

## FINANCIAL NEWS AND NOTES

### "Trusts"

The corporations which come under the name of "Trusts" are simply the consolidation into one of the several companies or corporations in the same or allied lines of business or manufacture. The reason claimed for their being brought into existence was the excessive competition that existed between the rival manufacturers, a competition that prevented progress and the making of even a fair profit at times. The producers stated they were weary of working for the public, and the era of combination was gladly welcomed.

E. S. Meade, Ph.D., in his book "Trust Finance" gives an interesting and instructive information regarding these trusts and the methods of their organization and operation. The principle of combination was discouraged by the various state governments in the United States and by the governments of the Dominion of Canada. Sixteen states had passed stringent laws in prohibition of any attempt to restrict competition and yet it was discovered that a corporation with the requisite powers for combination might be formed in New Jersey on certain easy conditions, which could transact business anywhere throughout the United States or for that matter anywhere else, in the same manner as could a private firm. About 1808 the formation of the trusts began, and within a few years most of the manufacturing of the staple articles in daily use was controlled by them. Within five years twenty-six of these trusts had a capital aggregating over two billions of dollars.

The organization of the trust was arranged in nearly all cases by the promoter, sometimes on his own initiative and frequently on the invitation of those who owned or controlled the different plants it was proposed to combine. When it was decided to attempt the combination, negotiations were opened by the promoter with the different owners for the purchase of each plant individually, the payment to be usually in common and preferred stock of the trust and sometimes a part or all in cash. The aggregate value of the plants purchased was usually represented by the preferred stock issued, generally six or seven per cent. cumulative, that is, their dividends and all other claims ranked ahead of all claims of the common stock until fully paid. The common stock was the "water" on the "velvet" and represented the supposed increased value of the plants under combination. The owner who took stock for his plant received full value in preferred, together with a bonus of possibly an equal amount in common.

The total capital of the trust was thus probably double the cost of its property. The United States Steel Corporation is capitalized at over a billion dollars, while its various plants are estimated to have cost less than half that sum. The money for the cash payments and to provide the working capital of the new concern was obtained by the sale of stock, of which a large amount would remain in the hands of the promoter as his profit. The owners frequently remained in the service of the new company as managers, and from among them the presidents, directors and other officers would be chosen in

this way retaining the experience and energy of the old institutions for the new.

The great advantages of the trust are in the reduced cost of manufacture, owing to the facilities which each of the constituent companies contribute, their best patents and processes being employed for the good of all, the greatly reduced cost of management and selling of goods, saving in cross freights, also in the control of the market. This last feature, while undoubtedly doing away with the waste of over-production and competition also permitted an increase in selling price.

It would appear that the trusts, like the departmental retail stores, have come to stay. They are both parts of the new system of bringing goods to the hands of the consumer at the minimum cost, and while the trusts may under evil guidance attempt a policy of extortion, which the safety valve of possible competition will always restrain, they should through their perfected methods of manufacture, their large amount of business, and the skill and science which they are able to employ in their trade, be able to supply the consumer with better goods and at lower prices than could ever be obtained under the strictly competitive system.

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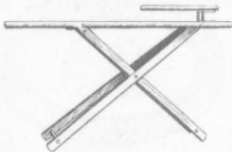
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