the Standard

¹ Macgregor. *Industrial Combination*, p. 199.

Oil Company, it would seem that the general price level is exceedingly irregular. On October 15, 1904, it varied from 7 cents per gallon in Cincinnati and 7.50 in Los Angeles (in both of which towns there was strong competition, so that oil was sold at a loss) to 23 cents in Montana and New Mexico and 20 cents in Colorado (where competition was extinct and the 'margin' above the price of crude oil was from 4 to 5½ cents a gallon), and included almost every intermediate price.¹ Mr Archbold, a director of the company, was asked by the Industrial Commission if they obtained prices above the competitive level. 'Well, I should think so. I hope that we do.' In the autumn of 1911 the American Sugar Refining Company admitted its power by publishing an elaborate defence of its action in raising sugar prices, a step which it justified by a shortage of raw sugar. The California Fruit Exchange controls the price of lemons throughout the States; lemons are protected from foreign imports by a duty of one and a half cents a pound. Recent complaints against the Chicago 'Beef Trust' accuse it of having raised the price of cattle

¹ *Standard Oil Company v. U.S.* Brief for the petitioner. Vol. II., pp. 432-6.

and meat in Argentina to an abnormal level, while depressing the price of chilled beef in the London market, in its efforts to get hold of the trade. Both in England and America the Sewing Cotton monopoly has raised the price and altered the size of reels. The extra halfpenny per reel is a heavy tax on the seamstress and the dressmaker.¹

But more even than the high prices at home does the American consumer resent the 'dumping' of Trust products at a cheaper rate in European countries. 'Dumping' is not an invention of the Trusts. It is resorted to occasionally by any firm which finds surplus stock upon its hands, just as the great drapery shops resort to 'bargain sales.' But the artificial conditions induced by Trust and Tariff, or by Kartell and Tariff, make dumping a permanent and inevitable policy for times of depression. Plants must be kept running, and prices at home must not be reduced, so the surplus is shipped overseas lest it should spoil the home market. This is an instructive commentary on the view of some German economists that the Kartell is a scientific attempt to eliminate unknown factors and

¹The United States Government has recently entered upon a suit against the American Thread Company under the Sherman law.

to fit production to demand. The Paper Trust, the Steel Corporation, the Standard Oil Company, and the International Harvester Company have all been accused of selling their products at cheaper rates abroad than at home. In 1903 the Steel Trust sold steel rails at \$20 a ton in Japan and at \$28 in the United States.

'The commodity is not so good as before;' this, said the Elizabethan Judges, was another result of monopoly. The Trusts have not escaped this complaint. When the Spanish war tax on tobacco was imposed by the United States Government, the Trust maintained profits not only by raising prices but by reducing the size of packets. The tax was removed in 1901, but the new prices and the new sizes were retained. The number of railway disasters arising from broken rails in the States has of late increased, and railway experts allege 'that the quality of rails laid down to-day under present conditions has deteriorated as compared with what it was a dozen years ago; that rails turned out by the Steel Corporation are inferior in quality and durability to rails purchased from the Krupps more than a dozen years ago; and that rails manufactured now by different

plants in one combination will not maintain a uniform standard of quality.’¹ Mr Corey, recently, in evidence in the Federal suit against the Steel Trust, said that one reason for acquiring the Tennessee Coal and Iron Company, with its plants for open-hearth steel, was the railroad complaints of frequent accidents with Bessemer rails. But, he added, ‘open-hearth production did not shut off complaints from the railroads.’²

There have been many complaints of the poor quality of petroleum exported from America. Some enemies of the Standard bring the unproved and sinister charge that the dangerous reduction in the legal flash-test of petroleum (that is, the temperature at which oil will explode) was made in 1879 in Great Britain, through the influence of the Trust. Similar charges are made concerning similar reductions in some of the States; in others, it is said that inspectors were bribed to pass oil as safe which in reality did not satisfy the test.³ A few years ago deaths and burning accidents in poor districts from the

¹ *Annals of the American Academy*, p. 249 (Mr A. E. Noyes).

² *New York World*, January 24, 1913.

