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TRUSTS
GOOD and BAD

By LOUIS F. POST

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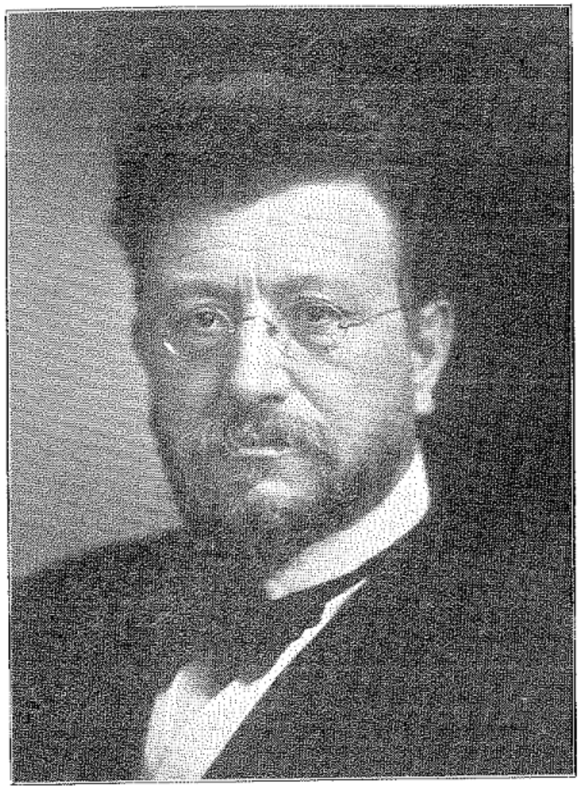

Louis F. Post

Publisher's Note

This monograph on trusts is Part Four of Louis F. Post's "Ethics of Democracy," which first appeared in 1903. It comprises all the chapters of that division of Mr. Post's book. They are reprinted here without alteration. Even the chapter titles and the page headings are retained. No apology is needed for this reprint ten years after their first publication in book form. They are as pertinent to the trust problem now as then and they apply with even greater emphasis.

The first chapter, "Department Stores," may seem at this day to have no relation to trust questions. But the bitter controversy over department stores, which has died down since these chapters were written, involves all the elements of the larger trust question. When "Ethics of Democracy" was first published, the author regarded this chapter, dealing as it did with an especially familiar kind of business, as an enlightening introduction to the general subject of trusts. It is worth being so considered still. To grasp the principles of that chapter is to understand the essentials of the trust problem.

Originally written when trusts were only beginning to attract public attention, all these chapters are especially illuminating now that the battle for destruction of the trusts is on. Statistically-minded readers, however, should be warned that they will find here little in the way of mere detail. Whoever would itemize the multifarious minor facts of the trust problem must go elsewhere for material. This is a pamphlet of elementary principles.

Simple principles they are, and in these pages they are logically arrayed and clearly set forth. The keynote is this, that the question of "good trusts" or "bad trusts" depends not upon **form of organization** nor upon **magnitude of organization**, but upon the **kind of property-interests** organized. It is a distinction which should be to students of the trust problem what the mariner's compass is to ocean navigation. Successful trust makers have steered by it. When trust breakers also learn to steer by it, trust makers will no longer succeed.

CHAPTER I

DEPARTMENT STORES

WHEN men specialize their work, each making only part of the things he needs, exchange is absolutely necessary. If one man, who wants food, clothing and shelter, devote himself wholly to food-making, depending upon others for his clothing and shelter, the only way in which he can obtain clothing and shelter is by offering his surplus food in exchange for them. Inasmuch, then, as in civilized countries all work is specialized, each man making only one—indeed, only a small part of one of the many things he wants—exchange is necessarily a universal phenomenon of civilized life. We all live through trading. But the natural conditions of trading do not permit each maker of one thing or part of one thing to trade his product directly with the makers of the products he desires. This is prevented by a great variety of obstructions. Not least effective among them is the impossibility of any one man's having a sufficiently extensive personal acquaintance. Various devices are therefore invented to facilitate trading, and chief among them is storekeeping.

The storekeeper makes a business of collecting at one point in a neighborhood all the different kinds of things, wherever in the world they may be made, that are ordinarily required by the people of that neighborhood. He collects these things at that point, in the quantities and at the seasons that best enable him to accommodate local wants; and he trades them upon demand for the limited variety of things which the people of that neighborhood make. He may take money instead of truck from his customers, leaving them to get the money by selling their truck elsewhere. This is the more usual method now, though truck stores still survive. But that makes no difference. The essence of the matter is this, that the world-wide system of storekeeping enables the makers of particular things or parts of particular things anywhere to trade them everywhere for the things they want. It is a system, that is to say, which binds the whole civilized world together in a commercial relationship.

In the evolution of storekeeping there have grown up two kinds of stores, the wholesale and the retail. Of each there are numerous grades, some of which assume distinctive names, but these two are the grand divisions. Wholesale storekeeping consists in collecting and storing for the accommodation of retailers, while retail storekeeping consists in collecting and storing for the accommodation of consumers.

The compensation of storekeepers is estimated in what are called "profits." When a storekeeper has collected goods in his store for the accommodation of those who buy of him, he charges for the goods a higher price than he has paid. The difference is his "profit." But out of that "profit" he must pay all the expenses of his business, including compensation or wages for his own work. "Profit," therefore, is not a distinctive term.

For the present purpose it is unnecessary to consider wholesale stores particularly, but we shall find it helpful to illustrate crudely the principle that determines the distribution of retail stores over a country.

If we imagine a small community at some distance from a trade center, a community without a store, we

shall have no difficulty in understanding how the people there would do their trading. To some extent peddlers might serve them. But they would often be obliged to go to the distant trade center for the purpose of selling products and buying supplies; for the purpose, that is, of trading the few kinds of things which they make and others want, for the many kinds of things which the rest of the world makes and they want.

This journey, if infrequent, might be an excuse for a holiday. But if local needs made its frequent repetition necessary, it would become part of the regular duty of each family; and so, instead of being a welcome excuse for a holiday, would be work. And not only would it be work, and irksome work, but it would interfere with other work.

At that point, the natural desire for economy suggesting some improvement, it is easy to imagine that the different families might hire some one to make it his especial duty to "go to town" as a truckman for all the rest, delivering what they sent and buying what they ordered, they paying him wages. That has not been an unusual arrangement in such circumstances.

This arrangement could not continue long without the truckman's discovering, if he were bright, that by laying in a stock of staple articles, he might satisfy the requirements of his employers and yet economize his own labor; and he would consequently see the wisdom of proposing a modification of his arrangement. Instead of often driving back and forth to the distant town, carrying goods either way for wages as a hired man, he would offer to open a local store, where he would buy local products outright, and also keep on hand at all times a stock of goods from which his neighbors could satisfy their wants. If he did this, he would be serving his neighbors in his capacity of independent storekeeper, precisely as he had served them before in his capacity of hired truckman. But they would now be better served, and he would get his pay no longer in wages but through the "profits" of buying in a cheaper and selling in a dearer market.

It is to be understood that the foregoing example does not illustrate literally the origin of local stores, but that it is intended to concentrate attention upon the fact that the local storekeeper saves his neighbors the necessity of going or sending to a distant place to trade. Essentially he is their servant. They buy of him because it is more economical and satisfactory to allow him his "profit" than to do for themselves or through hired truckmen the work which he does for them.

It is for their accommodation, therefore, and not primarily for his own profit, that his store is patronized. Consequently, if another storekeeper undertakes to accommodate them just as well, and they buy of him, the first storekeeper can offer no reasonable objection. His neighbors are not under any obligation to allow him a better income for doing their storekeeping than some one else is willing to do it for.

The same principle applies when an enterprising store in the distant city offers to receive orders by mail and to deliver goods daily at lower prices than the local storekeeper demands. What objection can he urge to that, even if it drives him out of the storekeeping business? None. His store is a local convenience, nothing more; and when a greater local convenience supersedes it, it has no longer any reason for being.

With the understanding, then, that a storekeeper, in

his capacity of storekeeper, is only a servant to his neighbors, and that when for any reason his service costs them more than equally good or better service can be had for, it is no longer a service but a burden—with that understanding clear, let us advance from a consideration of the principle of storekeeping in general to the business of storekeeping in and about the region of department stores, and from imaginary to actual conditions.

In American cities and their suburbs a vast number of retail stores have sprung up and flourished. The particular circumstances of their origin are immaterial. They came because their projectors believed that the people in their respective localities needed them, and they flourished because they enabled those people to satisfy their store wants economically—more economically than in any other way.

