THE DEVELOPMENT OF THE WHISKEY TRUST.

WHEN one considers the wide-spread interest that all classes of our people have shown within the past two or three years regarding trusts, one need offer no excuse for an attempt to give new facts concerning them. Since the congressional investigation of a year ago, and the somewhat earlier investigation by the New York legislature, the form of organization of the trusts is fairly well understood; but, as yet, comparatively little has been made public regarding the circumstances under which they have been organized, or their real effect. It has been assumed that they are a monstrous evil; that their existence is contrary to public policy, and that the proper way for legislation to deal with them is to exterminate them — destroying not merely the trust but, in some instances, the property rights of all parties concerned. The excessively severe provisions of the bills introduced into Congress and the state legislatures (some of them going so far that, if strictly construed, they would render criminal any agreement on prices by competing merchants) would seem to indicate that a desire for popular favor — or perhaps, in some instances, a desire to make terms with the organization attacked — has inspired them, rather than a careful study of the problem to be solved. On the other hand, some of the articles published in defence of the trusts speak in glowing terms of the benefits arising from association: the more general use of valuable patented inventions, the great saving in the cost of supervision, the steadying of prices, *etc.*, demonstrating clearly the benefits that might arise to consumers from lessened prices; though usually here, too, but one side of the question is fully given.

It is probably too soon to tell with even a reasonable degree of certainty what the outcome of the present tendency towards combination among producers is to be. So far there have been not a few egregious failures, the most noteworthy being the collapse of the copper syndicate — though that was hardly a trust, technically speaking; but there have been also a few apparently noteworthy successes. It seems clear, at any rate, that we have still some time to wait before we can say what the resulting normal is to be; and in the meantime it seems best not to be too hasty in exterminatory legislation, in sweeping denunciation nor in unqualified praise, but to study as accurately as is possible the history, management and tendency of the individual organizations, that when the time for action comes we may act with knowledge. The present article is an attempt to describe, as accurately and fully as the information that can be secured will permit, one of the (apparently, at least) most successful of these organizations: "The Whiskey Trust"; more accurately: "The Distillers' and Cattle-Feeders' Trust." The significance and tendency of such an organization as this cannot be understood without a knowledge of the circumstances leading to its formation. In this case, interest is added by the fact that legislation by the United States and by some European nations is, doubtless, indirectly responsible in good part for the condition of business that led to the formation of the trust.

It is well known that, from the establishment of our government till the outbreak of the Civil war, distilled spirits were for the most part comparatively free from taxation by the United States. The tax levied by the recommendation of Alexander Hamilton, which led to the Whiskey insurrection in Western Pennsylvania, was comparatively very light (only 9 to 11 cents per proof gallon, as compared with 90 cents at present), and even this was repealed soon after the accession of Jefferson to the presidency. From that time, with the exception of four years (from 1813, when an increase of revenue was necessary to carry on the war, till 1817), spirits were free until the outbreak of the Rebellion. As a consequence, they were sold at a very low price, — 24 cents on the average in New York for the five years preceding 1862, with a minimum price of 14 cents per proof gallon, — and there was little temptation to overproduction for either the home or foreign market.

At the outbreak of the Rebellion the necessity for increased revenue that led to the imposition of internal taxes wherever it was thought that a revenue could be raised, "without much regard to acknowledged politico-economic laws or precedents,"[1] resulted, of course very properly, in the taxation of distilled spirits. The first tax of 20 cents a proof gallon (July 1, 1862) was followed, March 7, 1864, by an act raising the tax to 60 cents per gallon. July 1 of the same year the rate went to $1.50; and January 1, 1865, to $2.00 per gallon.

At each increase of the tax, considerable time intervened before the highest rate was imposed. As a natural consequence, distilleries were run to their utmost capacity, and even new distilleries were built to get a stock on hand.[2] As Mr. H. B. Miller, the president of the whiskey pools, writes:

> Some time intervened before the various amounts were collected, and during this time the distiller and speculator had nearly the whole benefit of the tax without paying it. The speculation in whiskey during this time was tremendous. Editors, ministers, statesmen, — all took a hand. Distilleries were erected all over the country, and at the end of the war there was three times the capacity that could be utilized.

To the same effect David A. Wells, in the article on "Distilled Spirits" in Lalor's *Cyclopedia of Political Science*, writes:

> The immediate effect of the enactment of the first three and successive rates of excise was to cause an almost entire suspension of the business of distilling, which was resumed again with great activity as soon as an advance in the rate of tax in each instance became probable. The stock of whiskey and high wines accumulated in the country under this course of procedure was without precedent; and Congress, by its refusal to make the advance in taxation, in any instance, retroactive, virtually legislated for the benefit of distillers and speculators rather than for the treasury and the government. The profits realized by the holders of stocks, thus made in anticipation of the advance in taxation, has probably no parallel in the history of any similar speculation or commercial transactions in this country, and cannot be estimated at less than $50,000,000.

[1] Reports of United States Revenue Commission, 1865–66, p. 2.

[2] *Ibid.* p. 6: "Thus, for example, the commission estimate that on the 1st of July, 1864, the date when the advance in the tax on distilled spirits of from 60 cents to $1.50 per gallon took effect, there *were made and stored*, in anticipation of this advance, at least forty millions of gallons, or a quantity sufficient to supply the wants of the country for at least a year in advance."

d products on hand

ble for distillers who did not practise frauds on the revenue

ntinue in business. The high taxes, however, led to such

ls that whiskey often sold in the market for less than the

unt of the tax.

nother factor that contributed to the general depression the lessened demand for alcohol for use in the arts and nufacture. With alcohol at 30 or 40 cents a gallon, it was d in large quantities for the manufacture of burning fluid, nishes, furniture polish, perfumeries, patent medicines, even fuel for cooking, *etc.;* the United States revenue commission imating that in 1860 not less than 25,000,000 gallons of oof spirits were so used. When the tax was $1.50 and $2.00, even 50 cents, as it was from 1868 to 1872, spirits, of course, came too expensive for such purposes. As the tax has been ill higher since that date (70 cents till 1875, and 90 cents nce that time), no increased demand for such purposes has een felt.

