Monopoly Is As Monopoly Does

By SIDNEY J. ABELSON

Whenever someone sapiently remarks that the "capitalistic system has broken down" it would be well to inquire what is meant by the term "capitalistic system."

Thanks to the Dictatorship of Marxism over Economic Terminology words no longer have precise meanings; they have, rather, implications which in turn are shadowed by judgments. Thus capitalism does not mean in people's minds the predominant use of capital in production—a broad and natural meaning—but it signifies an alleged arrangement of capital ownership and control—a narrow, restricted description which has led to epochal confusion and caused incalculable damage to social thinking.

Be that as it may, the question remains, "What do people think the capitalistic system is?" Perhaps if we could delimit this faltering apparatus the task of analyzing our economic problem would be more clearly defined.

It is not the purpose of this article to examine the good or the bad points of the "capitalistic system," whatever it really is. It is plainly impossible to do that without first being in agreement on a definition of the term. But there is no such agreement anywhere; there is only confusion, a confusion made the worse confounded because economics, struggling to take its place among the sciences, has been subjected to terrific pressure by political ideologies and battered out of shape.

At one moment the Marxist will speak as if "capitalism" referred to unrestricted competition — wasteful duplication of effort and a cut-throat contest for business. At another moment it will suit his political line better to emphasize the monopolistic character of our present economy. Thus on the one hand we are told that the "capitalistic system" is economically wanton because it is too competitive and on the other, by the same people, that it is unfair to the masses because through monopoly control it deprives them of equal opportunity to enter into competition.

Now the Marxist is not alone in entertaining this contradictory attitude. Economists to the "right" who defend the status quo are equally to blame, for they too have special purposes to serve. They too are unable to analyze the questions of competition and monopoly from a fundamental standpoint; being close to particular forms of competition or particular forms of monopoly they cannot arrive at conclusions divorced completely from their background. From neither leftist nor rightist economists is it possible to obtain a clear-cut description of the "capitalistic system."

To understand this confused state of affairs it is necessary to refer back to an historic phase of the laissez-faire doctrine upon which the "capitalistic system" is supposed to be based. This is done very briefly, but just as much to the point, by Harry D. Gideonse, President of Brooklyn College, in a pamphlet on "Organized Scarcity and Public Policy."*

"A wide area of confusion in economic literature and discussion has been created," writes Dr. Gideonse, "by assuming that perfect competition existed in the nineteenth century because economists then began to approach the problem with the concept of perfect competition. A whole library has therefore been written to prove that there has been a 'decline of competition,' but this really should be entitled 'the decline of the **idea** of competition.'"

Indeed, competition never existed in a pure state, and wherever it did approach such a state its tendency was short-lived. The history of laissez-faire is not so much the record of a reality as of an ideal.

There is abundant proof in economic history for substantiation of this conclusion. It is not necessary, however, to go far back to the past; the present and the immediate past tell the story more eloquently than ever. For example, Professor Ely in one of the earlier editions (1919) of his "Outlines of Economics" wrote: "Everywhere in the industrial field the tendency toward monopoly is present. Business men endeavor so far as possible to shelter themselves from the effects of the competitive struggle by means of some privilege, but if none is to be found, and if competition becomes very keen, they endeavor to combine with other business men."

In the days when this was written the "trust-busting" laws were supposedly sufficient protection of the public against abuse of this "tendency toward monopoly." The laws are still on the statute books, but cancelling them out to a large measure is the record of the NRA, an adventure in the creation of super-trusts which made the ideas of the private tycoons look puny by comparison.

Today, of course, the NRA policy has been itself cancelled out, and another trust-busting government adventure is under way. The Temporary National Economic Commission has gathered unto itself some scores of volumes of testimony revealing in microscopic detail the machinations of big business. Alas, if instead of scores of volumes there were only one devoted to fundamentals!

What is the **fundamental** situation? Is the so-called "capitalistic system" competitive or monopolistic? The trust-busting attitude implies existence of a system in which competition is the rule and monopoly an evil exception. Facts furnished by the United States Government answer this question quite precisely—but too fundamentally for "trust-busters" to understand.

Before presenting these facts which reveal the monopoly situation as of today, it is worth noting the situation as Professor Ely reported it in 1919 in his textbook: "We have not the precise statistical data which

* Subtitled, "Monopoly and Its Implications." Published by The University of Chicago Press. 25 cents.

will enable us to state the exact influence of monopoly upon the distribution of wealth. We have, however, sufficient data to warrant the opinion that the high monopoly prices and the gains resulting from the exclusive position of the monopolist give us a large privileged class in countries of modern civilization, and especially in the United States."

Since this was written the "precise statistical data" have become available and it now can be determined exactly how monopoly affects the distribution of wealth. In addition to revealing the precise power of monopoly these data help establish an answer to our question whether the "capitalistic system" is competitive or monopolistic.