But now appear the department stores. These keep in stock or store all kinds of goods, from testaments to playing cards, from soda water to whisky, from a paper of pins to a bicycle, a piano or a set of furniture. Almost anything you want you can get here, in any quantity, and at prices which are not only lower than ordinary retail prices, but lower than ordinary retailers themselves can buy the same goods for from the manufacturers. Inevitably, therefore, the department store must be prejudicial to the business of all ordinary retailers, and destructive to the business of many.

So it is not remarkable, in times when business clamors for Congressional and other legislative protection, that small retailers should put forth pleas for protection by legislation from the encroachments of department stores. But is legislative protection really possible? Reflection should satisfy any one that it is not.

It is not department stores but retail buyers that close small stores. What the department stores do is to offer goods at low prices, and buyers do the rest. If department stores are really, all things considered, more economical and otherwise satisfactory than small retail stores, the people will keep on buying at them; and no law that either is or ought to be constitutional can stop it. If they are really economical it would be as futile to attempt to legislate against department stores in the interest of small stores, as to legislate against railroads in the interest of canal boats or stage lines, against electric cars in the interest of hack drivers, against steamships in the interest of sailing vessels, or against labor-saving machinery in the interest of trades unions. The economical instinct is too potent a force for any restrictive legislation long to resist.

On the other hand, if department stores are in fact not more economical than small stores, no legislation is necessary. They may last a little while as a fad; but unless they really do economical service for consumers, consumers will soon forsake them.

The question is wholly one of economy; wholly a question of saving labor. It is another form of the question of labor-saving machinery. What small storekeepers complain of is the same thing in essence that printers complained of when the type-setting machine displaced so many of their number. The cry of pain which the small storekeeper emits merely shows that the labor problem is pinching him for a solution, and that the problem is by no means so funny nor its solution so simple as he thought when it only pinched "workingmen." Being a question of economy, this department store question must be settled, like all other phases of the labor question, not

by legislative restrictions upon the economical instinct of any men, but by giving to that instinct in general unobstructed play.

Not alone is it true that legislation cannot suppress department stores if they are a genuine advance in the direction of economy; it is also true that legislation ought not to be used for that purpose even if it would be effective. Such legislation would be in essence legislation against buyers, to prevent their economizing. That is a purpose for which legislation cannot be rightfully used. It would be legislation for the purpose of forcing the community to support men in a business which has ceased to be serviceable. That, also, is a purpose for which legislation cannot be rightfully used. No man, no class, has the moral right to invoke the law-making power to maintain a business which the people if left to themselves would refuse to support. The law-making power that responds to such a call prostitutes its functions.

Would we, then, see men thrown out of all employment by the encroachments of economizing improvements? By no means. We should labor and plead, on the contrary, for a complete emancipation of the natural opportunities for employment, so that no one could possibly be idle against his own will.

There is no limit to the work that men want done. No machinery can restrict it, no possible extension of the department store system can lower the demand. The cheaper we get things, the more things we want and the more work we therefore require. Natural demand for work is always in excess of the supply. But in existing industrial conditions natural demand is not free to express itself. Effective demand, therefore, is in those conditions always less than the supply.

If natural demand were free to express itself, new machines would mean more demand for workers instead of less, and department stores would put greater life into trade instead of stagnating it. But the demand for workers is held in check by monopoly of opportunities for work—monopoly created and maintained by statute law in hostility to natural law.

While this exists, every new labor-saving machine threatens the livelihood of great masses of workingmen; and every extension of economies in trade, by means of department stores or other forms of concentration, becomes a growing menace to the business of small storekeepers. But if legalized monopoly were abolished, all economizing processes would be blessings alike to consumers and producers, to buyers and sellers.

The department store problem, like the labor problem, is at bottom only a phase of the general problem of legalized monopoly. It is to be solved not by further protective legislation, but by legislation destructive of the legislation upon which monopoly in general rests. When that truth once takes possession of men who feel the pinch of industrial conditions, and of those who sympathize with them, a new light will dawn. Then competition will be recognized as coöperation, and be fostered until it is wholly free; then everything that saves labor will be welcomed by every one who lives by laboring.

CHAPTER II

GENERAL BUSINESS CONCENTRATION

THE most significant tendency of modern business, not only in storekeeping but in nearly every other sphere of industry, is production on a large scale—business "concentration," or "organization" as it is commonly called. Opinions as to the beneficence of this tendency doubtless depend greatly upon the point of view. The head of a large and flourishing establishment would naturally look upon it very differently from the small producer whose field of industry has been invaded and his living possibly taken from him by large concerns. But there must be some test by which to determine, regardless of personal interests, whether or not concentration is socially injurious; and the rational test would seem to be one that makes the question hinge upon the character of the impulse back of the concentration.

When the object and effect of changes from production on a small scale to production on a large scale are economy, the new method requiring less labor than the old, then the tendency is normal and therefore calculated to be beneficial. Concentration for that reason and with that effect is but a form of labor-saving invention. It produces more or better things with no more labor than before, or the same things with less. What the steam car is to the ox cart, production on a large scale is to production on a small scale. The factory is an example. Advance in manufactures, from the production in little shops of half a century and more ago to the wholesale production in great modern establishments, has been because the latter method is cheaper—because, that is to say, it yields better results with less labor. The change is natural, and if in practice it has hardly been altogether beneficent, this is not due to the change from a small to a large scale of production, not to concentration so-called, but to industrial maladjustments which prevent the benefits of the improvement from being fairly shared.

But a very different impulse may cause business concentration. When it is adopted not as a cheapener of production, but as a method of killing competition, then the tendency it expresses is abnormal and unwholesome. Of concentration from this impulse, the trust is the great example. Trusts have for their object and effect, not the object and effect of labor-saving inventions—not the multiplication of products, not the lessening of the labor of production, not the cheapening of prices,—but the curtailing of production for the purpose of forcing prices up and wages down.

Prices of trust products have indeed been known to go down, but that has always been in spite of the trust and not because of the trust. It has been because the trust was too weak for its purpose. No trust has ever yet lowered prices except in response to competition or in fear of it, a force which it is the principal aim and object of trusts to destroy. Though trusts wear the garb of economical concentration, and so mislead both those who oppose and those who favor them into confusing them with natural concentration, as if the two were identical, trusts are no more the same as natural concentration than the wolf wearing Red Ridinghood's cloak was Red Ridinghood herself.

This distinction between natural concentration for increasing production, and trust concentration for diminishing it, should be borne in mind when industrial questions that relate to production on a large scale are considered. If the change from a comparatively small to a comparatively large scale of production be arbitrary, if it be a mere combination of individual establishments to stop competition between them and to prevent competition from other sources—if, in a word, it be a trust—then the change is unnatural and oppressive. But if the change be a genuine labor saver, something which instead of lessening production increases it, instead of weakening competition intensifies it, then the change is natural and the result will be beneficial.

Put to this test, such concentrated mercantile enterprizes as department stores would appear to be beneficial. Their object and effect is not to increase prices but to lower them, not to lessen production but to augment it, not to prevent competition but to intensify it, not to obstruct the consumer but to accommodate him. Like the great factory, therefore, they are an example of the normal and beneficent tendency toward production on a large scale—an instance of legitimate concentration. And as the factory has displaced the small shops or changed their character, so the department store will in great measure, if not wholly, as related improvements come in, displace or change the character of small stores. Should this seem hard upon the small storekeeper, it is not more so than the railroad was upon the stage driver, or the linotype machine upon the old compositor. Even if the change could be prevented, the prevention would be unjust. Though it might appear to benefit small storekeepers, it would actually injure consumers. But, being a natural development, the change cannot be prevented. It is a condition which, like rain and sunshine, must be taken as it comes. And but for industrial maladjustments which obstruct the diffusion of its benefits, no one, not even the displaced storekeepers themselves, would for one moment desire its prevention.

As to bonanza farming, there is reason to doubt that it is in fact a labor saver, though it is said to have driven out the farmers of New England, and to threaten small farming even in the West. The argument as to New England rests upon an asserted decline in farm values, but that does not support the argument. While it is true that some farms in New England have fallen greatly in value, it by no means follows that this has been caused by the competition of bonanza farms. It is more likely to have been caused by the shifting of the uses of land in New England, a view which is confirmed by the fact that while some land values in New England have fallen, land values there in general have enormously increased. The region has been going through a transformation, from farming to more advanced industrial uses. It may be that this change has been brought about by Western farming. If so, however, that is because the greater fertility of the West has been made available by railroads, and not because there are bonanza farms there.