³ Lloyd. *Wealth against Commonwealth*, chap. xxx.; *vide also The Great Oil Octopus* (pub. Fisher Unwin).

use of inferior petroleum were common items in English and American journalism. The growing use of gas (through 'penny-in-the-slot' meters) has helped to diminish this danger.

4. *The Investor*.—'American Sugar, American Tobacco, and Continental Tobacco, together with the Steel stocks, have been great favourites with the speculators, on account of their fluctuations.'¹ This incidental remark of Professor E. A. Meade will explain why the legitimate investor has cause to complain of Trust formations. The evils of corporation finance have attracted the attention of many writers, and, apart from cases of actual fraud, there are numerous instances of extravagant and reckless promotion. Extravagance has often been shown in the mere act of flotation, where the promoters and organisers have received an excessive proportion of the profits.

The syndicate organised by Mr Pierpont Morgan to underwrite the securities of the Steel Corporation 'netted a clear profit of \$62,500,000 in cash.'² In the organisation of the International Harvester Company in 1903 J. P. Morgan & Co. received for their

¹ Meade. *Trust Finance*, p. 150.

² Report of the Commissioner of Corporations on the Steel Industry, p. xix. *et al.*

services stock worth at the time \$16,500,000 for a payment of \$13,500,000, or a profit of \$3,000,000. Another instance is seen in the notorious operations of the Consolidated Tobacco Company in 1901. A small group of shareholders and directors of the American and Continental Tobacco Companies, who foresaw coming profits, offered to the unsuspecting majority of the shareholders four per cent. bonds in an *ad hoc* organisation, the Consolidated Tobacco Company, in return for ordinary stock of the American and Continental, which at that time paid no dividends. The shareholders accepted the offer, and in the next few years out of the secret accrued profits of the companies dividends of ten and sixteen per cent. were declared, and the small group of holders after paying their dupes four per cent. were able to keep the surplus.¹

Over-capitalisation is a common weakness of industrial amalgamations. It is the rock upon which many English combines have foundered, and many American ones also. Those that have survived in the United States have saved themselves by economies and

¹ Ripley, p. xxxiii. Commissioner of Corporations Report on Tobacco Industry, p. xxii. *et al.*

exactions from which both consumers and workmen have suffered in high prices and low wages. The desire to ensure a monopoly tempts the promoters to buy up firms at absurdly inflated prices, and when the corporation is formed it is saddled with a heavy weight of dividends, quite disproportionate to its earning capacity. The Steel Corporation, the International Mercantile Marine, and the Yorkshire Woolcombers' are all well-known instances. It needs courage and self-assured power before an organisation can adopt the Coats policy of allowing weak rivals to destroy each other in competition and waiting to absorb the fittest that survive. Another kind of 'watering' by a prosperous corporation is practised to conceal profits from the public eye by lessening the rate of dividend, as in the case of the Tobacco Trust. By general admission the plan of many Trusts has been to issue preferred stock and bonds up to the real value of the assets taken over, while the ordinary stock represents the speculative hopes of the promoter. The International Mercantile Marine, however, has not yet paid dividends even on its preferred stock. In some cases the stock of a monopoly is concentrated in a very few hands (ten in the

Tobacco Trust, less than forty in the Standard Oil), and few shares come into the market. But the fluctuations may be very violent. Standard Oil stock has never been listed on the New York Stock Exchange, but is sold 'on the curb' outside. In 1911, immediately after the dissolution judgment, it sold at 600; in the summer of 1912, when unexpectedly large dividends were declared by the component companies, it touched 1140. Tariff revisions and anti-Trust prosecutions are the speculator's opportunity, and the evil connection between Trusts and politics is drawn closer on such occasions. In 1903 Professor Meade, the chief authority on corporation finance, described Trust stock as 'uncertain, prospective, problematical.' In 1912 he reiterated his judgment. The common stock of the Steel Trust, he pointed out, 'the Corporation which started with the greatest natural advantages,' had not yet reached an investment position, and the same statement would apply to 'most of these huge, clumsy, and unwieldy corporations. They are not efficient. Their expected profits have not been realised. It would not be unfair to describe many of them as sore disappointments.'¹

¹ *Annals of American Academy*, pp. 86-8.

