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The Bugaboo of Trusts

BY

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THE BUGABOO OF TRUSTS,

By Andrew Carnegie.

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WE must all have our toys; the child his rattle, the adult his hobby, the man of pleasure the fashion, the man of art his Master; and mankind in its various divisions requires a change of toys at short intervals. The same rule holds good in the business world. We have had our age of "consolidations" and "watered stocks." Not long ago everything was a "syndicate;" the word is already becoming obsolete and the fashion is for "Trusts," which will in turn no doubt give place to some new panacea, that is in turn to be displaced by another, and so on without end. The great laws of the economic world, like all laws affecting society, being the genuine outgrowth of human nature, alone remain unchanged through all these changes. Whenever consolidations, or watered stocks, or syndicates, or Trusts endeavor to circumvent these, it always has been found that after the collision there is nothing left of the panaceas, while the great laws continue to grind out their irresistible consequences as before.

It is worth while to inquire into the appearance and growth of Trusts and learn what environments produce them. Their genesis is as follows: a demand exists for a certain article, beyond the capacity of existing works to supply it. Prices are high, and profits tempting. Every manufacturer of that article immediately proceeds to enlarge his works and increase their producing power. In addition to this the unusual profits attract the attention of his principal managers or those who are interested to a greater or less degree in the factory. These communicate the knowledge of the prosperity of the works to others. New partnerships are formed, and new works are erected, and before long the demand for the article is fully satisfied, and prices do not advance. In a short time the supply becomes greater than the demand, there are a few tons or yards more in the market for sale than required, and prices begin to fall. They continue falling until the article is sold at cost to the less favorably situated or less ably managed factory; and even until the best managed and best equipped factory is not able to produce the article at the prices at which it can be sold. Political economy says that here the trouble will end. Goods will not be produced at less than cost. This was true when Adam Smith wrote, but it is not quite true to-day. When an article was produced by a small manufacturer, employing, probably at his own home, two or three journeymen and an apprentice or two, it was an easy matter for him to limit or even to stop production. As manufacturing is carried on to-day, in enormous establishments with five or ten millions of dollars of capital invested, and with thousands of workers, it costs the manufacturer much less to run at a loss per ton or per yard than to check his production. Stoppage would be serious indeed. The condition of cheap manufacture is running full. Twenty sources of expense are *fixed charges*, many of which stoppage would only increase. Therefore the article is produced for months, and in some cases that I have known for years, not only without profit or without interest upon capital, but to the impairment of the capital invested. Manufacturers have balanced their books year after year only to find their capital reduced at each successive balance. While continuing to produce may be costly, the manufacturer knows too well that stoppage would be ruin. His brother manufacturers are of course in the same situation. They see the savings of many years, as well perhaps as the capital they have succeeded in borrowing, becoming less and less, with no hope of a change in the situation. It is in soil thus prepared that anything promising relief is gladly welcomed. The manufacturers are in the position of patients that have tried in vain every doctor of the regular school for years, and are now liable to become the victims of any quack that appears. Combinations—syndicates—trusts—they are willing to try anything. A meeting is called, and in the presence of immediate danger they decide to take united action and form a trust. Each factory is rated as worth a certain amount. Officers are chosen, and through these the entire product of the article in question is to be distributed to the public, at remunerative prices.

Such is the genesis of "Trusts" in manufactured articles. In transportation the situation, while practically the same, differs in some particulars. Many small railway lines are built under separate charters. A genius in affairs sees that the eight or ten separate organizations, with as many different ideas of management, equipment, etc., are as useless as were the two hundred and fifty petty kings in Germany, and, Bismarck-like, he sweeps them out of existence, creates a great through line, doubles the securities or stock, the interest upon which is paid out of the saving effected by consolidation, and all is highly satisfactory, as in the case of the New York Central. Or a line is built and managed with such sagacity as distinguishes the Pennsylvania Railroad, and it succeeds in developing the resources of the State so extensively that upon a line of three hundred and fifty miles between Pittsburgh and Philadelphia it nets about thirteen millions of dollars per annum. Twelve millions of dollars of this it shows upon its books. From one to two millions extra are expended in making one of the best lines in the world out of a road which was originally designed as a horse-railroad. We do not call our railroad combinations Trusts, but they are substantially such, since they aim at raising and maintaining transportation rates in certain districts. They are "combinations" or "systems" which aim at monopolies within these districts.

