

John Wm. Woodside

DEGREE CONFERRED

M.A. 1907

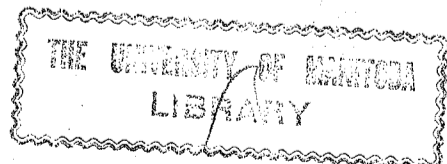
Dep
Coll
W 8682

THE TRUST PROBLEM.

A Thesis for the degree of M. A.

by

J. W. Woodside, B. A.



75806

Looking back over history, we are impressed by the fact that each age and generation seems to have its own peculiar problems to solve, both economical and social. Further, those problems which in their own time seemed insoluble now appear quite simple, so that we wonder how thoughtful men who have studied them should have been so perplexed by them. Our generation has its own great economic problems, and not one only; but there is one that especially towers above the rest in its importance, owing to the unrest it has created in a great many minds, that have been led to devote attention to it, viz, the "Trust Problem". Trusts are present with us now and not something passed into history. The question for us then is, how are they to be dealt with or is there any remedy at hand?

To the person who knows nothing of economic history and the facts of past industrial life, the question may present itself in a very different light from that in which the person who knows something of such history views it. To the former it must appear as something much more appalling than to the latter, who sees that the past history of the evolution of industry and capital affords like great problems which the pessimists of the day looked upon as bringing ruin to the nations concerned; but which instead of doing so have, as we now can see, been the forerunners of increased prosperity. The strong hand of the law has been called in and has tried to stay this progress in the past but without success; the same power is called upon today by the opponents of present day tendencies. Should we then take a lesson from the past and conclude that the present tendencies, as manifested in one form in "The Trusts" are something which legislation cannot kill; but which must live and become stronger, and that, not to injure the world but to advance it.

THE UNIVERSITY OF MANITOBA
LIBRARY

This is a question on which there is by no means unanimity of opinion but in which a great many views are held, from the man who thinks that the trust is only the same as the individual capitalist, in principle, although not in size, to that of the American party politician who claims to see in them no redeeming feature whatever. The American Republic affords us perhaps the best grounds for studying the question, because their trusts have reached an acuter stage and assumed greater proportions than in any other country, and in addition to this we have a carefully collected statement of the views of leading men throughout the country upon the question. Foremost among the agencies for the collection of this information we have the work done by the Chicago Conference of Trusts and the Industrial Commission of the United States.

In September 1899, at the invitation of the of the Civic Federation of Chicago, the governors of the various states and the leading commercial, industrial and labor organizations were asked to send delegates to a Conference at Chicago, in order to give them personal views on the topic--Trusts. With these were present students of Economics from a number of the Universities. The intention was to have the meeting non-political, to have the question presented from all points of view. Capitalists, manufacturers, unskilled laborers, trade unionists, grangers, lawyers, professional reformers, skilled mechanics, labour commissioners, economists, commercial travellers, all are represented officially, through some organization. The Trusts themselves, although invited, did not send representatives. Several corporation lawyers, whose interests were allied to trusts were there. The absence of trust officers and managers was the only regret in the representation.

Among the extreme partisans of trusts present was Mr. Geo. Gunton, who endeavored to show that the tendency to centralization was a natural one in industry and an outcome

of the conditions ushered in by the changed and improved methods of the nineteenth century. He showed how improvements had been opposed in the past and compared the present opposition to trusts to such opposition in the past. Seeming to ignore any possibility of abuse he persisted in calling attention to the saving they would affect in the cost of production. The rabid enemy who saw nothing but evil in the trusts was also present. His object was to crush the enemy by legislation. Between these extremes were the less prejudiced who could see both sides of the problem.

In the addresses given we find only one definition of a trust by (1) Prof. Clark who said a trust was "any combination so big as to be menacing". Others were less careful in explaining the precise meaning, all varieties of combination being included under the common term. The weight of evidence supported the view that the modern system of large business establishments was the out-growth of natural industrial evolution. As might be expected this was the view held by those in favour of trusts, but the economists also, with one exception, (2) Prof. H. C. Adams advanced the same views, with them were the leading labor representatives and even anti-trust men. The view of the above named dissenting economist, and of the great number of opponents of trusts was that combination had its rise not in natural but in unnatural conditions, prominent among which are the tariff and railway discrimination.