"Profits in American industry," writes E. D. Kennedy in a remarkable book entitled "Dividends To Pay," "are almost in direct proportion to the extent to which competition has been eliminated." A brilliant array of government statistics, based on the direct reports of corporations, substantiate this conclusion. Mr. Kennedy has had the courage to let facts speak for themselves and he has taken the trouble to get the significant facts.

The Statistics of Income of the Bureau of Internal Revenue of the United States Treasury Department tell this story: In 1925 three tenths of one per cent of all American corporations (those earning $1,000,000 or more a year) made 65% of the net profits earned by all corporations. In 1929 this selected group of $1,000,000 money-makers still numbered about three-tenths of one per cent of all corporations, but in this year the big companies made 80% of the net corporate profits.

The following tables, assembled by Mr. Kennedy from government statistics, show what "prosperity" meant to business as a whole and what it meant to a favored few businesses:

Year	No. of Corps.	Net Income of All Corps.
1925	385,000	$7,620,000,000
1926	407,500	7,500,000,000
1927	425,800	6,510,000,000
1928	443,600	8,230,000,000
1929	456,000	8,740,000,000

Let us now see how well the $1,000,000 profit-makers fared during this period of "Coolidge prosperity":

Year	Corps. with $1,000,000 yearly Net Income	Total Net Income of these corps.	% of their net profits to net profits of all corps.
1925	1,113	$4,970,000,000	65%
1926	1,097	5,240,000,000	70%
1927	1,024	4,640,000,000	71%
1928	1,258	5,930,000,000	72%
1929	1,349	7,000,000,000	80%

Then came the depression. It was popularly supposed that its effects were shared by all business enterprises. But what are the facts? Again a simple set of figures gathered by the government from corporation reports and assembled by Mr. Kennedy, reveals the true situation:

Net Income Reports of All Corporations

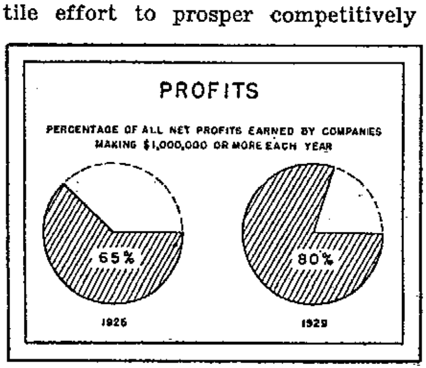
Year	No. of Corps.	Net Income
1930	463,000	$1,550,000,000
1931	459,700	deficit 3,290,000,000
1932	451,800	deficit 5,640,000,000
1933	446,800	deficit 2,500,000,000
1934	469,800	94,000,000

Yet during this period when corporations as a whole where reporting minor profits at best or else serious deficits, the top-flight companies were enjoying substantial profits. The figures show:

Reports of Corporations Earning $1,000,000 Or More Annually

Year	No. of Corps	Net Income
1930	736	$3,700,000,000
1931	409	2,100,000,000
1932	284	1,125,000,000
1933	387	1,540,000,000
1934	580	2,080,000,000

In this record we find a fair sample of the "capitalistic system." What factors in this system, what conditions serve to make negative, or nearly so, the business efforts of 99.7% of all corporate enterprises while a small handful of companies seem to be assured of substantial profits through thick and thin? The conclusion is inescapable that the bulk of businesses are making a futile effort to prosper competitively in an economic world dominated by monopoly. The big profit-makers on the other hand enjoy in every case special advantages which give them the opportunity to turn the competitive developments of the small fry to their own gain.



Now the fact that so small a percentage of corporations makes so large a share of all profits does not by itself prove that these extraordinary earners have monopoly privileges. Indeed, in many instances they enjoy no direct monopoly accruing either from natural advantages, outright government grant, patents or other circumstances which eliminate competition.

However, monopoly is not always a matter of such direct control over land, patents or some other outright sanction. Monopolies do not necessarily have to possess **direct** monopoly privileges; they need only to arrange their market so as to enjoy the advantages which a clear-cut m o n o p o l y would otherwise give them; and such arrangement is frequently made possible by **indirect** government assistance (laws designed to promote "conservation," etc.). Monopoly is as monopoly does.

That is why Professor Ely was able to say, as far back as 1919: "At the present time, however, monopolies proceed from the nature of industrial society, and are of far greater significance in our economic and political life than ever before. The really serious monopolies of our day are far more subtle, and have for the most part grown up outside of (anti-trust) law, and even in spite of (anti-trust) law."

In subsequent articles in **The Freeman** we shall see how specific industries continue to gain monopoly advantages within the letter of the law and often within the spirit of the law; but the result nevertheless belies the putative competitive nature of the "capitalistic system." We shall see that this system does not and has not functioned as a free competitive system.

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