

## CHAPTER V

### THE ORIGIN AND NATURE OF SPURIOUS CAPITAL AND SPURIOUS INTEREST—*Continued*

THE third group of monopolies is one to which socialists have given special attention, without, however, discovering their origin. It consists of monopolies which have been formed by the combination of capitalistic undertakings into groups, called rings, trusts, syndicates, combines, or pools, for the purpose of gaining control over a particular industry, and preventing competition between themselves, either in the purchase of raw material or in the sale of finished goods, or both, and in the hire of labour. Socialists unanimously regard such combinations as the natural and inevitable development of the private ownership of capital under modern industrial conditions. They look forward to the universal prevalence of such combinations, and regard State monopoly as the only possible means of escape from these private monopolies.

As an illustration of this attitude, the following quotation from *The Fabian Essays* will serve :<sup>1</sup>—

“ I now come to treat of the latest forms of capitalism, the ‘ring’ and the ‘trust,’ whereby capitalism cancels its own principles, and, as a seller, replaces competition by combination. When capitalism buys labour as a commodity it effects the purchase on the competitive principle. . . . But when it turns round to face the public as a seller it casts the maxims of competition to the wind and presents itself as a solid combination. . . . The competing persons or firms agree to form a close combination to keep

<sup>1</sup> Pp. 89, 90, and 93.

up prices, to augment profits, to eliminate useless labour, to diminish risk, and to control the output. . . . Combination is absorbing commerce. . . . The individualist . . . is naturally surprised at these rings which upset all his crude economic notions, and he, very illogically, asks for legislation to prevent the natural and inevitable result of the premises with which he starts. It is amusing to note that those who advocate what they call self-reliance and self-help are the first to call on the State to interfere with *the natural result of that self-help, of that private enterprise, when it has overstepped a purely arbitrary limit.*"<sup>1</sup>

If the writer of the above statement were right in his assumption that such combinations as he deals with are the natural and inevitable result of private enterprise, his ridicule of individualists who call for legislation to combat them might be justified. If, however, such combinations owe their existence in almost every instance to legislative interference with private enterprise, then the individualist who calls for the removal of such legislative interference is by no means ridiculous. That this is the case will be seen from the following examination. Before entering upon it, it may, however, be of interest to show that socialists frequently reveal that they are not without some suspicion that this may be the case. The writer of the above-quoted statement, for instance, not only selects nearly all his examples of rings and trusts from the United States, but actually makes the following admissions :—

"The best examples of 'rings' and 'pools' are to be found in America," and "We must again travel to America to learn what the so-called 'trust' is."<sup>2</sup>

Still more definite is the following admission, taken from Hobson's *Evolution of Modern Capitalism* :<sup>3</sup>—

"In most of the successful manufacturing trusts some natural economy of easy access to the best raw material, special facilities of transport, the possession of some State or municipal monopoly of market are added to the normal advantages of large-scale production. The artificial barriers in the shape of tariff, by which foreign competition has been eliminated from many leading manufactures in the

<sup>1</sup> The italics are ours.

<sup>2</sup> *Fabian Essays*, pp. 90, 94.

<sup>3</sup> P. 141.

United States, have greatly facilitated the successful operation of trusts."

Any examination of the facts fully bears out this statement, *i.e.* that all, or nearly all, successful pools, rings, trusts, syndicates, or whatever other denomination be adopted by monopolistic combinations, owe their success to the possession of some legal privilege—either the possession of exceptionally productive land, or power over routes of transportation, or other legislative exclusion of free competition, or to a combination of such causes. So largely is this the case that, even with regard to the few instances in which the existence of such favouring causes cannot be proved, the presumption of their existence is very strong.

Legal limitations of competition in industries which, not depending on special privileges, are by their nature competitive, have been favoured devices of despotic rulers, as well as of those interested in such industries, for their own enrichment at the expense of the masses of the people. The privileges of mediæval trade-guilds, the monopolies established by Tudor and Stuart kings, the mercantile system, and last, not least, its modern offspring, the protective system, all have used and use the same device with the same object, *i.e.* to enable certain producers to charge higher prices for their products than they could compel buyers to pay under the action of free competition.