5. *The Citizen*.—The American, as citizen, perhaps endures worse evils from the Trust than he does in the particular capacities already considered. But the evils are more insidious and, until recently, have been less fully realised. In a sense the American citizen has been responsible for the growth of Trusts. His sins have been those both of omission and commission. Unregulated industry, lax company laws, tariffs promoted by favoured interests, politics avoided by the natural leaders of the people—these conditions have formed a soil in which monopoly could grow rank and strong. And in place of removing the conditions, the American people has contented itself with passing ill-defined anti-Trust laws, with promoting ineffective prosecutions, and with occasional outbursts of highly-coloured journalistic panic, as in 1899, in which Trusts were seen everywhere. Professor Ely quotes some newspaper headlines of the time. ‘Ice Cream Trust Now—Four Chicago Firms Unite.’¹

On the other hand, the American interest in gigantic undertakings and the admiration which is always felt for a record-breaker has created a curious kind of popularity for

¹ Ely. *Monopolies and Trusts*, p. 168.

the Trust and Trust magnate among the more thoughtless of the public. Daily papers and magazines give intimate details of the private life of a Rockefeller, a Morgan, or a Carnegie; and sober economists become almost dithyrambic in their description of the vast scale of the Steel Trust's operations or of the remote savages whose skins are lubricated and whose huts are illuminated by the products of Standard refineries. Statisticians while away spare moments in computing that the billion dollars of the Steel Corporation's capital, if coined in silver, would make a girdle round the earth, or, if equally divided among the population of the United States, would start each individual with a banking account. All this seems trivial enough, but it is symptomatic of a more serious state of things. The American people does not yet take its political evils seriously. Or, rather, it did not take them seriously, for there are signs of late that the sleeper has awakened. Since the day, more than eighty years since, when President Jackson accepted the maxim 'to the victors belong the spoils,' and when the 'Tariff of Abominations' was still fresh on the Statute book, American politics have been the prey of sectional interests and intrigues.

There was corruption before the Trust, but the Trust with its financial resources and wide powers was peculiarly fitted to take advantage of a corrupt atmosphere. The railroads showed the way, and the industrial corporations followed. Railroads and their monopolistic power are still a serious problem in the States. The Standard grew to strength on the nourishment of the railroad rebate, and the Commissioner of Corporations has recently recommended that the Steel Trust should be separated from its railroads, because by controlling the transportation of iron ore it is able to make extortionate charges to its competitors. The so-called 'Hard Coal Trust' arises from the control of the various railroads of Pennsylvania over anthracite coal. These roads own the majority of the mines, and the houses of the miners, and (until restrained by the Supreme Court in 1912) they compelled the independent mines, who had no other carriers, to sell their output to these companies at 65 per cent. of the average market price. It was said of this monopoly in 1901 that it 'practically owns the [Pennsylvania] Legislature, compelling it to do its bidding by means which, as all Americans admit, will not bear close

investigation.’¹ At the present time President Mellen, of the New York, New Haven, and Hartford Railroad, is under an indictment for conspiracy with the officials of the Grand Trunk line to retain and extend his monopoly, and there is in New England and Connecticut a widespread agitation against the alleged bad service, high charges, and generally oppressive methods of the New Haven system.

The industrial monopolies have been apt pupils of the railroads; their power has been seen in the Law Courts, the Legislature, and the Press. In America judges are elected by popular vote, and it is a significant fact that at election times candidates find it necessary to advertise their incorruptibility among the patent medicines in the subway cars.

At one time it was a practice of Trusts (especially of the Standard) to retain on their behalf the most promising members of the local Bar, and the ‘corporation lawyer’ is a well-known figure in American politics.

In the Press, Trust influence is also felt. The *Oil City Derrick*—the chief journal of the oil districts—after a career of sturdy opposition to the Standard, suddenly changed

¹ *The Economist*, April 27, 1901.

proprietors and sides, and a similar phenomenon has been observed in other cities. Even in journals not directly under Trust control inspired articles may appear. The 'Steel Press' of Berlin is a byword amongst German Socialists.