If in the West small farming is in danger from the bonanza farm, the fact has yet to be shown. It may be in danger from discriminations by railroads; but farmers are not wanting who assert that in the absence of special railroad privileges, bonanza farming cannot compete with farming upon a small scale. Assuming, nevertheless, that production on a large scale is as normal in agriculture as in manufactures and merchandizing, the time

must come, upon that assumption, when small farming will give way to bonanza farming, just as small shops have given way to large factories, and as small stores are giving way to department stores. If bonanza farming can produce the same results as small farming, with less labor, or better results with the same labor—if, that is, it is truly more economical—then bonanza farming is destined to be the farming of the future. And it will, in that case, be beneficent, even to the small farmers, unless industrial maladjustments interfere with the normal distribution of its benefits.

What makes the prospect of production on a large scale so ominous, and it is ominous indeed, is the thought, expressed or felt, that the change implies in its culmination a state of society in which the few will be masters and the many serfs. We think of large factories as being under the mastership of manufacturing "barons," whose employes are slaves without the ordinary slave guarantees of support. Department stores associate themselves in imagination with merchant "princes" attended by hosts of cringing clerks. And it would be difficult to conceive of bonanza farms without bonanza "farmers" and their gangs of dependent "hands." Such, too, will most assuredly be the outcome if we allow maladjustments to perpetuate themselves, and to extend into the era of production on the largest scale.

CHAPTER III

THE RAGE FOR TRUSTS

THE economic advantages of legitimate concentration in business have created a rage for concentration, regardless of whether it may be legitimate or not. For several years, consequently, the air has been laden with schemes for consolidating business competitors. The old business maxim, sound and wholesome, that "competition is the life of trade," has been discarded in industrial circles, for the theory, for which no maxim has yet gained currency, that consolidation is the condition of success. This theory is the vital principle of trusts.

The latest mode of trust organization is a vast improvement upon earlier ones. Competitors no longer enter into trust agreements in restraint of competition. That primitive mode proved to be altogether incompetent. The trust agreements were evaded and sometimes openly violated; and, as they fell under the ban of the law, there was no redress in the courts. What competitors aiming to organize a trust do now, is to form a legal corporation in which all proprietors become stockholders, paying for their stock with their respective business plants. Establishments that formerly competed for business thus become part of one great concern under the management and control of one board of directors. If the former owners continue to operate their plants they do so no longer as owners, but as corporation employes.

It is the corporation, too, that determines as to each plant whether it shall be operated at all.

Or, the same end may be attained by an improved mode which has become more common. A managing corporation is formed which acquires the ownership of a majority of the stock of each of the corporations to be combined. The latter then go on, nominally as independent concerns under the nominal management of their respective boards of directors, but really as constituent or subordinate companies under the control of the blanket company.

There is no opportunity, therefore, as there was under the primitive mode of making trusts, for any party to the trust to evade his obligations to his confederates. The business is wholly in the hands of a central corporation, which has the legal attributes of a natural person; and the trust, instead of being under the ban of the law, operates under its sanction.

An effect, and one of the objects, of these combinations, is to dispense with many employes and cut down the wages of most of the others. Journeymen mechanics and unskilled laborers may escape. Whether they do or not, depends upon whether the trust reduces its production. If it does not, these employes remain; if it does, they suffer with the rest. Whether mechanics and laborers are affected or not, such employes as salesmen, bookkeepers, foremen, clerks and the like are sure to be hurt. When many establishments are consolidated, even though as many mechanics and laborers be required as before, they can be governed by fewer foremen, and the output can be disposed of and accounted for by fewer salesmen, bookkeepers and clerks. The organization of a trust, therefore, involves the discharges, more or fewer, of this class of employes; and that in turn involves the reduction of the wages of those who remain. This has been one of the notable facts in connection with the trust craze. The general public may not be aware of it, but foremen, clerks, bookkeepers and salesmen are painfully so.

Another object and effect of trusts is the destruction of competitors who are left out of the combination. Since the motive for combining is to kill competition, outsiders must be crushed or the combination fails of its purpose. Many methods of accomplishing this are resorted to. It may be done by selling certain lines of goods for a time at less than cost. The trust can stand that longer than its small competitors, and when they are out of the way can recoup by charging higher prices than ever. Even while a price war is in progress, the trust may charge excessively for goods that are not in the field of competition, while selling below cost those that are in that field. But whatever the method, the object is to crowd out all competition and secure the whole field for the trust.

Competitive business men are sharply admonished of this by diminishing custom and decreasing profits. Some even of the best of them begin to look forward to retiring from business into high-grade clerkships; and a vast number are contemplating the possibility, if they themselves fail to get into a trust, of competing with lower grades of clerks for their already precarious places.

Whether or not the trust has come to stay, is an open question. Trust magnates have no doubt of it. The ordinary business man fears it. Social agitators proclaim it. And only here and there is doubt expressed. Nevertheless it may well be that the making of many trusts is

only an evanescent craze, and that the trusts are mere bubbles which must soon burst.

But any intelligent conclusion as to that point must rest upon an understanding of the differences in trusts, which we have already noted. There are trusts and trusts. It cannot, therefore, be predicated of the trust generally that it must either succeed or collapse. Some kinds of trusts may succeed if well managed, while others, no matter how well managed, may be predestined to inevitable collapse. Some analysis, then, of trusts as they confront us is necessary.

As already suggested, we can conceive of a trust having for its sole object and effect economy in production. Consolidation of business plants might lessen the cost of supplying goods to consumers. It might do this in part by reducing the number of managers, clerks, bookkeepers, and so on, necessary to supply a given demand; and in part through those innumerable other economies which, in favorable conditions, flow from operations upon a large scale. That kind of trust would be analogous to labor-saving inventions. Indeed, it would be a labor-saving invention itself. Familiar examples are offered by the department store, by farming on a large scale, by manufacturing combinations, by any business consolidation, however vast, which is neither directly nor indirectly buttressed by legal privileges.

Such a trust would, in the absence of legal privileges, be compelled, by fears of engendering competition if not by competition itself, to give to consumers the benefit of its economies. And though this trust would displace employes and independent employers, just as labor-saving machines do, just as all economies must, there would be nothing to deplore in that, if opportunities to work for others or to do independent business in other and related lines were inviting and insistent. The displacement would then be a simple and easily adopted change of occupation; not exile from the whole industrial field.

Trusts of that character are not essentially bad. On the contrary, like labor-saving machines, they are essentially good. If they operate prejudicially in actual practice, it is not because they are injurious in themselves, but because they exist in conditions which operate, in greater or less degree, to bar out from other employments the workers and business men whom they displace.

Moreover, these trusts cannot carry organization to the point of perpetually monopolizing a business. The notion that they can and do, proceeds from the mistaken supposition that business combination is progressively economical without limit; which in turn proceeds from the fact that business combination is economical up to a certain point. In truth the economies of organization are limited. As soon as organization reaches the point of highest economy in a given case it becomes progressively uneconomical. To overcome this tendency, business combinations must combine monopoly interests as distinguished from competitive interests. Good-will serves to a degree; trade-marks, a species of good-will, also serve; the buying habits of the public can be monopolized by these means even for inferior goods for a time and to a degree. But no permanent trust can be founded upon those personal advantages. Permanent trusts require primary monopolies—monopolies that are created by law and control the necessary conditions of profitable production, transportation and trade.

Of primary monopolies, patent privileges are comparatively weak and count for little, because their power is temporary. The tariff and other taxation on production and trade serve only to limit the field of competition, and, although powerful, are not supreme. This may also be true of highway privileges when segregated; of terminal point monopolies considered individually; of particular monopolies of sources of original supply; of particular monopolies of superior trading sites, and of other monopolies of location, each considered by itself. But some of these privileges are of gigantic power, and when all are combined they are irresistible. Trusts which rest upon or are buttressed by any of those privileges are essentially bad and dangerous.

The harmful power of a railroad trust is the ownership of great public highways and terminal points which it brings under a single control. That is true, also, of street car combinations, of telephone and telegraph monopolies, of gas and electric light and power trusts; in a word, of all consolidations of those business interests that spring out of the law instead of being evolved by individual initiative and regulated by unobstructed competition.

Mining trusts are in the same category. They are essentially oppressive because they consolidate titles to mining opportunities, and thereby enable the trusts to dictate to all industries that depend upon the mineral deposits of the globe. And as with mining trusts, so with all other trusts which, so to speak, have their feet upon the ground.

