

CHAPTER XII.

TRUSTS.¹

1. CORPORATIONS are combinations of individuals for productive and commercial purposes. They are a comparatively modern device, and as an important element in the industrial and commercial world, date back scarcely so much as a century. But their development has been rapid, and they now control a large part of the capital of the world, and are the employers of a very large proportion of its labor. Very recently there has appeared a new form of combination, popularly known as "trusts." They are combinations of corporations, as corporations are combinations of individuals. The primary objects of these combinations are (*a*) to diminish the cost of production; (*b*) to limit production, and thus affect prices; (*c*) to fix prices by the arbitrary determination of parties constituting the combination.

2. The industrial experience of recent times has pretty fully demonstrated the proposition that production on a large scale is much more effective than on a small one. Ten small factories of ten thousand dollars capital each will not produce so much, nor at so small a cost, as one of a hundred thousand dollars capital. In the latter case there

¹ This chapter, perhaps, might have better come in under the head of Production, but as the principle in the subject is the effect on prices, it is not out of place here.

is likely to be more efficient machinery, less proportional superintendence, greater advantage in the purchase of material, as well as some other advantages not found in the former. Now, in the case of a trust, it is not likely that any large proportion of the separate enterprises would be given up in order that the capital and labor might be concentrated in the larger ones; but some of them, at least, would cease to produce, and some of the larger ones would be united under one management.

3. But this is not the main method by which the cost of production is expected to be diminished through these combinations. One of the leading and avowed objects sought in the formation of trusts is the doing away with what is regarded as excessive competition. It is not many years since it was universally taught by orthodox political economists that competition was the great regulator of prices, of wages, of profits, and of some other things. It was regarded as the great balance wheel in the industrial and commercial system, and to interfere with its operation would introduce disorder, and be contrary to the public welfare. Recent investigations, however, have shown that the functions attributed to it, while within certain limits they are actual and legitimate, beyond these limits are unduly extolled. Not only are there groups of industries between which there is no opportunity for competition, but even within the several trades, where it would seem to have its legitimate office, it is carried to such excess as to greatly increase the cost of production. Take the present system of advertising as an illustration. Here are hundreds of manufacturers of the same commodity trying to recommend their particular wares. Millions of dollars are expended, which but for this fierce competition would remain with the producer, making the cost of pro-

duction so much the less. But this is only a part of the expenditure thus incurred. Each firm and corporation must have its agents and commercial travellers, whose business it is to commend the goods of their principals, and secure purchasers for them. These and other measures resorted to are items of vast expense involved in the intense competition now existing. Nearly all this expense, as well as much other outlay, is avoided when all the producers of a particular article enter into a combination of the kind we are considering. The cost of advertising is reduced to a minimum, the commercial agencies virtually cease to exist, and other expenditures fall off. So far there would seem to be some reasonable ground of justification for the "trust." Under its operation the cost of production is greatly diminished, and consequently prices would noticeably greatly diminish. But here self-interest appears as an element modifying the conditions. This will appear more fully later.

4. A second object in the formation of trusts is to limit production, and so affect prices. Under the system of unrestrained competition, each corporation seeks to supply as much of the market as possible. The consequence is that there frequently comes to be an over-supply of the particular commodity, and occasionally a depression of prices below the cost of production. Under the trust, production can be limited to any extent. But while it might be a real and great benefit to the community to limit all production, so that the supply would not exceed the demand at prices corresponding to cost of production, the combination is under no restriction to stop at that point. In the absence of competition production may be limited to any extent, and thus prices be enhanced by the very smallness of supply. This clearly would be detrimental to the interests of the community.

5. There is evidently power in such combinations to fix arbitrarily the price of their goods; and there is no limit to the exercise of this power except inclination or self-interest. That they would have occasion to determine prices except in the method described in the preceding paragraph is doubtful, but it is not necessary to presume that by either of these methods prices will ever actually become extortionate. They are very likely to rule higher than those corresponding to the cost of production, but even self-interest would furnish a limit to prices thus determined. In the case of most commodities, if the price rises above a certain point, there is certain to be a falling off in the demand; and this is very likely to be so great that the sale at the higher price would be less profitable than at a lower.

6. It thus appears that these gigantic combinations, while they remedy the evils of inordinate competition, and greatly reduce the cost of production, and so far at first add to the wealth of the community, do not permit this vast increment to inure to the benefit of society at large, but reserve the whole surplus to enrich the stockholders and proprietors. Enormous fortunes have been accumulated by individuals, while prices generally are not so low as before.

7. It was assumed by orthodox economical authorities, in the earlier part of this century, that self-interest furnished the motive-power in all industrial and commercial enterprises, and that this was sufficiently limited by free competition. Thus, if certain persons were engaged in an industry in which the rate of profits was greater than enough to induce men to engage in business, others would make haste to engage in the same business, and thus, by greatly increasing the product, reduce prices and profits

to the normal rate. If, on the other hand, it was found that any occupation paid less than the current rate of profits, a portion, at least, of those engaged in it would abandon it, and choose something else. In this way the supply would be reduced, and prices and profits would rise. This is true to a certain large extent, within a large range of instances, but it does not hold universally. As we have seen, competition may become excessive, and instead of being a perfect regulator of prices and profits, it may be a source of wasteful expenditure. But clearly the remedy does not lie in the suppression of competition, and the giving of self-interest sole control. The moral character of no considerable portion of our race has reached that stage of development that it will be safe to put the interests of the whole community under its direction.

8. What measures should be taken to remedy the evils involved in trusts, it is yet too early to determine. Some of the more radical of our thinkers assert their conviction that they should be taken out of the hands of private bodies of men, and be assumed by the Government. This would be *socialism*, and our communities are evidently not yet prepared for that. It is highly probable that some way will be devised by which Government will so restrict them as to prevent the evils with which they now affect and threaten society.

9. It should be stated that a trust cannot be effectual, in at least many cases, unless it can get control of the material on which production depends. Otherwise other combinations are possible, and competition comes once more into operation. Distinction ought also to be made between certain great combinations, as, for instance, those of the great trunk lines of railways. These are not trusts, for the reason that a trust must take in substantially all the

corporations engaged in the same kind of business. These railway combinations do not embrace the whole railway system of the country, nor even all of those roads doing business between the same points. Hence competition is not destroyed, though its excessive operation is so reduced that much expense is saved, and the whole community benefited. By means of these combinations freight has been reduced more than one-half between the East and West. The Western farmer now receives more for his wheat and flour because of this consolidation, while the Eastern consumer gets it for less. Thus both producer and consumer are benefited, while the corporations have gained great profit.