But it is in the State and Federal Legislatures that this sinister power is strongest. An English illustration may make the danger more clear. In England only two trades are legal monopolies and subject to direct Government interference—the railways and the liquor trade. Railway interests have always been sufficiently represented in Parliament, but it is in the liquor interest that the motto 'Our Trade our Politics' has been openly adopted and acted upon. It is the liquor interest whose influence at elections has to be reckoned with as an ally or an opponent of each candidate. This is an anomaly in England; in America politics have been the sport of such special interests.

The Ohio Legislature has always shown tenderness to the Standard Oil, and the Pennsylvania to the coal railroads. It has been declared that the assiduous 'lobbying' of Standard representatives caused the English House of Commons to reject, in 1899,

a Bill to raise the dangerously low flash-point test for burning oil.¹ In 1884 the Ohio Legislature returned as its representative to the United States Senate H. B. Payne, a Democrat, father of a director of the Standard. The Democratic party of Ohio declared that he was not their choice, and that his election was due to bribery and corruption. They forwarded to Washington very definite charges and a request for investigation; but the inquiry was quashed by a Committee of the United States Senate. In 1887 Senator Payne voted against the Inter-State Commerce Act; in 1888 he took an opportunity of denying that he had any connection with the Standard, whilst praising in high terms the efficiency and beneficence of that corporation.

The Chairman of the Federal Tariff Commission in 1883 was the Secretary of the Wool Manufacturers' Association; in 1884 the completed Tariff gave increased protection to woollen manufactures. The story of sugar in the Senate has already been told.² It is not so much that politicians are venal as that they are actual representatives of monopoly interests, with large holdings in oil, steel, wool, sugar, and the like. In 1903

¹ Cp. p. 227.

² *Vide* chap. vii.

John D. Rockefeller, junior, telegraphed to six Senators: 'We are opposed to any anti-Trust legislation. It must be stopped'; and the Senators voted as he indicated.¹ 'Place three hundred or four hundred Republicans or Democrats of approved honesty in Congress, continue them there for a few years under the temptation of such an alliance of public power with private business, and a considerable proportion of their number will yield to the temptation to make money out of Tariff legislation.'² Outside Congress the party machinery is permeated by the same influence. Mr Pierpont Morgan and his friends have usually been large contributors to Republican funds, believing that this party was their friend. In the 1912 election much of this assistance was transferred to Mr Roosevelt and the Progressive split, although Mr Morgan supported President Taft. Mr Havemeyer's statement that the Sugar Trust contributes to the dominant party, Republican or Democratic, in the important States has already been noticed.³ 'Tariff schedules,'

¹ Franklin Pierce. *Political Morality in the Making of Tariffs* (International Free Trade Congress, 1910), p. 15.

² Pierce, *op. cit.*, p. 7. President Wilson is at present making inquiries into 'lobbying' charges at Washington.

³ p. 203.

said Mr Woodrow Wilson in his campaign, 'have been made up for the purpose of keeping as large a number as possible of the rich and influential manufacturers of the country in a good humour with the Republican party, which desired their constant financial support. The Tariff has become a system of favours, which the phraseology of the schedule was often deliberately designed to conceal. . . . Government cannot be wholesomely conducted in such an atmosphere.'

The House of Representatives, which is answerable to the popular vote, has usually been a less secure stronghold of favoured interests than the Senate, whose members are at present elected by State Legislatures. But the seventeenth amendment of the Constitution, ratified early in 1913, provides that Senators shall in future be elected by a direct popular vote. This impending appeal to the people has induced the existing Senate, though with a bad grace, to swallow the distasteful medicine of the Underwood Tariff Bill, whereas in 1894 the last Democratic President, Cleveland, was thwarted on the Tariff question by the Senate.