Closely akin to highway and landed trusts are the trusts that bring under common ownership important patent rights. By virtue of these parchments those trusts arbitrarily and effectually prohibit the unprivileged, as a distinguished patent law writer puts it, "from using some of the laws of God," just as railroad trusts by franchises, and mining trusts by deeds, arbitrarily and effectually prohibit the unprivileged from using some of God's common wealth.

All these trusts, though differing in power, are in character one. They are grounded in legal privilege.

Subordinate to the privileged trusts, are trusts of still another class. These have the characteristics externally of those of the first class described above—those which we have likened to labor-saving machines. They appear to have the benefit of no monopoly whatever, but to be simple unprivileged business combinations. In fact, however, they derive legal privileges at second-hand and secretly from trusts that are founded in privilege. Of this type was the Standard Oil trust at its inception. Under secret arrangements with railroads, which enjoyed highway privileges, the Standard Oil trust secured rates of transportation so much lower than its competitors were required by the same railroads to pay, that it thereby drove its competitors to the wall. Subsequently it acquired highway privileges of its own. Other trusts that flourish now, doubtless also depend for their power upon discriminative freight rates.

To one or the other of the three classes of trusts mentioned above, all the trusts now organized, or in process or expectation or possibility of being organized, may be assigned. And according to the class into which a trust falls, will the probabilities of its success or collapse be determined.

The weakest of all the trusts are those of the first class—trusts which possess no legal privileges. If capitalized at the true value of their plants, and conducted

merely with a view to economy and not to keeping prices above the competitive level, they may succeed. But which of those trusts is so organized and so conducted? It is safe to say, none. In capitalizing, each plant is inventoried at double its value or more; and the consolidated business is conducted with a view to paying good dividends on the stock so watered.

The trust which does this, without the aid of some kind of monopoly—land, highway, patent, or the like—can no more succeed in business than a boy can succeed in lifting himself by his boot straps. All such trusts are fated from their inception to perish. Some have perished already.

It is probably true, however, that most trusts of the general character last described, are not of that character strictly. Very likely most of them are buttressed either with some special privilege of their own, or with contractual interests in the special privileges of other combinations. In that event their success depends upon the power of the monopoly they so enjoy—to which extent they are in the category of trusts of the second class described above, those grounded in legal privilege. As the latter rise or fall, so may the former.

Trusts grounded in legal privilege may be expected to succeed or collapse according as their legal privileges do or do not enable them to control the original sources of supply of the goods they handle. Unless they acquire control of these, it is only a matter of time when another trust will. And if another trust does, it will either absorb the first one or crush it.

Steel manufacturing trusts might for a time control the steel market. But let another trust secure the ore mines, and the steel trusts would be at its mercy. Manufacturing combinations, however complete, however wealthy, even though buttressed with patents and in combination with railroads, can retain their power only while the owners of the natural sources of their supply are not combined.

It is a *sine qua non* to success that a trust have its feet upon the earth. This has been discovered by the great trusts. The steel trust goes back to the land, and makes ore mines part of its property. The coal-transporting trust of the anthracite region is careful to secure not only highways, but coal mines. The trust that does not follow their example is doomed.

To analyze this subject is to conclude that the rage for forming trusts will eventually react and produce a stupendous crash. Trusts with much watered stock and without much monopoly power, will go first to their fate. They will be followed by the monopoly trusts that fail to secure fundamental monopolies. In the end no trusts will be left to rule in the economic field save those which have their feet upon the ground. The trust question leads directly to the land question.

CHAPTER IV

THE TREND OF THE TRUST

IN the preceding chapter trusts are classified in three categories: trusts without legal privileges, trusts that own legal privileges, and trusts that own no legal privileges directly but sublet such privileges from trusts that do own them. Trusts without legal privileges are described as weakest of all, and as fated from their inception to perish; those that sublet legal privileges, as likely to rise and fall in subordination to the legally privileged trusts on which they are dependent; and those that own legal privileges, as doomed unless they establish themselves firmly upon such legal privileges as are fundamental —the conclusion being that "in the end no trusts will be left to rule in the economic field save those which have their feet upon the ground." Proceeding from this conclusion, let us first ask ourselves to what extent business can be thus securely monopolized by trusts.

The control of trusts by trusts—in other words, the merging of many trusts into one trust, much as many kinds of business have been merged each into its appropriate trust—is clearly among the possibilities of trust development. Such a tendency has already become actually manifest.

Two competing railroad systems, for instance, each made up of what were originally independent roads, are in essence if not in name, two independent trusts. In time one of these systems falls under the control of the same interests that control the other. They might be operated as independent properties, preserving the form while destroying the substance of competitive operation, but for a Supreme Court decision against "pooling," which may make it necessary, or at least expedient, to abandon even the form of competitive operation. If so, one would be operated avowedly as a branch of the other. In either event the two systems would be but one system; the two trusts would be consolidated.

Nor need we look to railroading alone for such examples. Telegraphy, telephoning, electric power and light supply, gas works, and the like, are all tending to consolidation. First there are franchises to different corporations in a community; then comes consolidation of franchises, until one corporation—essentially a trust—owns them all. And that stage is followed by a consolidation of these interests in different communities under a central control—a central trust

As to trusts generally—the "industrials," as their stock is called in the "street"—their evolution is similar. Competing establishments in a given line of business, consolidate and form a trust. Their object, which may be in part to secure economy in production, is in other and perhaps greater part to stop competition. Except as these combinations are buttressed with great legal privileges, they are, as already indicated, in danger from the constant pressure of competition, actual or potential, which tends to produce disintegration. For competition is a vital social principle. Its operation may be obstructed by minor monopolies, but its force cannot be quite neutralized by anything short of perfect and complete monopoly. Consequently, until a trust or a series of trusts secures complete control of all the natural re-

sources which its operations require, it feels the force of competitive influences. When one line of business, therefore, consolidates into one trust, and other more or less related lines consolidate into other trusts, these various trusts are by the same impulse that prompted them to form original trusts, prompted to form a trust of trusts. They thus consolidate under one control not only all the establishments in each line of business, but all the trusts in the different related lines of business, including the trusts that own the natural sources of supply.

This would make that trust of trusts invincible within its own sphere. Its feet would be upon the ground. Yet it might still be embarrassed by its dependence upon others for subsidiary products. In that case it would come into collision with the trust of trusts that had its feet upon the ground as to those products. Then a struggle would ensue, the result of which would be consolidation of these trusts of trusts.

Suppose, for illustration (and the illustration is by no means strained), that the steel manufacturing business were by processes of consolidation brought under the control of a trust which dominated the business, merely as a steel business, from beginning to end—owning everything from finished product back to ore mines. That trust of trusts would have its feet upon the ground. But it must use coal; and here, let us say, is a trust of trusts which dominates the coal business, from delivery at your cellar door back to the mines from which coal is dug. That trust, too, has its feet upon the ground. In such a case the interests of these two trusts would collide, and out of the collision the steel trust and the coal trust would emerge as one.

That illustrates the trend of trusts. Following them from their beginnings, we find a tendency first to the consolidation of businesses of the same kind into trusts for those kinds of business respectively; then to the consolidation of trusts in kindred lines; then to the consolidation of those trusts as they come into collision with one another; and so on, each trust gaining power over its rivals as it secures a broader and firmer foothold upon the ground.

Unhindered by fundamental reform, the organization of trusts and their absorption into trusts of trusts would eventuate in the ownership of all business by some gigantic trust, which would get its power as Antæus got his, by keeping in touch with the earth. Owning the earth, it would own men; and owning men, it would own all that they produce, from the simplest food to the most marvelous machinery. The middle class would disappear, and only two classes would remain—beneficiaries of the trusts and their favorites on the one hand, and impoverished and dependent hirelings and beggars for work on the other.

To this triumph of the trust, socialists look forward with satisfaction. They see in it the opportunity of the people to take possession not only of the earth but of the artificial instruments of production also, by dethroning the few trusts or the single trust that may acquire this vast ownership. They are satisfied because in this trend they discover signs of the evolution of common ownership of the mechanism of production and distribution. But in the trust phenomena there is little real cause for satisfaction. As the evolution of the trust proceeds, trust employes become in greater and greater degree mere voting machines, registering at the polls not their own convictions, but their employers' commands. This condi-

tion, only worse, would be universal should the development of trusts proceed even approximately to the point indicated above as possible. And when the time came to dethrone the trusts, the trusts themselves—through armies of dependent voters—and not the convictions or the interests of the people, would decide the issue. It might be that the trusts would decide in favor of their own dethronement. But if they did, they themselves would fix the terms; and we may rest assured that the dethronement would be but nominal. All land and all machinery might by their consent be turned over to a government; but it would be at a price which the trusts would dictate, and to a government which they would continue to control.

