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TRUSTS: THEIR ADVANTAGES AND DISADVANTAGES.

ARTHUR ALBERTUS IENICO.

1901.

Trusts: their Advantages and Disadvantages.

At the present day, in our young and growing country, there is a form of industry, known as "The Trust", which receives much attention from our economists, legislators, and all other thinking men. The nature of this form of industry varies a little, perhaps, with the different classes of work and different kinds of products which they turn out. On the whole, however, the various forms are similar in many ways and come under the same head.

There are numerous definitions of the term "Trust", but perhaps the best and most practical one is found in the "Commercial Year Book" for 1899. This defines the word as "any consolidation, combine, pool, or agreement of two or more naturally competing concerns, which establishes a partial or complete monopoly in certain territory, with power to fix prices or rates in any industry".

As the industries of this country increased and competition sprang up in a ruinous form, the managers of the different branches of a business saw that something had to be done. At first they formed leagues or pools, agreeing to sell their goods at some fixed price. But the agreements were not kept; and as years went by, and one firm after another cut under these prices,

it was seen that only those carrying on business under the most favorable conditions could live on the very small profit which keen competition allowed; while the less favored ones would be obliged to die. Then again some of the farsighted business men perceived that if the various competing concerns could be placed under a single management, prices might be maintained; a very great saving would result; and the country as a whole would be benefited. Thus we see the origin of the trust, which has its advantages and disadvantages.

The advantages of the trust must necessarily affect the consumer, the workman, and society as a whole. First, let us see the effect on the consumer. The trust managers claim that they lower prices. Although in some cases they have done this, we may safely say, that for most articles, the price has been kept about the same or raised slightly, and in some cases is much above what it was before the trust was formed. In reply the trust managers urge that the price of raw products has risen, thereby increasing the cost of production.

Whether the trust prices have been lower or higher than they would have been under free competition, we cannot say; but they could and should be lower, for the cost of production of any manufactured article is lowered in large-scale production

in three ways: The first is by more efficient machinery. On account of the enormous capital which trusts command, they are able to procure the latest, best, and most expensive machinery; and this the individual producer could not always do. The second way is by economy in salesmen, advertising and freight. In the competitive system each firm is obliged to have its own salesman, to do extensive advertising, and ship its goods from one factory to all parts of the country. Under the trust system, however, one salesman may do the work of five or six under the competitive system. One advertisement is sufficient where several were needed before. Goods are shipped to the consumers from the nearest factory, thus saving a considerable sum in cross-freights. The third and last way in which the cost of production is lowered is by the utilisation of waste products. An important source of income is thus realized. The small manufacturers cannot well utilize their waste products; because expensive machinery is required to do it, and they have not the capital to invest in this branch of business. Moreover, the waste products from their small factories would yield them little or no return.

The second advantage to the consumer is found in the better quality of goods given. In the first place, the expensive ma-

chinery before mentioned is not only capable of turning out a more finished product, but also one of better quality. Again, the trust managers sometimes act on the principle that if they do not lower prices to encourage a large consumption, they must necessarily improve the quality of their goods in order to increase their sales and consequently their profits.

The third advantage to the consumer is in promptness of delivery. Orders are filled from the nearest factory and thus besides the extra freight, considerable time is saved.

The second class of people affected by the trust is the workmen. Where employment was rather irregular under the competitive system, the trust sometimes gives the workman steady employment throughout the year. This is certainly much better than to furnish work at full time for five months and then close the factories for the remaining seven, as so many small manufacturers do.

Finally, let us consider the beneficial effect of trusts upon society as a whole. In the first place, the trust is productive of peace between capital and labor. In some cases strikes have been prevented through the ability of the trust to deal with labor unions. It often settles its troubles with its men by a conference composed of representatives from both sides.

Furthermore, society may be benefited, perhaps by the prevention of over-production, thereby keeping prices steadier and preventing panics. When demand slackens, the trust may close certain of its plants, thereby curtailing the output and avoiding a glut in the market. It is an interesting fact that many of the panics which this country has witnessed were caused, in part, by over-production.

The export trade of the United States is increased by these large corporations. On account of their immense capital trusts are able to compete with foreign producers, where the individual producer could not.

Besides the advantages which we have just seen in favor of the trust there are many disadvantages, of which only the most important can be considered here. The first and perhaps the most familiar is the displacement of labor. Nearly every trust that is formed, throws a certain number, although not always a large number, out of employment. Anyone can see how hard it must be for these men, who have worked at one trade all their lives, to be forced to join the ranks of the unemployed, with no hope of immediate relief. In time, they may find some occupation just as profitable as their first, but meanwhile, there is much suffering for them and their families.

Another way in which the trust brings about an effect closely allied to that just mentioned, is by crushing out small and sometimes large rivals.

Occasionally, a small manufacturer is found who is not willing to join the trust and he is forced by the latter, either to become a member or to give up his business. In the town where his business lies, the trust sometimes establishes an agency, authorized to undersell him even at a loss. The small manufacturer, finding that he has no customers left, has either to sell out to the trust, at the price set by this strong and overpowering body, or else lose all, and go into bankruptcy. The price paid for a rival business does not depend upon the value of it, but upon the amount of trouble which such a business can cause, by refusing to come into the trust.

Then again trusts may use a certain amount of their large capital to obtain legislative concessions, which return a generous profit, either directly or indirectly. John A. Holson says, "Certain disclosures in connection with the Tweed Ring, the Standard Oil Company, and the Anthracite Coal Trust, induce the belief that the more unscrupulous capitalists seek to influence the courts of Justice as well as the Houses of Legislature in the pursuance of their business interests."

Outside of the protective tariff, one secret of the success of trusts is "railroad favoritism". This is a great source of gain for those trusts whose products are heavy and bulky. The rivals of the trust sometimes have to pay twice or even three times as much for the delivery of the same quantity and class of goods. The railroads make these special terms with the trust, because they see it is for their advantage to depend upon fairly large, steady shipments, rather than on very large ones at irregular intervals. Besides they are more certain of receiving their pay from the larger corporation.

Lastly, we come to the most important disadvantage of the trust, and that is "The destruction of individual independence". The trust is an industrial hierarchy in which nearly everyone is responsible to some higher authority. Men who have been owners or independent directors of smaller concerns become salaried managers, or give place to salaried managers, responsible to some body of directors or central office. In the first place, the factory system, the system of large scale production, of which the trust is the largest developed form, destroys the stimulus for ambitious effort. The workman goes in and immediately becomes a cog in the great wheel of machinery. Like the cog, he will be used until he is worn out, and then he will be cast

aside.

In the second place, the trust offers the young man opportunity for advancement. In the old partnership business a youth could enter, let us say, as a clerk, and by perseverance and through the death or retirement of the older members of the firm, rise until finally, he became the senior partner of the firm which once employed him as a clerk. Not every young man could do this, we admit, but those who were bright, willing and honest, could not help being given some important promotion.

Now under the trust system there are a few high positions which must be filled, but from the very nature of the trust the number is limited. The majority of young men who enter the trust remain in the positions which they originally filled.

To the country as a whole, the trust insures a more stable market, and thus gives peace and business prosperity to the nation. At the same time, it is a serious question whether as these corporations grow stronger and stronger, they will reduce the people of this country to two distinct classes, the few very rich and the many very poor.

Perhaps the anxiety concerning the trust movement, is quite unnecessary as was the case at the introduction of machinery

for manufacturing cloth and other articles. If, however, it proves to be well founded, it is the duty of every loyal citizen to lend his help to preserve the independence which was fought for and won by our fathers, and to see that everyone is free to exercise his industrial rights.