HISTORY OF A TRUST.

BY CERDIC SAXON.

DEBATERS and writers upon the trust problem seem disposed to discuss the question on the assumption that the claims publicly put forth in prospectuses and the other claims advanced privately by the trust promoter, are sustained in the results that follow when the proposed consolidation has been consummated. Specific data of sufficient clearness, based on the actual experience of some modern trust, have not been forthcoming. It is to supply such data, in a measure, that the history of one of these great concerns is here submitted. That its past experience and its present condition will prove typical of similar enveloping industrial corporations will undoubtedly be demonstrated in time. A period of ten years is more than likely to prove sufficient to let out the life-blood or to clip the claws of most, if not all, of these so-called octopuses, and for some the period may be much shorter.

The writer desires it to be distinctly understood that he refers, in this article, to industrial combinations, to the exclusion of all such as have natural monopolies—like railways, trolley-lines, gas companies and the like. Consolidation and oppression by such is a practical possibility, because their franchises are monopolistic in their nature and the personal factor diminishes to a minimum. Among this class of corporations, the subordinate's work becomes largely routine detail, and is always about the same. Superior efficiency may be rewarded or not, as the manager or board of control is wise or otherwise. Failure to appreciate ability works no serious peril to the company. The dissatisfied subordinate may quit and the efficiency of the service deteriorate, but the general asset value of the franchise remains undisturbed. In the industrial field, outside of patents, the personal factor is the element of ultimate dominating potency.

Ostensibly, all trusts are formed to effect economies, that the cost of production may be lowered, and that thereby better and cheaper service may be rendered to the public. In reality, their attitude towards the public is not dissimilar to that attributed to a late great railway magnate who, when questioned as to how his policy would be accepted by the public, indignantly resented the impertinence of the inquiry.

The trust about to be reviewed essayed to control the production of an article of general consumption in all parts of the nation, and, in a less degree, in all parts of the civilized world. In good seasons, the mills cannot fully serve the demand, and the sales aggregate some $60,000,000 yearly. While a tariff of twenty-five per cent. is levied on imports it is as much needed as one on wheat. Our claim to excellence in this industry is not founded on brag. We were the inventors and discoverers of the methods of manipulation, and the foreign product is inferior to ours in all ways. Generally, good wages are paid to the 25,000 hands employed. The labor being mostly on a piece-work basis, each man is practically his own paymaster. Little or no discontent is evident, and it is extremely doubtful if there is another industry of like importance that has been so free from strikes, lockouts and labor agitations. That no union exists in any of the mills is due far more to the indifference of the help than to any antagonism of the superintendents. Several large fortunes have been made by successful captains in the industry, and much money lost by others not properly equipped for the task.

Various attempts among the manufacturers to co-operate in making prices stable and eliminating severe and at times ruinous competition, had preceded the advent of the trust. Some fifteen years ago, it was thought that at last the proper ground for assured profits had been found. A selling company was organized, and the goods of all the standard companies were to be sold through it for a period of years. Each company retained its separate and independent existence in all particulars, excepting that of marketing its product. Prices were radically advanced, and the trade could get none of the standard brands at any other terms than the arbitrary and uniform terms dictated by the new selling company. Everything opened auspiciously. There was to be a good profit in the goods sold, and on all the best brands the market was controlled absolutely.

Orders, however, failed to come to the selling company; instead, some half-dozen companies, manufacturers of cheaper and inferior goods, who had been deemed too insignificant to be taken into the combination, were soon swamped with orders, and for several months they did practically all the business. Then the forces of disintegration commenced to operate in the new combine, as they had in all previous ones. Two or three of the combination mills, finding themselves without business, began to make confidential arrangements with and deliveries to the biggest jobbers on their own account, in direct violation of their contract with the selling company. By the time the season was nearly over, this sort of thing became an open secret; and, at the close of its first year's existence, the selling company was by mutual consent disbanded and the old-time condition of open competition resumed. This proved to be the last attempt of the manufacturers of their own initiative to form a combination.