The other stronghold of the Trusts, the Corporation Laws of New Jersey, Delaware,

West Virginia, and other States, is more difficult to attack. 'Some States have specialised in the making of charters which are virtually letters of marque, and authorise quasi-piracy carried on in other States.'¹ It rests with the people of the States concerned to elect Legislatures willing to tighten up the law. President Wilson, when Governor, did his best in New Jersey to abolish stock-watering and other malpractices. But the want of uniformity as between the States is a serious flaw, and the proposal of a Federal Corporation Law has drawbacks of its own. Apart from constitutional difficulties, both opponents and supporters of such a measure consider that it would give a 'clean bill of health' to existing Corporations and render them immune from further interference by the Government.

An impartial Tariff, a disinterested Legislature, and a strict and uniform Company Law throughout the States—if these conditions were fulfilled, Trusts would no longer have the power to harm social and political life, whilst their advantages of economy and efficiency would not be impaired. And the two first of these conditions seem to be gradually coming within the reach of the American citizen.

¹ Prof. J. B. Clark. *The Control of Trusts*, p. 75.

CHAPTER IX

CONCLUSION

PROFESSOR JENKS¹ has pointed out that there is nothing to be gained by exaggerating the Trust menace. These unions only appear, or, at least, only meet with any measure of success, in one quarter of the industrial field—in trades which require large amounts of capital, in which routine predominates, in which the product is of a uniform or bulky nature and freight expenses are heavy; or, lastly, in those which depend on costly patents or lavish advertising. We may add to this list the industries in which it is easy to obtain control of raw materials and those which are specially favoured by Tariff regulations. It is true that many branches lie outside the grasp of the Trust, but those which it reaches include some of the most important and fundamental of modern trades.

Another American writer emphasised this side of the situation some years ago, when he declared in the *New York Journal of Commerce*²

¹ *The Trust Problem*, p. 208.

² January 7, 1907.

that the United States were 'closely approximating to a condition in which our mineral properties, our larger manufacturing industries, and our transportation facilities will be controlled by a millionaire proprietorship, relatively small in its numbers, it is true, but irresistible in its influence over the Government, the legislative power, and the industries of the nation.'

We have, however, emerged from the panic-stricken period of 1898 to 1902, when American papers exhausted their inventiveness in 'scare' headlines, and when every amalgamation became *ipso facto* a Trust. Mr H. D. Lloyd¹ in his list of Trust commodities (seven closely printed pages) included paper-backed novels, prison-made clothes-brushes, 'dime museums,' and tombstones. In England also there was at that time uneasiness and dismal prophecy. 'Dumped' American goods, we were told, would oust the English manufacturer from his own market, and Mr Morgan's Shipping Trust would rob us of our mercantile marine and our carrying trade. The prophecies have been signally falsified. Since those days we have witnessed an unprecedented trade revival in the United Kingdom, whilst the Shipping

¹ *Wealth against Commonwealth*, Appendix.

Trust, controlled by British interests, is but one great company amongst others almost as great and financially more prosperous. In America the percentage of business actually in the hands of Trusts has slightly declined in recent years, and the American Trust has not ruined British industry. The limitations on the growth of Trusts in Great Britain itself have already been discussed. No one can deny that of late years the number of large businesses and large amalgamations has markedly increased. But comparatively few of these are monopolistic in character, and even the great 'integrated' firm in the iron and steel trades which produces everything from steel to cannon and warships has other similarly 'integrated' rivals—for example, Vickers, Sons & Maxim, and Cammell, Laird & Company. National and international price associations constitute a greater danger to free competition; but they are by nature fluctuating and unstable, and tend to break up under the solvent of fresh trade conditions.

The large business in many trades can secure real advantages and economies of working; it is, however, more than doubtful whether the increased size and power of the monopolistic

combine, or Trust, brings with it a proportionate increase of such advantages and economies. It was as a private firm that J. & P. Coats established their great position. 'The spirit of monopolists,' said Gibbon long ago, 'is narrow, lazy, and oppressive; their work is more costly and less productive than that of independent artists.' And recently very competent observers have ventured to call in question the much-boasted efficiency of the Trust.