These causes, including the large amounts fraudulently manufactured in the earlier years of the high taxes, had tended to keep the distilling business in a comparatively depressed condition after the speculative period following the war had passed. Even as early as 1870 or 1871 the distillers felt themselves compelled to enter into an agreement to limit their distilleries to two-fifths production; and all north of the Ohio, with two or three exceptions, made such an agreement. No very decisive effect, however, was produced by this arrangement. The facilities for manufacturing adapted themselves gradually to th demand; and, on account of our cheap grain, a fair expo trade was growing up that relieved the situation somewha But in the years from 1878 to 1882, on account of successi crop failures in Europe, a very heavy export demand at payi prices sprang up. In 1879, 1880 and 1881, nearly 16,000,c gallons a year were exported.

	(proof) gallons exported.	of production.	Year.	Taxable (proof) gallons exported.	Perc of p duct
1873	2,358,630	3.45+	1881	15,921,482	13.5
1874	4,060,160	5.90+	1882	8,092,725	7.6
1875	587,413	0.96+	1883	5,326,427	7.1
1876	1,308,900	2.25+	1884	9,586,738	12.7
1877	2,529,528	4.22+	1885	10,671,118	14.24
1878	5,499,252	9.80+	1886	5,646,656	7.02
1879	14,837,581	20.63+	1887	2,223,913	2.85
1880	16,765,666	18.55+	1888	1,514,205	2.15

To meet this demand many new distilleries, including some the largest in the country, were built, while the old ones, course, were run at full capacity. After 1880, good crops i Europe, poor crops at home, with some changes in the taril laws[2] of leading European countries, especially discriminatin duties against the United States, cut off this demand, and lef the distilleries of this country with a capacity sufficient to produce four times what the home market needed.[3]

Of course, there was, at first, great over-production, and consequent distress among distillers. They could not export except t a loss; their cattle were in the barns (the feeding of cattle n the slop from the distilleries is one important adjunct to ıe distilling business), so that it was difficult to close the stilleries; their warehouses were filled with goods, and the arket was broken. Something must be done.

[1] Report of the Commissioner of Internal Revenue, 1888.

[2] René Stourm, L'Impot sur l'alcool dans les principaux pays, p. 48.

[3] In the references to the trade, especially the exports, all the manufacturers of skey have so far been considered. As the whiskey pools have mostly concerned one branch of the business, and as the trust is limited to this branch, *i.e.* the ufacturers of a product for immediate use, it is worth while to call attention to the nction. One class of producers, especially those in Kentucky, manufacture ntucky whiskey," technically so called, *i.e.* a product that needs to be stored for time (from two to five or more years) before it is in good condition for use I. Atherton: Testimony before Committee on Manufacture, p. 3); the other of distillers, located mostly north of the Ohio river, manufacture alcohol, pure l or cologne spirits, *etc.*, a product that is fit for immediate use.

Some said: Let this go on and let the fittest survive. Our experience was that a distiller would keep on until all his own money and all he could borrow was gone, and when he was used up there was another man ready to step in his shoes.[1]

In November, 1881, a general meeting was called to form a pool. Prices were really below the cost of manufacture in many places, and the only remedy seemed to be to limit the output, and to export the surplus, even at losing prices. The "Western Export Association" was formed, the officers of which were authorized to levy a monthly assessment on each distiller running his distillery. This assessment was to be proportionate to the amount of grain used in manufacture, and high enough to pay the losses arising from the exportation of a quantity of spirits sufficient to relieve the home market.

An appeal was made to Congress, asking that an export bounty be given equal to that granted by Germany; or, if a bounty for export should not be given for fear of lessening the revenue, that the internal revenue tax be raised to $1.00 and then a bounty of 10 cents for export be granted. Congress and the people, however, had not forgotten the whiskey-ring scandal, and consequently Congress did not dare legislate in favor of distillers, even if such legislation should injure no one.

This first pool lasted till May, 1882; then, some members refusing to pay their assessments, it broke up. The distillers had been able to keep prices somewhat higher by its means; but after the breaking of the pool, they ran at low profits, many of them at a loss, or else shut down during the summer — a proceeding which in itself involved of course a decided loss. In September, 1882, they organized again for one year on a similar plan; but it was found necessary to make an attempt to limit the output of the distilleries to a small percentage of their capacity, in addition to the relief of the market by exporting.

It soon became evident that it was cheaper to limit production by paying some distilleries to suspend production entirely, permitting the others to work at more nearly their full capacity, than to limit all to a fixed percentage of their normal production.

[1] Letter from H. B. Miller, former president of the pool.

Though the Kentucky product is of a different kind from that manufactured by members of the pool, it of course came into competition with the latter when it had aged enough to be put upon the market. The law allowing distillers to keep their product in bond for three years before paying the tax had led to a heavy overstocking in Kentucky, and when this stored product first began to come upon the market, the situation became still more trying.

From 1883 till 1887 the pool continued for a year at a time, with a suspension as often as once each year. Sometimes the better plan seemed to be to limit the output of the distilleries, leaving each distiller to attend to the marketing of the product himself; sometimes for the officers of the pool themselves to provide for the export of any surplus, assessing the individual distillers the amount required to pay any loss on the export. In the articles of organization of the pool of 1884, we read:

> Only 28 per cent of the full capacity shall be operated, and no stocking up beyond this amount allowed under any circumstances. Any member operating his house and producing any kind of distilled spirits must take care of them himself. The association is debarred from paying any member for maintaining any market, exporting goods, or warehousing them.