Ten years ago, a new factor entered the field; we will call him Mr. Promoter. He flashed into view, with a New Jersey charter under his arm, and with what was at that time the startling capitalization of $50,000,000. Mr. Promoter knew nothing of the industry, except so far as he had been engaged in selling to some of the companies a portion of their principal raw material. He was also connected with several financial institutions, and was not unknown as a manipulator in Wall Street. For several years, he dominated the trust; and, from the prominence he achieved in successfully consolidating this industry, he was hailed as the pioneer apostle of the new era of combination and co-ordination of effort. For a long time, he enjoyed continuous and conspicuous mention in the New York press, and his views and movements were chronicled with the utmost faithfulness. When the New York Legislature undertook to investigate trusts, Mr. Promoter was the star witness, and he completely overwhelmed the statesmen by his volubility in elaborating the marvellous results which were to ensue from the new era of combination. For a few years, he stood on dizzy heights in the consolidation world as the prince of promoters. Two years ago, he collapsed. But that is another story.

It is needless to detail all the particulars of the negotiations that governed the entrance of all the mills in the country into the new trust. Suffice it to say that all but the three giants of the industry had been absorbed by 1892, when the trust had control of eleven plants whose nominal capital was about $6,000,000, and whose sales equalled about twenty-five per cent. of the country's business. A price war was then declared, to force in the three giants of the business. In the spring of 1893, two of these capitulated; and the third, and biggest, while retaining its corporate independence, entered into an alliance whereby it agreed to follow the prices and terms dictated to the trade by the trust.

The first step of the trust, which now was practically in complete monopolistic control of the entire industry throughout the United States, was to force upon the jobbers a drastic contract system. In place of ordinary competition among the jobbers, each jobber was required to sign a contract which took his selling terms absolutely out of his hands. Before he could get any goods, he was obliged to sign a contract, the vital stipulation of which was embraced in the following words:

"The purchaser agrees to be governed in his selling price and terms to the retail trade by the instructions of this company, and hereby promises not to vary from the discounts or terms herein named. It is also understood and agreed that the above conditions as to prices and terms to the retail trade apply to all goods on hand April 1, 1893, as well as to present or future purchases under this contract. This company, on its part, will require purchasers to sign this agreement before accepting their orders. And the said purchaser, in case of his failure at any time to faithfully observe the foregoing conditions, hereby consents to the cancelling of all his unfilled orders in the hands of this company."

Then followed the terms and minute stipulations which were to govern every possible trade contingency. This general contract was followed by what was termed a "supplementary agreement," the substance of which is the following:

"This company, in consideration of a certain agreement between it and —— dated ——, hereby covenants and agrees with said —— that if he, the said ——, shall well and faithfully keep and perform all the undertakings on his part to be performed, in said agreement contained, and shall not directly or indirectly violate the same or any provision thereof while it continues in force, said company will as soon after the first of April, 1894, as said Company is satisfied that said agreement has been faithfully kept and performed by said ——, pay him or credit his account with 15 per cent. on the net amount of his purchases under said agreement, provided, however, that if, in the opinion of said Company, which is to be final and conclusive, said agreement has been in any material respect violated by said ——, he shall not be entitled to said discount of 15 per cent., but shall pay for all goods purchased by him under said agreement, upon the terms and at the discounts therein mentioned without further discount or rebate. It is also mutually understood that —— is to be held responsible for any violation of said agreement by his salesmen."

On top of these then very novel restrictions and stipulations, there was an advance in prices over the season of 1892 of practically 33 1-3 per cent. That all this came as a sensation may readily be imagined. The resentment among the retailers was most intense. The jobbers, as a general thing, co-operated and sympathized with the new policy. It eliminated competition on price among themselves, gave them a steady market from the beginning of the season to its end, and an assured profit of about fifteen per cent.