During the recent Presidential campaign it suited the purpose of one of the parties to connect Trusts with the doctrine of protection. But Trusts are confined to no country, and are not in any way dependent upon fiscal regulations. The greatest Trust of all just now is the Copper Trust, which is French, and has its headquarters in Paris. The Salt Trust is English, with its headquarters in London. The Wire-rod Trust is German. The only Steel-rail Trust that ever existed was an international one which embraced all the works in Europe. Trusts, either in transportation or manufactures, are the products of human weakness, and this weakness is co-extensive with the race.

There is one huge combination classed with Trusts which is so exceptional in its origin and history that it deserves a separate paragraph. I refer to the Standard Oil Company. So favorable an opportunity to control a product perhaps never arose as in the case of petroleum. At an early stage a few of the ablest business men that the world has ever seen realized the importance of the discovery, and invested largely in the purchase of property connected with it. The success of the petroleum business was phenomenal, and so was the success of these people. The profits they made, and, no doubt, as much capital as they could borrow, were fearlessly reinvested, and they soon became the principal owners, and finally, substantially the only owners of the territory which contained this great source of wealth. The Standard Oil Company would long ago have gone to pieces had it not been managed, upon the whole, in harmony with the laws which control business. It is generally admitted that the prices of oil to the consumer are as low to-day, and many think that they are even lower, than could have been attained had the business not been grouped and managed as one vast concern in the broad spirit for which the Standard oil managers are famous. They are in the position somewhat of the Colemans, of Pennsylvania, who possess the chief source of the ore supply in the East. They own the Cornwall deposit of ore as the Standard Oil Company owns the source of the oil deposit. But as the company has continually to deal with the finding of oil in other localities, the price of its existence and success is the continuance of that exceptional ability in its councils and management displayed by its founders. Threatened opposition arises every now and then, and the chances are greatly in favor of the Standard Oil Company losing its practical monopoly, and going the way of all huge combinations. It is a hundred to one whether it will survive when the present men at the head retire; or perhaps I should say when the present man retires, for wonderful organizations imply a genius at the head, a commander-in-chief, with exceptionally able corps commanders no doubt, but still a Grant at the head. To those who quote the Standard Oil Company as an evidence that Trusts or combinations can be permanently successful, I say, wait and see. I have spoken thus freely of that company, because I am ignorant of its management, profits, and modes of action. I view it from the outside, as a student of political economy only, and as such have endeavored to apply to it the principles which I know *will* have their way, no matter how formidable the attempt made to defeat their operations.

We have given the genesis of trusts and combinations in their several forms. The question is, do they menace the permanent interest of the nation? Are they a source of serious danger? Or are they to prove, as many other similar forms have proved, mere passing phases of unrest and transition? To answer this question let us follow the operation of the manufacturing trust which we have in imagination created, salt or sugar, nails, beans, or lead or copper; it is all the same. The sugar refiners, let us say, have formed a Trust after competing one with another through years of disastrous business, and all the sugar manufactured in the country in existing factories is sold through one channel at advanced prices. Profits begin to grow. Dividends are paid, and those who before saw their property vanishing before their eyes are now made happy. The dividends from that part of a man's capital invested in the sugar business yield him profit far above the capital he has invested in various other affairs. The prices of sugar are such that the capital invested in a new factory would yield enormously. He is perhaps bound not to enlarge his factory or to enter into a new factory, but his relatives and acquaintances soon discover the fresh opportunity for gain. He can advise them to push the completion of a small factory, which, of course, must be taken into the Trust. Or, even if he does not give his friends this intimation, capital is always upon the alert, especially when it is bruited about that a Trust has been formed, as in the case of sugar, and immediately new sugar manufactories spring up, as if by magic. The more successful the Trust, the surer these off-shoots are to sprout. Every victory is a defeat. Every factory that the Trust buys is the sure creator of another, and so on *ad infinitum*, until the bubble bursts. The sugar refiners have tried to get more from capital in a special case than capital yields in general. They have endeavored to raise a part of the ocean of capital above the level of the surrounding waters, and over their bulwarks the floods have burst, and capital, like water, has again found its level. It is true that to regain this level a longer or a shorter period may be required, during which the article affected may be sold to the consumer in limited quantities at a higher rate than before existed. But for this the consumer is amply recompensed in the years that follow, during which the struggle between the discordant and competitive factories becomes severer than it ever was before, and lasts till the great law of the survival of the fittest vindicates itself. Those factories and managers that can produce to the best advantage eventually close the less competent. Capital wisely managed yields its legitimate profit. After a time the growth of demand enables capital to receive an unusual profit. This in turn attracts fresh capital to the manufacture, and we have a renewal of the old struggle, the consumer reaping the benefit.