In spite of the small percentage of capacity run during this year, the pool suspended in the spring of 1885, though it re-organized again in October of the same year. At the organization of this pool (in 1885) a committee reported:

> It is the sense of this committee that no distillery shall be allowed to run beyond 40 per cent. The basis for market price should be fixed at the lowest possible figure, it being recognized by all that high prices are detrimental and difficult to maintain.

Section 12 of their articles of agreement, differing from those of the preceding year, provides for exportation as follows:

> To maintain prices at all times, the officers shall cause to be exported at any time without the United States any surplus that may at any time appear, allowing and paying therefor [such] a bonus as will equal the

quotation prices, and [shall] report all such exports, the quantity shipped, the bonus paid, *etc.*

Section 13 further provided that the president should cause a suspension of the association for the following causes:

If a distiller runs more than he is entitled to run; if a distiller refuses to exhibit his government book to an authorized agent; if a distiller refuses or neglects to make his monthly report or refuses to accept his draft or pay his monthly assessments; if a distiller resumes his capacity and operates his distillery having once sold it; in case exported goods are re-imported and placed upon the domestic market; in case closed houses are not paid in full, and in one payment, for each month, before the close of said month.

A resolution was also passed providing that the association be suspended when any new distillery should be built and start to run. Provisions were also made for the examination of the government books of each distiller by the officers of the pool, in order to prevent deception and cutting of rates on the part of any distiller; but in spite of these precautions, and in spite of the high prices they were able to maintain for their goods in the pool, it was found that the temptations to secure sales by the cutting of prices were so great that members would violate the terms of the agreement. Within two months after its formation, in calling a meeting of the distillers whose houses were running, in order to determine the amount of assessments, prices of goods, *etc.*, the president of the pool expresses clearly the state of the trade. It should be remembered, in considering his words, that they were written not to influence legislation or public opinion, but that they were addressed to men directly concerned, who knew the circumstances. Among other things, he says with reference to over-production and the proper policy of the pool:

That we shall over-produce after the holidays we all know — we knew it when we organized in Chicago and for that very reason made the assessment 12 cents on 40 per cent to create an export fund.[1] That

[1] That is to say, 12 cents for each bushel of capacity run, when the houses were running at 40 per cent of their full capacity. The capacity of a distillery is measured by the number of bushels of grain consumed per day.

we have already over-produced, figures will show. . . . A few more days running without a pool would have wound you up, and this over-production we are not trying to get rid of by exportation. You want to look these figures square in the face; and if it takes more money to do our exporting than you thought, it is occasioned by your own folly in over-producing so heavily in September and October. As long as we have funds to export the surplus there will be no difficulty in maintaining prices. When goods accumulate without any outlet, then is the time when cutting commences. . . . It will not do to make the price of goods too high, for as we raise the price we must raise the bonus on exports correspondingly. . . . There are but two things left for us to do; either provide sufficient means to keep our warehouses clear of the surplus by exportation, or let the market go to pieces of its own weight. I am well convinced there is cutting going on secretly now, and unless provision is made at once to arrest it, it will be done openly, until there is nothing left of the market. Situated as we are, the question is no longer as to making a great amount of money, but to prevent our suffering great losses. This is the problem for you to solve, and the meeting is called thus early as an imperative necessity, and all running houses should be present. Distillers, when they have an accumulation of goods on hand, will not hesitate to cut prices *one cent* a gallon to make a sale, when they will hesitate to pay one-half cent a gallon to make cutting *unnecessary*, even if double the amount is placed in their hands. Right here I will repeat what I have so often stated before, that the amount of the assessment does not come out of the distiller, but out of the consumer, the same as the government tax, and he [the distiller] is merely the agent to collect and pay it over, of course with the qualification that prices are maintained.

He closes a series of statistics (regarding the output in competing states) with the words:

I have been particular in giving you all the information possible, so you can act intelligently at the next meeting. The only way to maintain prices is to get rid of the surplus by exportation. You can fly in the face of Providence if you see fit, but it will bring its own punishment with it.

A pool seemed a necessity; but the experience of this and of the following year seemed to show that a pool could not be maintained. The competition, there can be no doubt, was for many ruinous, though those best situated could live and make profits. The difficulty in maintaining the pool, together with the effect of the pool on prices, may be seen in the fluctuating figures of Table III (page 311). The same movements are illustrated graphically in the Diagram (pages 318, 319), and there the changes may be more readily noted. Table II shows the extent of the assessments from September, 1884, to the time of the formation of the trust. It has not been possible to obtain the earlier assessments.

TABLE II.

POOL ASSESSMENTS, SEPTEMBER, 1884, TO APRIL, 1887, INCLUSIVE.

	1884. Cents per bushel mashed.	1885. Cents per bushel mashed.	1886. Cents per bushel mashed.	1887. Cents per gallon.
January		8	16	3
February		8	9	3
March		8	10	4
April		8	10 (Extra assessment for 1 day: 35 cents.)	4
May		7	10	
June		9	8	
July		9	4	
August		9	6	
September[1]	6		per bush. 2; per gal. 2	
October	6		per gal. 3	
November	8	12	" 3	
December	8	12 (Also extra assessment for 1 day: $1.50 per bushel.)	" 3	

In consequence of the competition, and in order that a closer organization might be established, it was determined by the leading distillers, in the spring of 1887, to organize a trust, formed upon the model of the standard-oil trust. The "trust agreement," published in the examination of the president of the trust before the congressional committee in 1888, provides

[1] Assessment for September, 1886, was 2 cents per gallon produced (equal to 9 cents per bushel), and also an assessment of 2 cents per bushel; making a total of 11 cents per bushel. By multiplying the assessment per gallon by $4\frac{1}{2}$, the amount per bushel will be obtained nearly. About $4\frac{1}{2}$ gallons of spirits are made per bushel corn.

that the trust created shall be vested in nine trustees; that these trustees, under bonds of $100,000 each, shall, in accordance with section 11:

> . . . exercise supervision, so far as their ownership of stocks enables them to do, over the several corporations or associations whose stock is held by said trustees. As stockholders of said corporations they shall elect or endeavor to elect honest and competent men as directors and officers thereof, who shall be paid a reasonable compensation for their services. They may elect themselves as such directors and officers, and shall endeavor to secure such judicious and efficient management of such corporations as shall be most conducive to the interests of the holders of trust certificates.