The policy outlined in the quotations from the earliest contracts of this trust has been followed uniformly ever since, with the exception of the season of 1897, when there came an accusation of bad faith between the managers of the trust and its ally, the one big company that had stayed on the outside. In consequence of this quarrel, prices were severely cut and a trade war lasted throughout that season. The contest cost each a loss of a couple of millions of dollars, and in 1898 the last of the original competitors came under the trust's dominion.

What has been sketched above may be termed the public history of the trust. It is needless to say that every property acquired was purchased at highly inflated values, those which came in last getting astonishingly liberal terms.

To detail the internal history of this trust, would be only to reveal the struggles of the various factions to get control of the highest offices, and to show the cleverness of Mr. Promoter in successfully playing one set against the other, while he remained secure, ruling the company on the inside and manipulating the stock market on the outside. While Mr. Promoter, from the vantage point of treasurer of the trust, largely influenced affairs, the ablest men were withdrawing and starting competitive concerns. In the third president, Mr. Promoter secured a man of excellent character, but old and affable, at a salary of $25,000 a year. He was an uninquisitive old gentleman and naturally unaggressive, and for four years under him the trust drifted through a period of internal serenity.

During all this period, the trust maintained the high prices, making no provision for the rainy day; everything was done to squeeze out dividends, and the arbitrary contract system and price-control still prevailed. Competition kept increasing, and the trust's volume of business kept diminishing. The selling agents, who under the old-time conditions had been powerful factors and possessed of wide discretion in making prices and distributing the product of the mills, found themselves stripped of all authority and confined to the terms of a printed contract which was practically public to any one. An office boy was fully as competent to make a sale as any of the half dozen $15,000 salesmen employed.

The publicity of the trust's prices and terms to the trade, coupled with its contract system and high prices, made a situation most favorable to its competitors, who were all prosperous; while the trust, having essayed the hopeless task of buying up competing mills, put a premium on competition. To force the fighting on the survival-of-the-fittest lines, with the advantage of the splendid prestige the old trade-marks of the trust mills still enjoyed, was a policy the magnates refused to adopt. They hounded the salesmen to do the impossible, and kept raising the prices to get the profits wherewith to pay dividends and interest charges, and to make good the leakages in all departments.

At last, the big profit exacted on the rapidly diminishing volume of sales proved inadequate to meet the dividend charges, and the credit of the company began to be suspected by the banks. Nothing but heroic measures could save the company. Its competitors were stronger than ever. They had no such prejudice to work against as had the trust brands. "Not made by a Trust," was the cry of the outsiders. Loudest among those who used this cry was one of the original organizers of the trust, who had left it and become a competitor.

Once more, Mr. Promoter took the centre of the stage, with three more big New Jersey charters under his arm. With one, he proposed to organize a great international trust to control the world's supply of the prime raw material of the industry. With another, he proposed to organize another trust to absorb all the competitors of the trust already established. Under the third charter, the greatest of all, he proposed to organize all three. For a couple of months, the trade and the newspapers were filled with the wildest rumors of what Mr. Promoter was going to do, and what he had done. But his bubbles were all pricked, and this all collapsed, as did Mr. Promoter. He was eliminated from the management. Those who had wrested the control from him forced the fighting to regain the lost business. At the opening of 1901, a cut of twenty-five per cent. was made in prices, this cut practically putting the goods on the market at cost. In 1902, the same policy of low prices was continued; and, while some little mills of inferior backing were crowded off the field, the chief competitors remain in 1904 in apparently undiminished vigor, fully as able, if not more so, to stand the contest as the trust.

Since July, 1900, the trust's stockholders have received no dividends, nor is there any immediate prospect of one. Of the twenty-five mills it controls, ten have been closed or dismantled, and these represent at least $3,000,000 of trust stock. Of the other fifteen, it is doubtful if more than half of them, under present conditions, can make ends meet. Only the best equipped in location, management and machinery can show profits under present prices; while the others, from loss of their competent superintendents or from the placing of incompetent men in authority, have lost the prestige their trade-marks formerly held, so that their production has to be marketed at special concessions.