It is not by waiting until trusts own everything and then taking it from them, neither by trusting to their destroying their own power by overproduction, that the industrial question must be met. If the evils of the trust are to be overcome and its dangers avoided, the people must possess themselves in time of the strategic point toward which the trust is advancing. Since the trust cannot survive without, Antæus-like, getting its feet upon the ground, it is to be destroyed only as Antæus was, by keeping it entirely off the ground.

CHAPTER V

THE TRUST AS A NATURAL EVOLUTION

THE term "trust" comes from the original method of trust organization. The owners of stock in different corporations intending to consolidate would deposit it with trustees, whom they invested with absolute power over it, subject to the reservations of the trust agreement. In that manner competing corporations concentrated in these trustees complete control over their business, and the consolidation was consequently called a trust. But this method of making industrial combinations proved by experience to be crude and open to time-honored legal objections, and from time to time improvements were adopted until the trust in its original form disappeared.

In a narrow verbal sense, therefore, it is correct to say that trusts no longer exist. It is correct, that is, in the same sense in which the punster is correct who tells you that "a door is not a door when it is a jar"—for it is simply a play upon words. But only in that sense, for the name and the trusts themselves have persisted, though the method of which the name was originally descriptive has long since given place to methods more effective. Trusts are more numerous and powerful than ever, but they are no longer in the hands of trustees. They are formed now, as described in a previous chapter, by the sale of competing corporations, or a majority of their stock, to new corporations organized especially for the

purpose of buying their interests, consolidating their power, and managing their affairs.

That was the method adopted by the gigantic steel trust. A syndicate was organized, with which the stock of all the steel corporations of the country was deposited; and at the proper time this stock was turned over in exchange at certain ratios for the stock of the United States Steel Corporation, which had been organized for that purpose under the laws of New Jersey. Thus the United States Steel Corporation, though nominally nothing but a chartered company, like thousands upon thousands of others that have been spawned by incorporation laws, became in fact an enormous trust, monopolizing the steel industry of America and reaching out for the monopoly of that of the world.

This stupendous consolidation profoundly stirred public feeling. Where is all this concentration of power to end? was a question which if not upon every tongue was making almost every heart throb with anxiety. All our people were not like the complacent college professor of economics who, while realizing that the steel trust would have "very great power," regarded it as an evil only in case it should use "this power to raise prices to the consumer." There were those who had read history thoughtfully enough to dread unbridled power in itself.

The same professor spoke of these great combinations as "a natural evolution of the modern industrial system." That seemed to him not only a sufficient reply to all objections, but a complete justification of the trust as a good thing. Yet he would hardly have looked upon typhoid fever as a good thing, even if some medical professor had commended it as good because it was "a natural evolution of a method of drainage." He would have formed his own conclusions as to the goodness of typhoid fever, and if they were unfavorable would have suggested that the medical professor devise something in the way of improving drainage, so that typhoid fever might alter its "natural evolution."

When a method of drainage produces typhoid fever, this does not prove that the fever is good; it proves that the drainage is bad. So with trusts. If they are a natural evolution from the modern industrial system, so much the worse for the modern industrial system, not so much the better for trusts. Every tree brings forth fruit after its own kind, and by its fruit we know it. If the gigantic steel trust, with the unparalleled power it confers upon two or three men over the industries and even the lives of great masses of the people, is a natural product of the modern industrial system, then it is time to overhaul that system and learn what is wrong with it.

But the idea that trusts are good—or at any rate tend in the direction of good—because they are a natural evolution from historical conditions, is not confined to political economy professors. There is no lack of other well meaning people wanting better things to come, who also embrace it.

Socialists of the historical school are in that category. They take the current of history for granted as good. Either that, or they assume the impossible—that good is a natural evolution from evil. For they believe that history exhibits a process of evolution which, having reached the present deplorable era, is about to pass into what would be a worse, the era of trusts, if it were not that the natural evolution from the trust era is to be an era of equality and good will.

If persons who believe in this way meant that trust

phenomena would stir up public sentiment to a realization of the social disease that has produced them, and impel it to seek the root cause and apply radical remedies, their position would be intelligible. But they have no such meaning. They mean that out of these diseased social conditions, and by a continuation of the same natural process of evolution that has been at work through the ages, there will evolve healthy social conditions.

Since that is the reason they welcome trusts, it is not just to say, as is sometimes hinted, that they welcome them from motives similar to those which led the quack doctor to produce fits in his chicken pox patients—because he was death on fits and didn't know much about chicken pox—although their programme does suggest it. They look expectantly and hopefully for the concentration of all business in a few great trusts because they are confident that this condition will generate one in which the people as a whole, in an organized capacity, will acquire and administer all business for the common good. This programme truly is, upon the surface, somewhat like turning chicken pox into fits and then curing the fits; but that is really not a true interpretation of their reason for exalting trusts as a natural development toward better things. They seem to believe that all through history the human race has been a sick man (not from disregard of fundamental laws of social health, but of necessity in the nature of things evolutionary), who from one disease to another has finally got a chicken pox, which, in due course, is producing fits, and that the fits will in turn produce good health. It is not an encouraging programme.

Besides the philosophical absurdity of expecting a natural evolution of good from evil, the generation of health by disease, there is to be considered the commonplace fact heretofore alluded to, that the masterful minds which are able to dominate private trusts would have no difficulty in dominating government trusts, even under popular government; yea, more triumphantly under popular government. The invitation to cure the trust evil by encouraging the development of trusts with the expectation of their being taken over ultimately by some form of popular government, is an invitation to join in completing the destruction, instead of achieving the restoration, of popular liberty.

Unfortunately, the drift of discussion regarding the trust evil has seemed to favor this policy. That result is immensely contributed to by slovenliness in analyzing the trust problem. It has been assumed too carelessly that mere combinations make monopoly. Hence attention has been centered upon the problem of checking combinations, and been thereby diverted from the vital point, which is the nature of the thing combined. The idea to be grasped and clung to is the fact that it is not trusts that make monopoly, but monopoly that makes trusts. The evil springs from no normal condition, but altogether from abnormal adjustments. It does not depend upon mere combination; it depends upon the character of the interests that are combined. A combination of fishermen, for instance, could not, merely as fishermen, make a fishing trust. They have no monopoly. Their only advantage would be their fishing skill, and equal skill could soon be acquired by others. Even with the advantages of such special privileges as dockage rights and transportation opportunities, it has been found impossible to make an invincible fishing trust. An attempt to form a camera trust has failed, although there are patents to buttress

such a combination. The great wall paper trust was once supposed to be an example of the power of mere combination, but it was compelled by outside competition to dissolve. Instances of this kind might be multiplied and in the future doubtless will be. The latest is the shipping trust, which, having but little fundamental monopoly power, has begun to totter. The cigar trust is in the same general category. What gives power to the cigar trust is similar to what gave power for a time to the wall paper trust—its trademarks; and it, too, is destined to collapse. So long as individuals or corporations possess only such interests as are freely open to competition, they can exercise no oppressive power. To hold the field to themselves, in such circumstances, they must render and continue to render superior service to all comers.

If, while doing that, a combination seems to injure some people by displacing employes or competing houses, the injury is not attributable to the combination. For if men are displaced in a business because they are not needed, and so suffer for lack of employment, their suffering is due, not to their displacement, but to the fact that opportunities for employment in occupations in which they really are needed are closed or narrowed by restrictive laws.

With such combinations, moreover, there is a limit of efficiency which any thoughtful student of the problem must infer, and which the business community is beginning to detect. I have already adverted to it. Up to a certain point there is economy in combination. It saves expense in many ways. But that point reached, the saving becomes less and less progressively as the combination expands, until further combination ceases to be economical and becomes positively wasteful and unprofitable.

In some degree all combinations are subject to this limitation, because all are to some extent combinations of interests that are open to competition. But to the degree that the combination is of monopoly interests, to that degree the limitation is lifted. A combination of nothing but monopoly interests, controlling the sources of supply and the channels of delivery for imperative demands, would have no limit and would be invincible. The evil power of trusts depends, consequently, upon the extent to which the interests they consolidate are monopoly interests. Though a combination of fishermen could not monopolize the fish trade, a combination of fishing ground monopolists with dock monopolists and railroad monopolists, could monopolize it.