Mr Brandeis¹ brought before the Committee on Inter-State Commerce cogent evidence to prove that 'mere size does not bring efficiency.' The Whisky Trust and a dozen others failed in spite of their size, and neither the Sugar Trust nor the Steel Trust has been able to hold its own against competitors at home or abroad. Germany and England have acquired most of the increase in the world's trade, while the Steel Trust has had idle one-third of its plant. 'Our cost of manufacturing steel has risen to such a point that we cannot compete successfully with these countries, or can compete only to a limited extent.' The success of the Standard Oil, the Shoe Machinery, and

¹ Quoted in Stevens, *Industrial Combinations and Trusts*, pp. 574-81; the evidence is well worth reading.

the Tobacco Trusts, Mr Brandeis attributes more to their monopoly power than to any special efficiency over smaller rivals. 'Compare the failure of Mr J. P. Morgan's creation, the International Mercantile Marine, and the astonishing success of the Pullman Car Company. The transatlantic steamship trade was open to competition, and could not, in spite of its price agreements, fix rates at an elevation sufficient to be remunerative.¹ The Pullman Company, possessing an absolute monopoly, has made profits so large as to be deemed unconscionable.' When the Trusts were formed, 'I do not believe that the desire for greater efficiency was an important moving cause. The potent causes were two—one was to avoid what those interested deemed destructive or, at least, very annoying competition; the other cause, an extremely effective cause, was the desire of promoters and bankers for huge commissions.' Thus Mr Brandeis: the conclusions of Professor E. S. Meade and Professor Seager are to the same effect.² 'There has been,' says Professor Meade, 'no proof brought forward that the Trust is a superior form of business organisation. All

¹ *i.e.* On the basis of its over-capitalised stock.

² *Annals of American Academy*, pp. 83-8, 238-45.

the evidence available, with a few exceptions, points to the opposite conclusion.’¹ Professor Seager, after studying the history of the thirty largest combines and their published financial statements, declares that eight have been highly successful, seven fairly successful, ten unsuccessful, and five disastrous failures. ‘The economies of combination are secured, not automatically, but only as the result of painstaking thought and unusual organising ability.’² In Kartells there is more stimulus to individual efficiency; but there, too, the policy is hampered by the needs of the weakest or worst-situated firm. The Trust must charge prices which will recompense it for the expense of buying up its members at excessive valuations; the Kartell must charge prices which will bring in a profit to its least efficient member. The maxim of the Birmingham ‘Alliances’ was that no firm ought to manufacture or sell without making a profit; and thus artificial conditions were created to secure a profit to unsuccessful firms. They did not face the preliminary question—whether firms habitually failing to make profits ‘ought’ to survive. If competition is abolished, there is no test of fitness.

¹ *Annals*, p. 85.

² *Annals*, p. 241.

If we are to believe the Trusts themselves, they are not efficient, for at the least suggestion of foreign competition a cry of horror arises and a lurid picture is drawn of the disasters which will infallibly overtake American industry if Protection is removed.

On May 3, 1913, the Federal House of Representatives debated the proposed reductions in Schedule K (the wool tariff); Mr Payne, the author of the Tariff of 1909, while asserting that American manufacturers could make 'the finest woollen products in the world' (a remark received with open incredulity by his audience), also declared that 'a rate of fifty per cent. on manufactures of wool is indispensable to the prosperity of our mills and the welfare of the workers in them. Under the Wilson Bill of 1894-7, the average rates of duty on woollen manufactures collected were not far from forty-seven per cent., and it is matter of historical recollection that these rates, taking into account the inevitable under-valuation, proved inadequate.'¹ Mr Payne did not explain why, if a fifty per cent. rate is adequate, his own wool tariff imposed rates averaging nearly one hundred per cent.,

¹ *Yorkshire Post*, Special Report, May 5, 1913.

nor why a change of three per cent. should ruin a prosperous trade.