Regarding the question whether trusts are harmful or not, the same want of agreement was noticed. This discussion includes the question, is production on a large scale of itself really harmful; and this question must be considered in two parts, does consolidation cheapen production and does the accompanying transformation of many, who were once managers and employers themselves, into employees, in a large concern, work to the detriment of society as a whole. Regarding

(I)
Chicago
Conference
on
Trusts.

the first part of the question, cheapened production, there was an almost unanimous agreement, but on the second there was great difference of opinion. Some preferred to say nothing of the influence of consolidation of industry upon the human race; others strenuously maintained that large production, necessarily tended to the development of a higher type of man, because higher wages which they said would be paid by large corporations would mean a greater degree of liberty and as a result a better man. Again the commercial travellers and small proprietors held a different view. They thought the tendency of centralization was to do away with the independent actor, making him a cog in the wheel of the great industrial machine and as a result increasing production at a cost greater than it is worth-----the injury of society. (10).

Assuming however that consolidation is in itself desirable, another question naturally arises. Is it safe to entrust to private ownership these powers that come through the control of large supplies of capital? The same difference of opinion existed here also. The theoretic economist of Prof. Clark's stamp was ranged against the Western radical: the former holding the view that the capitalist for his own good must hold himself in check from charging exorbitant prices. ~~xxxxxx~~ The reason for this is that if his prices reached too high a figure new capital would be tempted into this field and competition would compel him to lower the prices. Besides, granted that there is no fear of competition, the price charged cannot be put higher than to use a railway term-----what the traffic will bear. There is a point beyond which the price cannot go without lowering the demand to such an extent that the total profit is less than it would be at a lower rate. Thus while serving himself the business man is serving his fellows.

(1) Chicago Conference on Trusts.

The other side argued from the standpoint that the possession of so much industrial power meant also the possession of political power, corruption of legislatures and the overthrow of democracy. The Political arguments urged were not frankly met by the extreme pro-trust speakers. Other evils were referred to, some being admitted by their defenders. Chief of these were, watering of stocks, extortion, displacement of labour and corruption.

It was to be noticed that each speaker seemed to find his strongest ground of accusation against "Trusts" in the fact ~~that~~ that the peculiar interests of his own class, ^{was} being touched. A notable instance of this is the plea made against them by the commercial travellers. What conclusion then may we draw from this condemnation by many classes on account of personal injuries and inconveniences? Are we to judge the trust as worthy to be crushed at any cost? Should we not ascertain whether it really is the cause of all evils imputed to it, or whether, from its prominence, it is used as the scapegoat to bear the blame which should be attributed to other causes?

With this summary of the attitude of different classes of men to this phase of modern industrial conditions, we may proceed to examine in detail, to trace their history, organization, methods and results, together with an examination of the means used to curb or destroy them with ~~the~~ special reference to the United States, subsequently we shall deal with the problem in reference to Canadian interests.

In describing the growth of industrial and commercial combinations it is quite common to look upon the pool as the earliest form and that from which the present form gradually evolved. Antecedent, however, to the pool, there was what one of the witnesses before the Industrial Commission spoke of as a gentlemen's agreement. To describe this in detail would be impossible, for it was little more than an understanding, without written agreement, by which the competitors in the same line of business kept equal prices, but made no

attempt at co-operation in production, or in division of territory. This is frequently met with in the case of parallel railroads, in the matter of speed and perhaps rates as well. There is nothing to bind them but their word and perhaps interest. The pool then is not something that springs up suddenly but a development from the earlier stage of combination.

It would be well then to see what the pool really means, to describe its structure and its methods of operation. It is an agreement between the competitors in a given business to prevent undue competition and as a result production at a loss. We have examples of such agreements in the Whiskey Distilling Industry and in many of the railroads. Other cases have occurred but to describe the method followed in one will come sufficiently near describing all to serve our purpose. In the whiskey business the first combinations known to the public definitely dates from 1882. An agreement was entered into regarding the number of barrels to be produced by each distillery, as well as regarding their prices. Previous to this production had been in excess of the demand and in order to steady the prices it was reduced to about 50% of the capacity of the different establishments and the consuming capacity of the country was at the same time divided pro rata. This method of settling the trouble arising from competition had a chequered career so far as the distilling business was concerned. Pools were frequently broken by some of the members producing more than their allotted share or by the establishment of a new distillery and the consequent competition which would arise. But the demoralizing effect of disorganization as often led to reorganization, till in 1887 the Whiskey Trust was organized. No arrangement was made in the agreements for the punishment of those who broke their engagements. Here lay a weakness.