The correctness of this analysis is confirmed by the history of the Standard Oil trust. By railroad privileges at first and afterwards by a pipe line from the oil regions to the sea, this trust has dictated terms to oil consumers at one end and to oil producers at the other. It is further confirmed by the story of the all-absorbing steel trust. Not merely to manufacture steel on a large and economical scale is this combination formed. That is only incidental. It is a function which might be relegated to others without weakening the trust. The real purpose is to combine the patent monopolies in steel production, with monopolies of the natural sources of steel supply. And by means of another great combination—that of the railroads, to be controlled ultimately by the same little coterie that controls the steel trust—monopoly of transportation also is to be secured. It is not combination for production that is sought, primarily; but combination of productive opportunities. These trusts are not organized to do things, but to "do folks."

Make a simple test analysis and you prove it. Imagine the withdrawal from the two great combinations, the steel trust and the railroad pool, of every monopoly, and what would become of those combinations? Suppose the iron mines were outside the pool. Suppose the coal mines were out. Suppose there were no patents to be combined. Suppose the railroad rights of way belonged to hostile interests, free to rack-rent the transportation companies. Yet, let these two great combinations own everything else. What power would they have?

Or, to put the same idea in another way, suppose the ore mines, the coal mines, the railroad rights of way, and the patents, all belonged to one trust; while the steel works, the railroad equipment, the machinery at the mines, and everything else of a competitive nature belonging to these two great combinations, were owned by another trust. What would be their relative power? Would not the latter trust be as a pigmy to a giant?

Again: Suppose that ownership of the coal and the iron mines were so adjusted that they could not be monopolized profitably by anybody. Suppose the same thing were so far true of railroad rights of way that everybody's transportation facilities were on a level. And suppose the steel-making patents had expired. Who, then, would care a picayune whether the steel and railroad interests combined or not? Nobody. It would in that case be clear to everyone that these combinations would have to render the best possible service to the public or be driven out by combinations that would.

All this is evident upon a little reflection. And when perceived it almost makes one impatient with the divers cuticular remedies that are proposed for the constitutional disease that evolves the trust.

Every injurious trust is built upon some monopoly—upon one that is conferred by the government directly, or upon one that is acquired from a direct beneficiary of government. Scores upon scores of little monopolies, and some big ones, rest upon the sub-letting of special privileges by railroad monopolists. Take away these monopolies, and trusts will take themselves away. Monopolies of ore mines, of salt mines, of railroad rights of way, of territorial privileges, and so on, fortified by tariffs which protect American monopolies from the competition of foreign monopolies—such are the things, and such alone, that make trusts possible. It is not true that the trust evil is a normal industrial evolution, in any other sense than it is true that typhoid fever is a normal sanitary evolution. Typhoid fever is not a product of wholesome conditions; it is a product of diseased conditions. It is a physical evolution from physical disorder. And so with the trust evil. A natural evolution this certainly is, but not a natural evolution from wholesome industrial conditions. It is a natural evolution from diseased industrial conditions—a social evolution from social disorder. And this industrial disease, this social disorder, originates in monopoly—privileges created and fostered by law. What the germ is to typhoid fever, monopoly is to trusts.

CHAPTER VI

THE TRUST AND SOCIALISM

HE who thinks of the socialist political parties, of socialist speeches, of socialist literature, or of all these combined, as socialism, has but a dim perception of some of the most important phenomena in the history of his own time. Though socialist organizations, speeches and literature have to do with socialism, they are no more socialism than maps are geography, or mile posts the highway. The most influential school of socialists regards socialism as a social evolution, and that conception of the subject is being impressively confirmed by events. It can be best understood, not through socialist literature, for there is no gospel of socialism and its literature is a bewildering maze of confusions and contradictions, but through the modern phenomenon of trusts, studied in the light of the theory of historical evolution.

Not that the trust is a socialist ideal. Far from it. In all socialism there is a democratic aspiration, and trusts are not democratic. Yet they are believed by socialists to secrete democratic germs, which will eventually develop out of the autocratic trust an industrial democracy, somewhat as political democracy has been developed out of feudalism and monarchy.

However this may prove to be, doubtless the economic, as distinguished from the ethical, principles of socialism, are already in process of more or less imperfect exemplification by the trusts, the most perfect of which in that respect is the United States Steel Corporation, mentioned in the fifth chapter of this Part. This trust owns not only the natural sources of production upon which it depends, but also all the related artificial machinery of production and distribution. It is a gigantic socialistic embryo. So at least it distinctly appears to be from a vivid pen sketch by Mr. Ray Stannard Baker,* a sketch which is valuable as a socialistic study because, besides being vivid, it is evidently a true account, as far as it goes, of the business methods of the steel trust.

Mr. Baker describes the organization of the steel trust as "a republican form of government, not unlike that of the United States, with a president; a cabinet, or executive committee, which is likewise a supreme court, having practically all the power of the board of directors; a treasury department, or finance committee; a legal department (the general counsel); and a congress (board of directors), elected to office by individual voters or stockholders."

The government of the trust, besides being republican in form, is federal in principle; for, writes Mr. Baker, "it is a general though erroneous impression that when the steel corporation was organized all of the ten absorbed companies lost their identity, being merged in a single huge concern managed from New York City. But the United States Steel Corporation is rather a federation of independent companies, a combination of combinations, each with its own distinct government, officers, sphere of influence, and particular products. The Carnegie Steel Company, for instance, is still independent of the Federal Steel Company, and yet both are a part

* *McClure's Magazine* for November, 1901.

of the United States Steel Corporation in the same way that Pennsylvania and Illinois, while separate States, each with its own government, are part of the United States."

But this government is primarily industrial, as distinguished from political. Its purpose is the production and distribution of steel commodities, from the ore and the coal in the mine, through all the processes of manufacture and transportation, to the finished and delivered article. In this particular it differs from the Socialist Commonwealth only in the fact that its field of operations is limited to the steel industry, whereas the Socialist Commonwealth would be expected to monopolize even more completely and to operate even more perfectly, all branches of industry.

Still in analogy to the theory of the American government, the steel trust distinguishes between common functions and those pertaining to the constituent companies respectively:

"While each subsidiary company retains the entire management of its own manufacturing plants, it has been the policy of the new corporation to combine in great general departments those factories of production common to all the companies. For instance, most of the subsidiary companies owned their own iron mines, their own coke ovens, and controlled their own ships on the lakes, and each had a department to care for these interests. Now the ore and transportation interests are gathered in one great department."

The economy effected by this concentration of common interests into one central department is thus described:

"The coke interests, the export department, the foreign offices in London, and certain branches of the sales departments, are each grouped under a single head. By this method a single agency distributes iron ore, coal and coke, between the various plants as needed, avoiding cross shipments, and supplying plants always from the nearest sources, thereby saving freight charges. Much of the economy of production depends on the efficacy of distribution. Formerly serious delays resulted from the inability to obtain vessel tonnage at the right time, or to load the ships with the right kind of ore when wanted, for many companies, while owning plenty of one kind of ore, were compelled to purchase other kinds to make the proper mixtures. Under the new system, however, the splendid fleet of 115 vessels on the Great Lakes is all under the control of one man, . . . and the ore-distributing system is all under another chief. The ships can thus be directed by telegraph to the ore-docks in Minnesota, Michigan or Wisconsin, where each immediately secures a full load and carries it to the dock or mill where that particular kind of ore is most needed. . . . Coke and coal are distributed much in the same manner by a central department."

Such centralization is confined, however, as already indicated, to operations of common concern. With reference to functions pertaining to the constituent companies individually, the impulse of competition (more definitely, perhaps, emulation) is encouraged. Mr. Carnegie had already made this a feature of his company, before the federation. He encouraged "friendly rivalries between his plants, spurring them on with rewards, and by firing the pride of accomplishment he succeeded surprisingly in adding to the efficiency of his force." Following Mr. Carnegie's example, the steel trust, while in absolute control, and consequently able to insure harmony through its central authority, has, nevertheless, so adjusted the relationships of the constituent companies that "one company buys of or sells to another, as formerly, and the bargains are driven just as shrewdly as ever, each president being keenly ambitious to make a good showing for his company. The disputes which naturally arise are settled by the executive committee, sitting as a sort of supreme court."

As to products which vary with the producing company, wide latitude is allowed, each company being permitted to drive the best bargain it can in the open market. But "in cases where several companies produce the same thing —steel rails, for instance—they agree on a price and appoint the same agents throughout the country."

Not only are economies secured by this system of production and distribution, but every department of the trust, says Mr. Baker, "runs smoothly, noiselessly."

In this great trust, then, we have an example, only partly developed economically and not at all ethically, but faithful and favorable as far as it goes, of socialism in the concrete.