To sum up briefly the trust's history. At the opening of 1893, it controlled absolutely the business of the country in its own line. Its position was apparently unassailable. The prospects could be expressed only in superlatives. All the great, successful men of the industry were under one management. No opposition was in sight. A surplus was in the treasury and a very large profit was in the business.

To-day, the trust's surplus is gone, and in its place is a bonded indebtedness of some $17,000,000. It is perhaps doing about sixty per cent. of the business of the country, and that at little or no profit. The gains of the best mills are largely wiped out by the losses at the others, not to mention the constant interest drain and the drag of dismantled plants. Instead of being owner of the field, it has about ten well established competitors, each of the competing mills being headed by some of the ablest men in the industry, all of whom were formerly in the trust. Those who were the great leaders in this industry and its chief fortune-makers are dead, retired or at the head of companies outside the trust.

The public's appreciation of the trust is fairly well reflected in the stock-market. Where the stock formerly sold at from 100 to 120 for the preferred, and from 60 to 65 for the common, it is now quoted at from half to one-third of those figures with no purchasers. The present managers are striving valiantly to put the trust on its legs again, but the task is herculean; while their newness in their positions, their uncertainty of tenure of office, the changes and rumors of changes of various sorts each year of late, coupled with the absence of any one dominating master mind equipped for the requirements of the trust, handicap the future excessively. Furthermore, the moment the trust again gets where it can declare dividends on its $50,000,000 capital, the field will offer too great an inducement for competition to be overlooked. This point is, perhaps, made clearer by the statement that the present live plants of the trust could be all duplicated, ready for business, for less than $5,000,000 cash.

Now, what has been the result of ten years' experience with this typical industrial trust, which produced a commodity that is necessary to almost every person in America? Has the original fear of the public, or the claim of the monopoly promoter, been realized? Does not this trust excite more titters than terrors among the trade to-day? Did competition remain suppressed, or did inflated prices continue beyond a comparatively short period? Its original managing board embraced all the ablest and most successful captains of the industry; but was the trust able to bring about and continue that subordination and co-operation among them, which was essential to its harmonious and successful development? Was it able to eliminate human nature in these men, and remove all traces of feelings generated during their careers of rivalry? This history seems to give answer to all these queries in a manner which suggests the absence of grounds for fear of continued industrial tyranny from any such combinations. Theoretically, a trust can become a monster of oppression; practically, trusts hurt only the confiding investing public. The average trust is as powerless for permanent harm as the bogyman of our childhood.

CERDIC SAXON.

IS THE HIGH PRICE OF COTTON THE RESULT OF MANIPULATION?

BY DANIEL J. SULLY.

BEFORE entering upon a discussion of this question, it is perhaps necessary to define the limits of speculation and manipulation in a general way. Ever since the fields of commerce and finance have broadened out—and even before, for that matter—speculation has been an element in business life. It has been quick to take advantage of conditions on one side or the other. But no scheme of speculation that lacked a sound basis for operation has been successful for more than a limited period. Speculation causes fluctuations, but does not long affect the general trend due to fundamental causes. With regard to the present price of cotton, no plan of manipulation, unless financed on a scale sufficient to take over a large portion of the crop, could have brought and kept prices at the present average level. There are times, of course, when acute conditions—such as a short crop, a small supply toward the end of a season and aggressive manipulation backed by large capital—have resulted in "corners" and thus kept up prices. But "corners" could not be planned and executed at the outset of a cotton year. No clique of speculators could be found with money enough and daring enough to attempt such a thing. They could not see far enough into the future, and the game would not be worth the candle.

If I were to be asked the bald question whether the cotton market had been the object of manipulation this year, I would say: "Yes; on both sides." One clique has believed cotton to be too low; another has taken the position that the price was too high. And the battle has been waged on the issues thus drawn. It has been a hard-fought struggle. There has been some bitterness. There has been money on both sides. If anything, the