No distillery was to be allowed to join this trust except the members of the former pool; but any member of the former pool, if a corporation, might join upon the assignment of a majority of stock by the individual stockholders to these trustees. For the stock thus assigned, the trustees prepared stock certificates, which showed the interests of each beneficiary in said trust. The certificates were divided into shares of the par value of $100 each, and were known as the "Distillers' and Cattle-feeders' Trust certificates." Any distillery not owned by a corporation might be re-organized in corporate form in order, by the aforesaid assignment of stock, to join the trust. In accordance with section 4 of the trust agreement, no certificates could be issued except for stock, and the par value of the certificates issued were to represent as nearly as possible the actual cash value of the stock held by the trustees in trust. In estimating the value of the plants owned by the different corporations, the following elements were considered: (1) the cost of the construction of the plant; (2) the amount of working capital required for its management, and (3) its earning power. This last element, of course, depends upon various factors, and of necessity was left largely to the judgment of the committee appointed. The location of the distillery, the skill of its former managers, their ability to secure a sale for their product, and other factors would all need to be considered. Furthermore, the earning capacity of the distillery under the management of the trustees, if it should be allowed to run, might vary quite materially from its former earning power. These different considerations led the committee to issue certificates for from two to three times the cash value of the plants. This has led some of the critics to state that the trust certificates were about two-thirds water. A careful consideration of the factors involved will enable the reader to judge how far this is true.[1] That jealousy among the different corporations might be avoided, the value placed upon the stock of each corporation was not made known except to the corporation immediately interested and to the trustees.

The trust was to continue for twenty-five years from the date of its organization, and thereafter until terminated by a vote of sixty-six and two-thirds per cent in value of the holders of certificates, at a meeting called for that purpose.

At the first annual election three trustees were to be elected to hold their office for one year; three to hold their office for two years, and three for three years. Thereafter three trustees were to be elected annually to take the place of those retiring, each to hold his office for three years, except in case of those elected to fill a vacancy, who should hold until the expiration of the term. A person to hold the office of trustee must be the actual owner of at least 500 shares of trust certificates.

The meetings of the certificate holders take place annually, and may be called oftener at the request of thirty-three and one-third per cent of value of the trust certificates.

It is to be noted that this trust agreement expressly provides that the trustees are not limited in their duties, as has been often suggested, to the receipt of dividends or interests upon the stocks or moneys held in trust, and to the division of such dividends to the holders of trust certificates; but they are also to elect competent men as directors and officers of said corporations represented, and are to exercise supervision over the several corporations whose stock is held by them as trustees. Furthermore, it is to be noted that these trustees in every case hold a majority of the stock in each corporation, so that their control over each distillery is absolute. A manager is appointed

[1] See Testimony of J. B. Greenhut before Committee of Manufactures, pp. 73 *et seq.*

by the trustees for each distillery, whose salary is paid out of the trust funds. This manager is, of course, usually one of the leading original stockholders and managers in that distillery.

In order that the business may be kept well in hand, reports are required daily from each distillery engaged in manufacture; and each distillery that is running sends in a detailed report every month, showing the exact cost of manufacture of the product and all other details regarding the management of the business. Again, by these monthly reports the trustees are able, if they wish to lessen or to increase the amount produced, to close the distilleries that are working least successfully or to open those that furnish the best opportunity to supply any special market. The trustees are also at liberty to purchase distilleries that are running outside of the trust, and to lease distilleries managed by the trust, whenever in their opinion this plan seems more profitable than to operate them by trust officers. In the latter case, of course, the profits are still held under the control of the trust.

This firm control over the different distilleries enables the trustees to control the market by limiting the output of the product to the amount demanded rather than by exporting the surplus at a loss, as was done under the old pools. Almost no attempt has been made by the trust to gain control of the foreign market, and none of the product has been exported at a loss since the formation of the trust. Their comparatively small exports (see Table I, page 300) have been at paying prices. A brief examination of Table II (page 305), which gives the monthly assessments levied upon the members of the old pool (from 6 cents to 18 cents per bushel) from September, 1884, to the formation of the trust in May, 1887, will show how great a saving has thus been effected.

Another saving is that which comes from the lessened expenses of management, resulting from the closing of so many distilleries. Nearly all the distilleries in the former pool, to the number of more than eighty, have become members of the trust. In order to limit the output to the demands of the market, these distilleries, if running when they joined, have been from time to time osed, until at the present time twelve distilleries supply the ›tal amount that is placed by the trust upon the market. One r two others are running, but for the production of yeast, or ›me other product than spirits. It is by no means to be ssumed that the decrease in the output corresponds in any ıanner with the number of distilleries closed. When it is ıken into consideration that for several years the output of ıe distilleries had been often limited to from 25 to 50 per cent f their capacity, many of them even closing for portions of the ear, it will be seen that an equal output might be produced by much less number of distilleries. That there has been a smaller ggregate output is doubtless true, and that to an extent more han enough to balance the lessened amount exported. The mount is held in hand well enough, so that the trust can ıanage to control the market.

An examination of Table III (page 311), which gives the ıarket prices of corn and whiskey from the time of the formaion of the first pool, in 1881, to March, 1889, will show that the rice of alcohol has not been to any noticeable extent raised by his closing of the distilleries. For some six or eight months fter the formation of the trust the prices were lowered eight r nine cents per gallon, although the prices of corn ruled somevhat higher than before. Presumably the purpose of this lowerng of the prices at first was to bring pressure to bear upon the listilleries yet remaining outside of the trust in order to force hem to join the trust, or else because in the beginning the rust did not yet have strength to force the market. After all r nearly all of the members of the former pool had joined he trust, so that its membership was practically complete, and t became evident that a contest with the distillers yet remainng outside was at hand, the managers of the trust raised the rice. The new members would need dividends to keep them ontented, and there was also a necessity of accumulating a und upon which to enter upon this contest with their rivals.