To perfect this system economically, with reference to socialist ideals, what is needed is that the trust should encompass all great industries instead of only about two-thirds of only one, and manage them in substantially the same way. To perfect it ethically, with reference to socialism, what is needed is the democratization of the trust, so that all who work in it, the day laborer at the bottom as well as the great captain of industry at the top, shall participate equally in its government and share equally in the value of its products.

Whether that is practicable is too complex a question for present discussion. One industry might be managed upon this plan with economic success, even though the plan might break down if applied to all industries. So the plan might work under a plutocratic system, the board of directors being chosen by a majority of the shares, when it would not work under a democratic system, the board being chosen by a majority of the workers. The steel trust illustrates the character but does not demonstrate the practicability of the Socialist Commonwealth. It may be doubted, too, whether, when the trusts had monopolized business, the employes would be able to democratize trusts. The power that perfects the trust is a power which no workmen, other than the specially skilled, can hope to cope with by organization.

Yet there is scant room for question that socialism is the goal toward which the trust tends. Those socialists are right who see in the trust phenomena their predicted socialist evolution. If socialism comes at all, it must come in one of two ways: either by the absorption of industries by government, or by the absorption of government by industrial agencies. Both tendencies are at work. Government is reaching out, not through the influence of socialist parties, however, but under the pressure of grasping private interests, and in the form of protective tariffs, subsidies, and the like, for the regulation of functions which are distinctly individual. Concurrently, trusts are reaching out for the control of government.

It is impossible to read Mr. Baker's lucid account of the steel trust without seeing in that organization the possibilities and prophecy of an overmastering governmental machine. If there were no opposing tendency, it could be predicted with almost absolute certainty that the trust would at no distant day evolve into an autocratic, plutocratic, all-embracing and paternal socialistic state. Whether this state would in turn evolve democratic

socialism, conceding the possibility of such an ideal, would not be so easy to foresee; but that the evolution will reach the point of paternalism, if unobstructed, is as certain as any human prophecy can be.

Fortunately, however, this tendency is obstructed. The sentiment of opposition to the extension of government into the sphere of private industry is not dead. During these years of advancing monopoly and imperialism it has been sleeping; but now it is awaking, as it always has and always will whenever autocratic tendencies gather momentum and begin to disclose their true character. And this same opposition to the absorption by government of individual functions is also an obstacle to the absorption of government by trusts. The tendency of trusts to develop a socialistic state cannot persist, because the only thing that perpetuates their power is monopoly of natural opportunities for production. The steel trust, for instance, is cohesive and powerful, not because of its commercial economies, but because directly and indirectly it monopolizes ore beds, coal mines and transportation terminals. Abolish these monopolies, and the steel trust would be as impotent as a monarch without the power of taxation.

This very simple but potent truth is gaining recognition. Public thought is being influenced by it more and more. It is crystallizing a popular opposition to the development of the trust idea, and consequently to socialism. It is the key to the economic problem, to the labor problem, to the political problem—in a word, to the social problem. And it is destined to define the issue over which another great struggle for liberty will be made; namely, whether we shall on the one side perpetuate monopolies of natural sites and resources, and so foster trusts and promote socialism; or shall, on the other, check those monopolies, and thereby advance and strengthen the cause of individual liberty.

CHAPTER VII

THE TRUST AND THE SINGLE TAX

A VERY simple illustration of the trust may be imagined by considering the hack service at almost any commodious railway station, whether in city or country. I select a particular one for the sake of being definite. Hackettstown is a New Jersey station on the Delaware, Lackawanna & Western Railway, where the station yard is large enough to accommodate many more hacks than are needed. Several hacks carry passengers between this station yard and any desired place in the town at the uniform charge of a dime. Were more exacted, competition would be stimulated. Realizing this possibility, the hack owners conform voluntarily to what is locally regarded as a fair toll. The business, therefore, is regulated by competition—if not actual, yet potential.

Consolidation of these interests might effect economies. If so, the consolidation would be beneficial to all concerned. Patrons would get better service and pay lower fares; and if displaced employes were hurt by it, their misfortune would be due, not to the labor-saving consolidation of Hackettstown hack interests, but, as is the case with the introduction of labor-saving machines, to fundamental legal obstructions to business in general. The consolidation would be nothing but a union of interests in hacks and horses, a kind of property too easily produced in abundant quantities to be monopolized. Such unions are not in themselves harmful. If they were, all economizing devices would be harmful, and, following Tolstoy, we should have to return to primitive methods of production.

But note the effect were the railroad company to confer upon those hack owners exclusive rights to enter the station yard with hacks. As the station building is so situated with reference to the public highway that competing hackmen could not satisfy the needs of passengers without access to the yard, the privileged hack owners would control the business as a monopoly. Though they still competed with one another, they would be shielded from the competition of outsiders. What if they consolidate now? How radical the difference! The consolidated interests would be more than interests in hacks and horses. They would comprise exclusive rights of entry into the station yard. And therein would lie the evil power of this local hack trust. Freed from all fear of competition, it could make a standard of service to suit itself, and regulate fares upon the basis of extorting "all the traffic would bear."

This illustration is so far typical of business in general as to indicate the point at which the evil of the trust comes in to bedevil modern industry. That point is not where competitive businesses combine; it is where competing monopolies come into the combination. When really powerful trusts are analyzed, their power is found to rest in some form of monopoly—in some species of privilege. Somewhere in every evil trust, though not always obvious, there is a consolidation of exclusive interests analogous to the station yard monopoly of our illustration.

Mr. Charles M. Schwab recognized this when in his testimony before the Industrial Commission he affirmed that the steel trust, of which he was manager, absolutely

controls 80 per cent. of the iron ore deposits of this country, and all the best coking-coal lands known.

Specifically, the monopoly interests upon the consolidation of which trusts are erected are numerous and various. They consist of such monopolies as railroad rights of way, pipe-line rights of way, patented inventions, water privileges, street franchises, mining rights, terminal sites, and so on into a long catalogue. But most of them may be properly classified as monopolies of land. Mining rights are obviously land rights. Railroad and pipeline rights of way, terminal sites, and the like, are evidently so.

To make land monopoly the mother of trusts, however, it is not necessary to trace directly to land monopoly every special privilege that may not obviously spring from that source. The important consideration is that all monopolies which do not spring from, are necessarily subordinate to, monopolies of land. A monopoly of iron mines, for instance, confers control over the iron industry in all its ramifications, including all its minor monopolies. That control may be limited by a monopoly of rights of way, and especially of necessary terminal points for the shipment or delivery of products of the iron industry. But this makes no difference to the argument, for both monopolies are monopolies of land. And, if these two land monopolies be united in one trust, that trust is unconquerable, except by a trust that monopolizes still more important natural sources of supply or still more commanding terminal sites.

In yet another, a more subtle and therefore more effective way, evil trusts are fostered by land monopoly. This is through general speculation in land. In the hope of profiting by increase in land prices, every one who can afford to invest buys land where he thinks it may rise in value. Most of the land so bought is either not used at all or only partly used. It cannot be easily obtained for use, because it is held upon speculation at excessive prices. In consequence of this difficulty, the industrial classes are forced into a glutted labor market, like cattle into a corral. As all processes of industry depend upon land, workers of every grade are huddled together begging for some kind of job. Those that are not actually in the corral are in mortal fear of getting into it. In these circumstances, the industrial classes are an easy prey to whoever has a job to give them. To escape the corral, they accept any terms they can get. They cannot contract in freedom, for they must buy a chance to live. The question with them is not one of more or less income, but of life or death. Thus the monopoly power that trusts acquire from ownership of land is multiplied by the relative weakness of their landless victims. "The destruction of the poor is their poverty." And their poverty, as well as the original power of the trusts, is rooted in, springs from, and is strengthened by land monopoly.

This monopoly not only strengthens the trusts by weakening the contracting power of their workmen; it is also the fundamental cause of the suffering which all classes that eat their bread in the sweat of their own faces are forced to endure from what seems to them the "ravages" of labor-saving machinery and other economizing devices. The only radical remedy, therefore, not only for the evil of the trust but also for the evil effects of what ought to be an unmixed and universal good, namely, labor-saving methods, is the abolition of land monopoly.