Such is the law, such has been the law, and such promises to be the law for the future ; for, so far, no device has yet been devised that has permanently thwarted its operation. Given freedom of competition, and all combinations or trusts that attempt to exact from the consumer more than a legitimate return upon capital and services, write the charter of their own defeat. We have many proofs that this great law does not sleep, and that it will not be suppressed. Some time ago, as I have stated, the steel rail manufacturers of Europe formed a trust and advanced the price of rails to such an extent that American manufacturers were able for the first, and perhaps for the last time, to export steel rails to Canada in competition with the European. But the misunderstandings and quarrels, inseparable from these attempted unions of competitors, soon broke the Trust. With vindictive feelings, added to what was before business rivalry, the struggle was renewed, and the steel rail industry of Europe has never recovered. It was found that the advance in prices had only galvanized into life concerns which never should have attempted to manufacture rails ; and so that Trust died a natural death.

During the great depression which existed for several years in this country in the steel rail trade many anxious meetings were held under circumstances described in the genesis of Trusts, and it was resolved that the plan of restricting production should be tried. Fortunately reaction soon came. A demand for rails set in before the plan went into operation, and, as a matter of fact, no restriction of product was ever attempted, and the steel rail industry was thus saved from a great error.

We have recently seen the lead industry of this country shattered and its chief owners bankrupted. The newspapers a few weeks ago were filled with accounts of the convention of the growers of cattle in St. Louis, resolved to break down the combination of slaughterers and shippers in Chicago and Kansas City. No business was poorer in this country for many years than the manufacture of nails. It was overdone. To remedy this the manufacturers did not form a Trust so far as the sale of product was concerned, but they restricted production. A certain percentage of their machines was kept idle. This percentage was increased from time to time, and only the quantity made that the market would take at a certain price. But the result was that there were soon more machines in America for the manufacture of iron nails added to the works than the demand for nails will require for many years to come, and this combination of nail manufacturers went the way of all Trusts, and left the business in a worse plight than it was in before.

The Sugar Trust has already a noted competitor at its heels. The Copper Trust is in danger. All stand prepared to attack a "trust" or "combine" if it proves itself worth attacking; in other words, if it succeeds in raising its profits above the natural level of profits throughout the country it is subject to competition from every quarter, and must finally break down. It is unnecessary to devote much attention to the numerous Trusts in minor articles which one reads of, a new one appearing every few days and others passing out of existence, because they are all subject to the great law. The newspapers charge that Trusts exist or have existed in wall paper, shoe laces lumber, coal, coke, brick, screw, rope, glass, school-books, insurance and hardware, and twenty more articles; but the fitting epitaph for these ephemeral creations is

> "If I was so soon to be done for,
> I wonder what I was begun for!"

We may exclaim with Macbeth, as he watched the shadowy descendants of Banquo filing past, "What, will the line stretch out to the crack of doom?" But as with Banquo's procession, so with Trusts, it is comforting to remember that as one approaches another disappears. They come like shadows, and so depart.

So much for Trusts in the manufacturing department. Let us now examine the railways, whose "pools" and "combinations" and "differentials" alarm some people. In all their various forms, these are the efforts of capital to protect itself from the play of economic forces, centered in free competition. In most cases the stocks of railways have been watered. Calculated upon the real capital invested the dividends of railway lines have been unusual, and much above the return which capital generally has yielded in other forms of investment. The entire capital stock of railways in the West as a rule has cost little or nothing, the proceeds of the bonds issued having been sufficient to build them. The efforts of railway managers to-day are therefore directed to obtain a return upon more capital than would be required to duplicate their respective properties. Their combinations and agreements of various kinds, which come to naught a few months after they are solemnly entered into, are evidences of this attempt. But, just as enormous profits on capital, received from the manufacture of any article, are sure to attract additional capital into the production of the article, so, in like manner, the unusual success of these railroads attracts new capital into their territory. New York Central paying dividends upon its eighty per cent. stock dividend culminates in the West Shore. The Pennsylvania Railroad, earning, as I have said, something like thirteen millions per annum upon its line in Pennsylvania, has its South Pennsylvania. One line between Chicago and Milwaukee being greatly profitable, fortunately brought into existence a parallel road. The two being unusually profitable, fortunately resulted in a third. There was one line between these points, and now there are six; and should the six combine to-morrow and exact from the public one per cent. more return upon capital than the average return, there would soon be seven, and very properly so.