A comparison of the prices of corn and alcohol for the year ›receding the formation of the trust with the prices from May, 1888 to January, 1889 (see Table III, or Diagram) will show that the profits made by the trust have not been greater thar those made by the old pool, unless the cost of management o the distilleries has been much decreased; and yet, during thi: period from May, 1888, to January, 1889, the trust had put th price high enough to enable them to pay good dividends t members that might otherwise have become dissatisfied and t accumulate a surplus for the purpose of a contest with outsiders It is from this very evident that the saving in cost of manage ment and manufacture has been very great. It must also b kept in mind that from twelve to twenty distilleries have bee earning these dividends on stock that represents some eighty three distilleries. This emphasizes still more the great savin effected in expenses.

The immediate result of this increase in price (from $1.0 to $1.09 per gallon, and then to $1.14) was the building c new distilleries, notably the large distillery at St. Paul; th opening of many small distilleries, and the manufacture c spirits by the smaller distilleries in Kentucky, whose norma product was whiskey for aging. When at length it became ev dent that the distilleries outside of the trust were also makin a large product and the output from these distilleries was begir ning to have its effect upon the market, the trustees, on th 1st day of January, 1889, again cut the price of the produc to $1.04 per gallon, in order to crush their opponents. Th smaller distilleries in Kentucky and elsewhere of course close promptly, or changed the character of their product. The mos formidable rivals of the trust, Shufeldt & Co. of Chicago, wh had doubtless also made large gains from the increase in pric and who had run their distillery at even more than its norma capacity, at once cut down their output, though they have nc closed and are even building a new house of 3000 bushel capacity.

What the next move will be, remains to be seen. It is sai by the managers of the trust that their best policy is to hol the price of the product below the cost of manufacture by mos of the rival distilleries and thus keep the market steady. The claim that they are able to do this from the saving in manag

TABLE III.

MARKET PRICES AT PEORIA FOR WHISKEY AND CORN FROM 1881 TO 1888 INCLUSIVE.

MONTH.	1881.		1882.		1883.		1884.	
	Whiskey.	Corn.	Whiskey.	Corn.	Whiskey.	Corn.	Whiskey.	Corn.
January			1.15-1.16	62-59	1.13-1.14	44½-50½	1.15-1.16	41½-47
February			1.16-1.17	58½-54	1.14-1.15	48-55½	1.16-1.17	47-42
March			1.16	58¾-66½	1.15	56¼-49	1.17	41½-48
April			1.17	66¾-75½	1.15	47½-52½	1.17-1.12	43½-50½
May			1.13-1.17	75-70½	1.15	50-53	1.12	48-54½
June			1.11-1.15	72-69¼	1.15	53-47½	1.08	50-45½
July			1.11-1.14	73-75½	1.15	48-45	1.08-1.07	44-49
August			1.14-1.16	74½-77	1.15	45-51	1.05	47½-50½
September			1.16-1.18	75-59½	1.15	49½-46	1.10-1.11	51-45
October			1.16-1.18	61-70¼	1.15	45-47¾	1.11	40-53
November	1.11-1.15	62½-58	1.14-1.15	70½-67	1.15	46½-49	1.11-1.12	42-30
December	1.15	58½-62	1.13-1.15	55½-45	1.15	52-45	1.12	30½-35

MONTH.	1885.		1886.		1887.		1888.		1889.	
	Whiskey.	Corn.	Whiskey.	Corn.	Whiskey.	Corn.	Whiskey.	Corn.	Whiskey.	Corn.
January	1.12-1.14	34½-40	1.10	33-35	1.14	33¾-35½	1.09	48¼-47	1.04	30
February	1.14	38½-36½	1.10	34-32¾	1.14	35¼-33¾	1.09	47-45¼	1.04	29½
March	1.14	37¼-40½	1.10	33-34¼	1.14	33¾-38	1.09	45¾-49	1.04	30
April	1.14	39¾-47½	1.10	33¾-32½	1.14	37¼-36	1.09	47¼-53¼		
May	1.14	50-45	1.10	33-29½	1.14-1.05	37-38½	1.09-1.13	52½-57½		
June	1.14	44-47½	1.10	29-31	1.05-1.09	38¾-36	1.13-1.14	53¼-46½		
July	1.14	47-43¾	1.10-1.07	28¼-41½	1.05	38¼-34¼	1.14	49-43½		
August	1.14	45¼-42½	1.09-1.11	40½-39	1.05	38¾-42¼	1.14	45¾-40		
September	1.05	43½-40½	1.11-1.13	38¾-36	1.05	41½-39¼	1.14	44-40½		
October	1.04-1.09	42½-38½	1.13-1.14	35½-32½	1.05	39½-41¾	1.14	39¼-44		
November	1.09	44½-32	1.14	33¾-36½	1.05	39½-46	1.14	42½-38		
December	1.09-1.10	33½-31½	1.14	35½-33½	1.05	44¾-49½	1.14	33½-29½		

AVERAGE YIELD PER BUSHEL.[1]

YEAR.	YIELD.	YEAR.	YIELD.	YEAR.	YIELD.	YEAR.	YIELD.
1881	3.694	1883	3.874	1885	4.076	1887	4.62
1882	3.792	1884	3.895	1886	4.55	1888	4.53½

ment and from the fact that they run only the distilleries most favorably located. For local trade they can run those that will save freight; and, in fact, they run one in Cincinnati, one in St.