Some observers consider that the rise of Kartells and Trusts is having a marked influence on the commercial and industrial world by eliminating the merchant or middleman class, or, at all events, by confining its activities within narrow and strictly defined limits. These great amalgamations and syndicates shoulder the risks of marketing for themselves. It is true that in certain trades, where much capital is required, where business is largely of a routine character, and where the products are sold in bulk—trades that is in which the conditions are favourable for the formation of combines—it is also comparatively easy for the manufacturer to undertake the risks of finding a market for his goods. But in many trades, which cover a large variety of highly specialised and finished goods, the fluctuations and changes of the markets are such that the skilled and experienced middleman is indispensable. He can keep a close watch on the markets throughout the world for all classes of goods and take advantage of every opportunity, while the manufacturer is engaged in producing one or two special articles for widely scattered

markets. The same tendency which leads to the concentration of capital leads also to the combination of functions, but this tendency, as we have seen, is not universal, and in many industries the merchant class shows no signs of atrophy.

The inevitability of Trusts has been a favourite thesis of economists, but their arguments are largely fallacious. Few have arisen, and fewer still have proved tyrannous, without some artificial stimulus. In America Trusts are considered actual or potential dangers to the State; in England the public up to the present regard large concentrations of capital with considerable indifference. What safeguards are present here which are lacking across the Atlantic? Two in chief—the ever-present possibility of foreign competition and the strict cognisance which the law takes of company finance. The English Companies Act is a much more effective piece of anti-Trust legislation than the Sherman law. Judges may differ over what constitutes 'monopoly' or 'restraint of trade,' but fraud and mismanagement are easier to detect. This doctrine of inevitability finds its chief supporters (outside the Trust interests themselves) in those who advocate the State

organisation of industry. According to them, Trusts will so increase in number and in power that the position will become intolerable, and the State, on behalf of its citizens, will be forced to acquire control. The terms of acquisition are not defined, nor its method. The question raises many difficulties: here we will only note that existing instances of public ownership (for example, transport and gas and water supply) do not seem to form necessary precedents for the State's incursion into the wider field of commerce and manufactures. If Trusts spread in the United States, when they are exposed to the free winds of competition and when a check has been placed upon the profits of the company promoter, it will then be time to consider the proposals for State Socialism as their antidote.¹

The two great obstacles in the way of reform are the influence of Trusts upon American politics, and the constitutional relations between the States and the Federal Government. The former will be weakened by the transformation of the protective tariff into one for revenue. And it is a cheering fact in the history of human progress that

¹ *Vide* Macgregor. *Industrial Combination*, pp. 216-30.

no nation need remain permanently under the control of special interests. English politics have emerged from the atmosphere in which Government favour was so obviously the result of a corrupt bargain, that newly-appointed Ministers had by law to resign their seats and face the judgment of their constituents. The law remains as a relic of past evils, but it is considered an inconvenient superfluity. So, future American citizens may read with incredulous eyes the records of Tariff legislation in the past.

The second obstacle is more serious, for attempts to remove it touch the sensitive spot of local patriotism. 'Any one who controls a fire engine can easily control the stream; but if A controls the engine, and B can deal only with the stream, B is going to find it very difficult to regulate the stream satisfactorily.' By this figure Mr Seth Low¹ typifies the attitude of the individual States and the United States Government in regard to corporations and inter-State commerce. Or, to change the metaphor to one adopted by President Wilson, a number of motor-cars have been licensed, whose owners take 'joy-

¹ *New York Journal of Commerce, Annual Review, 1911. January 3, 1912.*

rides' through the country, and though the licences may be confiscated, the body granting them can produce an inexhaustible supply of fresh permits. It is a moot point whether the Federal Government has the constitutional right to impose further conditions than those laid down by the States upon any corporation engaging in inter-State commerce. We have described the Trust as the product of the industrial conditions of nineteenth-century America. The twentieth century may show whether it is a mere morbid growth, the result of disease, which will disappear on the restoration of commercial health, or whether it is a new organ, the response of the body politic to a new environment, which has been misused, but which may yet fulfil a useful function in the commonwealth.

More than sixty years ago J. S. Mill saw that some businesses were organised on 'so large a scale as to render the liberty of competition almost illusory'¹; but the State at least has power to remove artificial aids to monopoly and to preserve that liberty wherever possible.

¹ *Principles of Political Economy*, I. 9, sect. 3.

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