This is the comprehensive, because the radical or root remedy, for industrial maladjustment, which Henry

George proposed to apply by what has come to be known by the name of "the single tax." It was his idea to continue, in lieu of all other taxes, the tax we already impose upon the value of land—namely, that part of the real estate tax which is measured by the value of sites as distinguished from the value of improvements. To put his proposition in another form, he would abolish all taxes except the one which is measured solely by land values, trusting to the resulting increase in the rate of that single tax to transfer from land monopolists to the public treasury the annual ground rent, potential as well as actual, of all kinds of land—mines and city lots as well as agricultural land—each allotment paying in proportion to its value as mere land, irrespective of the value of its improvements. By this means land monopoly would be abolished. It would be abolished in the only way in which land monopoly can be abolished without reviving it in new forms by turning the state into a monster landlord of unlimited and virtually irresponsible power. For, while it would effectually abolish the monopoly of land, the single tax would preserve private possession under individual occupancy.

If this principle, the principle of the single tax, were fully applied, land monopoly would evidently be impossible. Vacant city lots could not be held long for higher prices, if the owner had to pay as heavy a tax as the owner of improved lots having an equal land value. Farming land could not be kept out of use by the thriftless or the greedy, nor by land-grant railroads, if the unimproved were taxed as much as the improved, the locations being of equal value. The coal and ore mines of the country could not be monopolized and closed against mining, if coal land were taxed well up to its market value whether worked or not. In every direction this tax would put fines upon land monopolists, thereby discouraging land monopoly and opening to general use all the natural opportunities which are now closed by owners who expect to reap a harvest of higher prices in the future.

And while abolishing land monopoly, on the one hand, the single tax would, on the other, abolish all fines upon production, thereby releasing the great body of labor from the corral into which it has been driven, and causing work to bid for men instead of compelling men to bid for work.

Different kinds of cases might require different modes of applying the single tax principle. With reference to transportation, when right of way and mode of operation were inseparable, and even with reference to some kinds of mines, as gold or silver mines, it might be necessary, in order to destroy land monopoly as to them, to place them directly under public management. Where that was true, special modes of applying the single tax principle might be adopted. But in all probability little more would be found necessary in actual experience than the fiscal method of application proposed by Henry George, which, like the single tax principle itself, is also known as "the single tax." At all events this method would be efficient in most cases and with the most vital elements of the problem.

But the question recurs in more concrete form. "How," it is often asked, "could the single tax benefit the small storekeeper, the small manufacturer, the small farmer, and the dependent wage-worker?" Since large farmers, with the advantage of improved and valuable machinery, can produce at lower cost than the small farmer, could

they not drive him out of business? In like manner, could not the department store with its vast capital drive out of business the small storekeeper, and the large factory the small manufacturer? How could the single tax offset these great advantages of the capitalist farmers' machinery over the small farmers' rude methods, and those of the large store and factory over the small one? And with all these small employers out of the way, why couldn't the large ones make their own terms with wage workers?

This question assumes, to begin with, that it is desirable to perpetuate small modes of production, like small farming, small manufacturing, and small storekeeping, in behalf of producers on a small scale. That is not necessarily so. In every department of industry in which production can be carried on with greater economy of labor on a large scale than on a small scale, it is desirable that production on the small scale should give way. Whether or not the single tax would permit department stores, mammoth factories, and bonanza farming to put an end to small storekeeping, small manufacturing, and small farming, is therefore beside the question. The real question is whether the single tax would secure to those who now keep small stores, manage small factories, do small farming, and those who work for hire, their just share in the benefits of the change.

Henry George had no expectation of interfering by the single tax with normal concentration in production. On the contrary, he expected the single tax to encourage it. But he expected also that the single tax would open the way to all who so desired, to be equal partners in production—equal, that is to say, in proportion to their contributions of labor. He expected, in other words, that the single tax would bring about in the field of production on a large scale, a system of voluntary coöperation; or, to use his own language in *"Progress and Poverty,"* that under the single tax "we should reach the ideal of the socialist, but not through governmental repression."

This ideal would be reached through the radical change in the distribution of wealth which the single tax would effect. The system, being of general application, would automatically distribute products in two funds. The first fund would consist of the distinguishable earnings of individuals; the second, of the rent or value or premiums for exceptional natural and communal opportunities for production. Among individual workers, the first fund would be divided in proportion to their usefulness; the other fund would go to the community as a whole. The natural law or social force by which this equitable distribution would be made, is free competition, which, like air pressure, so long as it exerts itself not in one direction but in all, produces equilibrium.

To those who understand the true nature of free competition, and do not confound it with the monopolistic phenomena of the present day, which superficial writers mistakenly allude to as "competition," it is perfectly clear how the result outlined above would come to pass under the single tax. But there are those who fail to grasp the idea, and I venture a suggestion.

When it is asked, How would the small farmer, the small manufacturer, the small storekeeper and the wage-worker fare under the single tax, with the big factory, the bonanza farm and the department store ruling the roost? might it not be more pertinent to ask, How the department store, the great factory, and the bonanza farmer would fare, if they could get no one to work for them? Think a moment of the effect the single tax would have

upon the labor market. Everyone who monopolized land that other people wanted to use, would have to pay a tax upon it so nearly approximating its annual value that he could never hope to recoup the tax unless he used the land to its full capacity. He would therefore so use it himself, or would relinquish it to some one else. But land cannot be used on any but a primitive scale without the employment of men. Men must be employed, no matter how much machinery there may be. Machinery will not work itself. Consequently, everybody who owned land would either have to hire enough men to work it to the full, or give it up to somebody who would. In either case the effect upon the labor market would be the same, namely, a brisk demand for labor in all departments and of all grades, a demand that would constantly exceed the supply. Jobs would be hunting for men, instead of men hunting for jobs. The inevitable effect of that would be the disbandment of the army of the unemployed, increase of wages, and the consequent independence of workmen. Workmen, though hired, would then have to be treated as industrial equals. They could no longer be treated as serfs. If they objected to their treatment by one employer, they could easily find others; and if they objected to being hired by any employer, they could themselves become coöperative producers on a large scale, hiring one another.

The way, therefore, in which the single tax would relieve small producers and dependent wage-workers would be by causing favorable conditions in two respects. First, by so increasing the effective demand for labor as to keep it always in excess of the supply; and, second, by clearing the way for successful voluntary coöperative organizations among producers.

The one thing to bear in mind with reference to the single tax principle is that it contemplates the abolition of land monopoly and the consequent freeing of industry from all monopoly shackles and trammels. It would accomplish this by making competition free. Competition being the antithesis of monopoly, to abolish one is to establish the other. To make competition free, therefore, is to apply the natural remedy to the ills that flow from monopoly. Now, all the ills which seem to come from normal production on a large scale are caused by the same monopolistic circumstances that make the evil trust possible. To get rid of them, we must adopt the same remedy that is required for the trust. Free competition must be established.

Whoever will consider what free competition means, will realize the beneficently progressive character of the effects that would be produced by the introduction of a principle like that of the single tax, which is simply an effective method of unshackling competition. With competition freed and monopoly abolished no one could fail to secure his equitable share in the benefits of social growth. To all such the new modes of production which were more prolific and required less labor, would be welcomed as a boon. It is the operation of the principle of monopoly, not of free competition, that makes them now a menace. If the great factory, the department store, capitalistic farming, or any other normal species of large production is a menace to any industrial class, it is not because such method is in itself bad, but because the injured class is divested of its competing power. Restore that power by abolishing monopoly through making competition free, and special difficulties of adjustment which now seem insuperable obstacles, would prove to be

the merest shadows in the path. What labor of all grades needs is not to be helped but to be freed. Being freed, it would help itself. It can be freed only by abolishing the monopoly of land, for land is the native element of labor.

By means of the single tax principle the abolition of land monopoly can be fully accomplished. By means of the single tax method it can be far advanced. Under this simple land reform, sound in economics and unassailable in morals, no one could hold any kind of land out of use without suffering serious and continual loss. Land would have to be used, and be well used, or be abandoned. There would be no profit in mere ownership. That goal being reached—indeed, long before it had been fully reached—trade having meanwhile and by the same method been freed by the abolition of commercial and industrial taxes, and of highway obstacles, the benefits of economic improvement would be generally diffused and the evil spirit of the trust would be exorcised. With the annual value of special landed advantages applied to common use and no longer retained by private owners; with taxes on industry thus made unnecessary, and consequently abolished; with highways freed from special privilege; with unused land everywhere made freely accessible, and the barriers of the industrial corral thus broken down; with demand for productive work thereby made to exceed supply, and through the free interplay of all the economic forces of consumption and production perpetually to maintain that excess,—with these demonstrable effects of the single tax realized, there would be no more possibility of subjugating labor and monopolizing business with paper agreements, than of holding back the waters of Niagara with a paper dam.