[1] The average yield for the last three years is for the Trust or Peoria distilleries. The government report, including all distilleries, gives for the years 1886, '87, '88, respectively, the yield 4.09+, 4.23+, 4.24+.

Louis, one in Kansas City, *etc.* The figures of the trust, gath ered from the various distilleries under their control, show tha the distilleries at Peoria have an advantage of from 14 to 15 pe cent over most of the distilleries located elsewhere, so that her some six are running. It is the belief of distillers not membe of the trust, as well as of the trustees, that a Peoria distiller has at least 10 per cent advantage over a distillery located a Chicago, and nearly 20 per cent over one located at St. Pau This claim seems to be substantiated by the statement o Charles Clark, for many years past a prominent distiller a Peoria, though not now in the business himself. He says tha at times of great depression in the business, during the exist ence of the former pools and earlier, his distillery made regu larly 10 per cent on the running capital and 25 per cent on th plant, besides good salaries for the managing members of th firm. With the exception of one year this rate of profit wa made for many years prior to the formation of the trust, and i that unfortunate year there was a clear profit of $12,000. Du ing this very time the complaints of distillers in other parts o the country that money was being lost and that no interes could be made on their investments were doubtless often tru On the other hand, in estimating the ability of the trust to com pete with its rivals, it must be remembered that fourteen dis tilleries must make profit enough to pay dividends on the capita invested in more than eighty distilleries, a drawback amply su ficient to offset any slight benefit in the cost of manufactur A distiller who has no closed houses to carry, no dividends t pay on capital that is inactive, has certainly something of a advantage. If the trust holds its own firmly, however, th advantage will soon to a great extent disappear, as the trust wi doubtless, as opportunity offers, dispose of the useless close distilleries and turn the dead capital into profitable channels.

The trust has, doubtless, had some benefit from the fact tha dealers would fear to incur the hostility of so powerful an orga ization by purchasing from its rivals. This is again offset i part, by the popularity of certain brands of whiskey (thoug this would apply especially to the Kentucky product) the man cturer of which can always be sure of his market. It is ·obable, at any rate, that the advantage is not so decidedly ith the trust that it can totally crush out all competition, ıough this can be determined more certainly after a year or vo. At present it manufactures only from 80 to 85 per cent : the total product in the market, and its rivals are preparing ı compete still more vigorously. Shufeldt & Co. of Chicago, ; has been said, are building a new distillery, and there are ;ports that others in Illinois are soon to be built. The trust ınnot afford to buy out all distilleries that may be built. If is to succeed, it must keep its prices so low that new dis-lleries will not be built. Its action in pushing up the price ıst year, if a merely temporary expedient to accumulate a fund, ·as perhaps a wise move from the standpoint of the trust; but ıch prices, quoted too often, would not be of advantage. The ·ust must succeed by underselling its rivals, not by buying ıem out. This is evidently, too, the policy of the organiza-:on; for it is a rule that no distilling company not in the old ool can join the trust. Even those companies have not been oaxed in by too large offers, as is sometimes asserted. The ssertion made in the New York *Evening Post* of January 2, 889, by the agent of Shufeldt & Co., that the trust had tried in ıany ways to force that firm into union and had even offered it ı1,000,000 in cash to join the organization is, even if correctly eported, not true. Both the trust officers and Shufeldt & Co. .eny it. Doubtless the trust would be glad to be joined by so mportant a rival; and it is conceded by members of the trust hat, had the company joined them when the trust was organ-zed, its managers could have had much influence in the new ırganization. The implication is that they might have had a rustee. It is worth while to give this much of the case, be-:ause it shows the position the trust has taken regarding per-ıaps its most formidable rival, and the course it must pursue if t is to succeed. It must meet its competitors in fair business ·ivalry and be able to control by low prices the larger part of he sales.

As much is said regarding the influence of trusts and combinations of all kinds on wages and prices of materials, it may worth while to mention the statements on this subject furnish by the president of the trust to the congressional committe The coopers that manufacture barrels for the distilleries ar the miners that furnish coal both testify that the distilleri connected with the trust voluntarily raised the prices for barre and coal so that fair wages could be paid. Before the organiz tion of the trust such a rise in prices could not be given account of the fierce competition, and even after its formatic distilleries not connected with the trust held the miners to the former oppressively low contracts, instead of following the e ample of the trust. The president of the trust adds that whi they "do not wish to take the position as posing before tl public as benefactors to any extent," yet they do believe in "tl principle of intelligent co-operation," and as they can afford pay good wages they are willing in justice and fairness so to d

Most of the advocates of trusts and pools claim that one the chief advantages to come from them is *stability* of price An examination of Table III or, better, of the Diagram, wi show that while the fluctuations are somewhat less frequer under such a régime, yet, when a fall or rise in price does com it is sudden and is apt to be a change of considerable exten It is very questionable if there is any gain from such a polic The lack of stability under the old pool was due, it was claime to the instability of the pool itself; but so far matters hav been little better in this respect under the trust. One thin seems better under the trust: the trust itself has stability an seems to have power; it may steady prices if it will put ther somewhat low and be satisfied with moderate steady return instead of striving for great gains interspersed with very sma ones. The future will determine what is to be its policy. Th managers of the trust say that the policy of the trust is to secu steady, moderate gains; others who are interested question thi The system of high gains alternating with low ones, if pursue as a regular policy, would do much to justify the distrust of th public and would take away the only ground on which suc combinations can fairly be justified: low, steady prices.