This proves once more that there is no possibility of evading the great law, provided capital is free to embark in competing lines. In Great Britain and throughout Europe generally a different policy has been pursued in regard to railways from that of the free-to-all policy which we have followed. The railways and other transportation routes of Great Britain, in order to get permission to build, have cost nearly as much per mile as our cheapest Western lines have cost to build. Manchester, for instance, has recently decided to construct a canal, thirty miles long, to Liverpool, and the expense incurred in obtaining permission from Parliament to embark capital in this enterprise has cost nearly half a million of dollars up to this date. The Government, through a committee of Parliament, determines whether a proposed line is actually needed, and to settle this point everybody connected with existing transportation facilities in the neighborhood appears before the committee to prove that it is not needed, while the promoters of the scheme are at enormous expense to prove by hundreds of experts that it is. The empirical decision of the committee of the House of Commons on this question is not to be compared with the unerring decision of the capitalists interested. They know much better than any committee of the Legislature are likely to know whether the work in question will pay a fair dividend, and this is the best proof that it is required. The result of the American policy is seen in the fact that notwithstanding all the attempts upon the part of our railways to thwart the economic laws, nevertheless, the American people enjoy the cheapest transportation in the world. The railway rates upon freight in Europe, compared with those in America, show startling contrasts. The cost of freightage on

English lines is upon the average more than double the American charge, and in many cases which I have examined it is three times as great. In not a few cases the British charge is far beyond three times the American.

A friend bought a cargo of grain at Leith, which had paid one dollar per ton freight from New York; it cost him ninety-six cents per ton to transport it thirty-five miles inland. Another purchased six hundred tons charcoal pig-iron upon Lake Superior, which cost four dollars per ton freight to Liverpool; he paid $2.87 per ton to carry it eighty miles inland by rail to his mills. For this amount our trunk lines carry rails five hundred and sixty miles, as against eighty miles in Britain. If Europe enjoyed our advantages of free competition in its transportation system, the development of its resources would be surprising, even at this late day in its history. There is, in my opinion, only cause for hearty congratulation as regards our railway policy. Its evils are trifling; its advantages over all other systems in the world enormous.

The people of America can smile at the efforts of all her railway magnates and of all her manufacturers to defeat the economic laws by Trusts or combinations, or pools, or "differentials," or anything of like character. Only let them hold firmly to the doctrine of free competition. Keep the field open. Freedom for all to engage in railroad building when and where capital desires, subject to conditions open to all. Freedom for all to engage in any branch of manufacturing under like conditions.

There can be no permanent extortion of profit beyond the average return from capital, nor any monopoly, either in transportation or manufacturing. Any attempt to maintain either must end in failure, and failure ultimately disastrous just in proportion to the temporary success of the foolish effort. It is simply ridiculous for a party of men to meet in a room and attempt by passing resolutions to change the great laws which govern human affairs in the business world, and this, whether they be railway presidents, bankers or manufacturers.

The fashion of trusts has but a short season longer to run, and then some other equally vain device may be expected to appear when the next period of depression arrives; but there is not the slightest danger that serious injury can result to the sound principles of business from any or all of these movements. The only people who have reason to fear Trusts are those foolish enough to enter into them. The Consumer and the Transporter, not the Manufacturer and the Railway owner, are to reap the harvest.

Even since the foregoing was written, a new form has appeared on the stage in the shape of "The President's Agreement—an agreement among gentlemen," in which the parties engage to control, strangle and restrict the future development of our magnificent railway system under the laws of natural growth, at a time when the country requires this development as much as it ever did. These gentlemen are not going to engage in building lines which will give the public the benefit of healthy competition, or permit such to be built hereafter. It is safe to say that very soon this toy will be discarded, like its predecessors, for another, and that the very men apparently most pleased with this new rattle will then regard it with the greatest contempt, and go forward in the good work, as hitherto, developing the railway system wherever and whenever they think they see a fair chance for profit. Whenever existing railways exact from the public more than a fair return upon the actual capital invested, or upon the capital which would be required to duplicate existing lines, competing lines will be built—fortunately for the interests of the country—which is much more concerned in getting cheap transportation than it is in insuring dividends for capitalists ; and whenever a percentage is to be obtained by the negotiation of railway securities, bankers will be found—also, fortunately for the bests interests of the country—who will gladly find a market for them without stopping to inquire whether monopolies are to be overthrown by the new lines.

It is not in the power of man to exact for more than a brief season, and a very brief season indeed, unusual profit upon actual capital invested either in Transportation or Manufacture, so long as all are free to compete, and this freedom, it may safely be asserted, the American people are not likely to restrict.

)N FINANCE, UNITED STATES SEN

WITH REGARD TO

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the following words :

[46th Congress, 3d Session. H. R. 4592.]

' to facilitate the refunding of the national debt.

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