A sufficiently accurate estimate of the real benefits accruing to the various distilleries from their association in the trust may be obtained from an examination of the dividends paid by the trust since its formation, and from the value of the trust certificates. Although the trust was organized in June, 1887, many of the distillers belonging to the old pool had not been received into the trust until about the beginning of the following year; so that any dividends paid before January, 1888, cannot be considered fair tests of the management or of the success of the trust. From January, 1888, to July, 1888, inclusive, a dividend of one-half of one per cent per month was paid; for August the dividend decreased to one-fourth of one per cent; and from September till January, 1889, inclusive, dividends of one-third of one per cent per month were declared. The dividend for February, 1889, again decreased to one-fourth of one per cent, owing doubtless to the late cut in price. It must be borne in mind, also, that in addition to the dividends throughout the year 1888, a surplus was being accumulated to carry on the contest with outside distillers. It was said by some members of the trust, when the trust certificates were valued at 30, that they then represented about the actual cash value of the plant. If this be accepted as an accurate estimate, and it is doubtless not far from the truth, we can readily see that the trust has paid dividends, during somewhat more than one year of active existence, of more than 12 per cent per annum.

TABLE IV.

QUOTATIONS OF MARKET VALUE OF DISTILLERS' AND CATTLE-FEEDERS' TRUST CERTIFICATES.

1888.	March	1.	50.	1888.	Aug.	28.	43.	1889.	Jan.	15.	30.
		14.	48.		Sept.	7.	40.			31.	31.
	April	1.	$45\frac{1}{2}$.			19.	$39\frac{1}{2}$.		Feb.	9.	32.
		20.	$42\frac{1}{2}$.		Oct.	10.	$36\frac{1}{2}$.			18.	33.
	May	11.	$45\frac{1}{2}$.			20.	$35\frac{1}{2}$.		March	4.	34.
	June	4.	43.		Nov.	13.	39.			7.	35.
		18.	40.			21.	39.			13.	$36\frac{1}{2}$.
	July	2.	41.		Dec.	12.	35.			20.	$35\frac{1}{2}$.
		7.	44.			21.	33.		April	1.	34.
		24.	45.	1889.	Jan.	4.	33.			6.	34.
	Aug.	13.	42.								

An examination of Table IV, which gives the value of trust certificates for each month from March, 1888, to the present time, will lead us to about the same conclusion. As soon as it became evident that the trust was firmly established and bade fair to be a success, some small sales of certificates were made to enthusiastic buyers as high as 65; others among distillers at 55; but no real market for trust certificates was established above 50. With some slight variations the value has slowly decreased, until in January, 1889, the lowest value (30) was reached, since which time a slight increase in value is to be noted. The figures in this table are based upon actual sales, and there can be no doubt as to their accuracy. It is, however, to be remarked that the certificates are held mainly by the large distillers as investments (though the number of individual certificate holders has largely increased), and that comparatively few transfers of trust certificates have been made. The prices quoted of course depend, too, to some extent, upon the amount invested at the time. The certificates are not listed in any stock exchange, and there cannot be said to be any regular market for them, though they can be obtained through brokers in four of the principal cities: Peoria, Chicago, Cincinnati and New York. The figures given represent, then, almost with perfect accuracy, the value placed by the distillers and the liquor dealers upon the certificates.

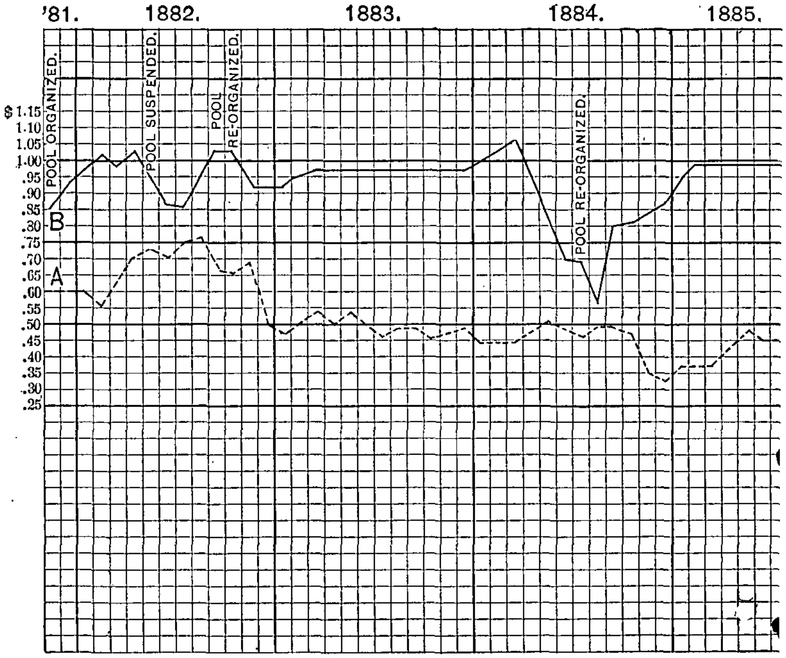
The facts given with reference to the working of the trust seem to show that it has been beneficial to the greater portion of the manufacturers of alcohol and spirits in the United States, although individual distillers have perhaps made no more, and some, it may be, have made even less profit than they could have made acting independently; while, so far at least, the prices to consumers have not been on the whole increased, and the tendency seems to be towards lower and steadier prices for the future. As has been said, however, only the future can determine what the policy of the trust is to be. The facts seem to show that it is within the power of the trust to bring about this result; and it seems to be for its interest so to do. As regards the stronger rivals of the trust, the prices have so far been so high that they have not suffered materially. The next year or two will show whether they can endure the competition. Even if they should be forced to close, the question is still an open one whether more distilleries would not have been closed under free competition. Many stockholders are now drawing dividends from the trust who, without the trust, would doubtless have lost much of their capital.

At the time of the formation of the trust, it was thought by some of the distillers living at Peoria that, on account of their unusual facilities for manufacture, the trust should be limited to Peoria distilleries and a few others favorably located. The experience of the trust seems to show that, had this plan been followed, the trust might have paid higher dividends to its members and might also have held the price of alcohol so low that outside competition would not have been much more successful than it has been under the present arrangement. Some distillers who believed in this latter plan — presumably for the most part Peoria manufacturers — still think it would have been better to have limited the organization to five years with the option then to continue, suspend or reorganize. They feel that the owners of the less favorably situated distilleries have an undue advantage. Of course, this depends mainly upon the relative value placed upon the plants when they entered; but it is probable that it would have been cheaper to crush some of the weaker members than to buy them by admitting them to draw dividends. Against this view is, of course, the fact that such action would have aroused bitter hostility that might well have resulted in the building of new distilleries in locations where they would have become formidable rivals.

On the whole, while there is this slight tendency to think that matters might have been better under some other form of organization, or even, for a few, with no organization; and while there may be a slight feeling that the trustees are not entirely free from nepotism in their appointments, any more than are our highly esteemed executive officers of the United States; yet, as was shown a year ago by the unanimous reelection of all the trustees at a meeting in which ninety-nine and one-half per cent of all the certified holders were represented, as well as by the general expression of satisfaction on the part of the distillers one meets, the trustees are thought to have performed their responsible duties with discretion, and the trust is considered by its members a success.

In conclusion, it may be well to mention (though in a technical journal it may not be necessary) that the words, success, benefit, profit, *etc.*, have been used in the foregoing article in a strictly economic sense, and that, of course, the character of the product as one beneficial or injurious to the community has

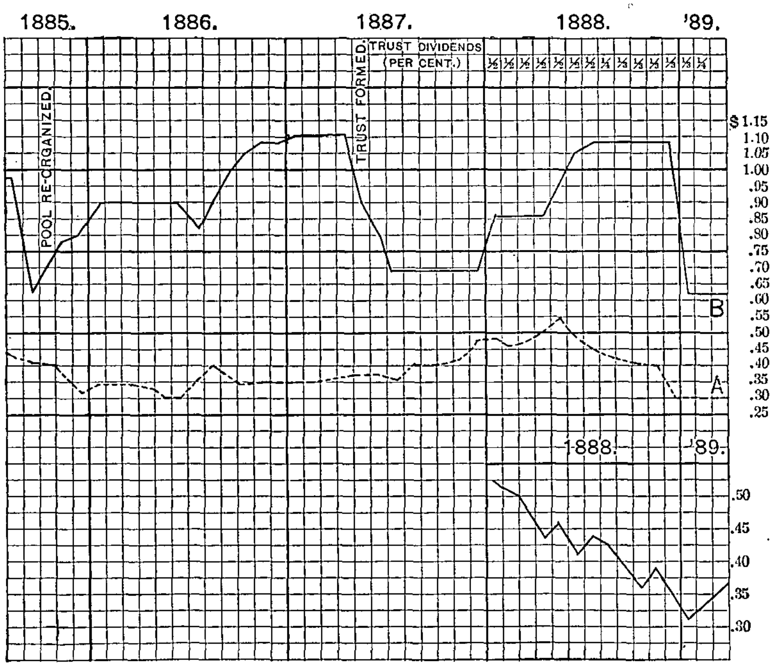
DIAGRAM ILLUSTRATING THE HISTORY



The (dotted) line A shows the average market value of corn per bushel at Peoria. The line B shows the average market value of the whiskey (the spirits used for base in prices) from one bushel of corn. To obtain this value, the revenue tax was deducted from the market value of one gallon, and the difference multiplied by the average yield per bushel of corn. — The space between the lines A and B represents, not been considered. It may be well also to repeat a statement made in the beginning: that the purpose of the article is merely to set forth, as fully as space and the information at hand will allow, the circumstances leading to the formation of the whiskey trust, the outline of its organization, and its real effect on prices, manufacture and such matters. In this place no position is taken on the question of its legality or of its social or political influence, whether beneficial or otherwise. It is probable that no one can as yet speak with sureness on these topics, and this is not the place for mere opinions.

JEREMIAH W. JENKS.

OF THE WHISKEY POOLS AND TRUST.



of course, the cost of production plus the profits. During the greater part of the pool's existence, assessments for export expenses must be deducted from the profits. (See Table II.)

The line in the lower right-hand corner shows the fluctuations in the value of the trust certificates: par value, 100; cash value of plant estimated at about 30.

REVIEWS.

Omitted Chapters of History, disclosed in the Life and Papers of Edmund Randolph, Governor of Virginia, First Attorney-General, United States Secretary of State. By MONCURE D. CONWAY. New York, G. P. Putnam's Sons, 1888. — 8vo, 401 pp.

Mr. Conway's volume is well-timed: in these centennial years every important fact about the organization of our government is welcomed. These *Omitted Chapters of History* are a significant contribution to our knowledge of the political events in which Edmund Randolph bore a leading part. The services of Randolph in the constitutional development of the United States are clearly set forth. The Virginia governor played a leading part in the federal convention, sketched the general plan of the constitution, and introduced the detailed plan. Four features of the instrument, as adopted, he vigorously opposed: the re-eligibility of the President; a single executive; the equality of the states in the Senate; the control of commerce by a bare majority of Congress. He favored a second revisory convention and Franklin supported his motion. When the delegates declined to vote for a second convention, Randolph did not vote for or sign the constitution as it went forth to the states. Yet in the Virginia convention he battled zealously for ratification, believing union a paramount necessity, and amendment more probably gained within the Union.

Mr. Conway shows Randolph to have favored a strong federal government with a negative on state legislation. The provision included in Randolph's draft would, if adopted, have made nullification impossible. In the original draft of Madison's *Virginia Resolutions* of 1798, there was a nullification clause. An unpublished manuscript among Madison's papers shows that the elimination of this clause was owing to Randolph's criticism of Madison's unconstitutional state theories.

As first attorney-general, Randolph organized the department of justice and adapted the judiciary system of the country to its functions. He had conduct of the famous case of Chisholm *vs.* Georgia, and firmly maintained, even against the protest of Virginia, the liability of a state to be sued, till "sovereignty, trembling at once with dignity and terror, hastened to answer the Supreme Court by the eleventh amendment." Had Randolph accepted the proposal to go upon the supreme bench, he