The protective system renders this service to manufacturers within the protected area by placing duties on competing foreign goods from which similar goods made within such area are exempt. Foreign goods being thus artificially increased in price, the competing home manufacturers can either raise the price of their own goods to the same level, in which case little or no exclusion of foreign goods takes place; or they can raise the price of their goods to a level a little below that of the foreign goods plus the duty, when the competing foreign goods will be excluded, while at the same time a higher price for locally-made goods is obtained. The large and exceptional profit of such protected manufacturers, however, speedily attracts rivals into the protected area, and, as a conse-

quence, the limited requirements within the area are either overtaken, or threatened to be overtaken. This over-production would speedily reduce prices and deprive manufacturers of the exceptional profits, the promise of which protection held out to them. The protective system, however, supplies the remedy in the facility for combination which it offers. Foreign competition being excluded as long as the price is kept a little below that of foreign goods plus the duty, the number of manufacturers who need combine for the purpose of avoiding competition is comparatively small, and is favoured by proximity of location. To take one trade as an example. It is obviously impossible for all the cotton-spinners of the world to agree with regard to the quantity of yarn which they will produce and the prices which they will charge. But it is much more feasible for the cotton-spinners of one country to do so, especially when the exceptionally high prices which they obtain in their home market enable them to sell any surplus in outside markets without any profit, or even at a loss. Protection, therefore, not only restricts competition directly, but it also offers seductive facilities and temptations for such combinations in further restriction or abolition of competition as are known as combines, pools, rings, trusts, and syndicates.

While protection thus enables local manufacturers to combine, and to do so with such profit to themselves, that it is worth their while to undertake the trouble, and even risk, where such action has been made illegal, free trade tends to prevent such combinations. In free-trade countries prices are governed by international competition, and no combination can raise local prices by more than a fraction—equal to cost of freight—over those ruling in the world's markets, unless it included all, or nearly all, the world's producers.<sup>1</sup> The advantages therefore, even where local combinations are feasible, are too small to induce the trouble and risk of forming them, unless they are favoured

<sup>1</sup> "In the great majority of cases there is only a very narrow margin between the price at which English manufacturers can produce a commodity and the price at which it can be produced abroad, so that a comparatively small rise in price will afford to the foreign manufacturer the coveted opportunity of acquiring a new market."—J. Stephen *Jeans, Trusts, Pools, and Corners*, p. 30.

by some other legal privilege. Hence the comparative rarity of such industrial combinations in free-trade Great Britain, and their prevalence in industrial countries which have adopted a protective policy. Thus, once more quoting from Mr. J. Stephen Jeans's valuable work, *Trusts, Pools, and Corners* :—

“The iron manufacturers of Germany regularly adopt two sets of prices. The tariff, by protecting them from outside competition, enables them to quote a high range of prices—which are often regulated by combination—to home consumers, while they dispose of a large surplus at a lower range of prices in neutral markets, where they have to face the competition of other countries.”<sup>1</sup>

Similarly, Professor Hadley states :<sup>2</sup>—

“Nearly every industry in the United States employing fixed capital on a large scale has its pool, whether they call it by that name or not.”

Von Halle, in *Trusts in the United States*, furnishes a table comprising no less than 501 separate combinations, rings, and trusts, embracing almost every product of industry, and states :—

“The Sugar Trust, it is alleged, arbitrarily dictates prices on its purchases, and, with the aid of the tariff, sells at prices which yield a greater profit to the refiner than could be obtained under free competition. This was admitted by Mr. Havemeyer (President of the Trust) before the investigation committee of the United States Senate, 15th June 1894.”<sup>3</sup>

The same result has followed from the protective tariffs of European countries. *The Forum* of May 1899 publishes an article, “Trusts in Europe,” by Wilhelm Berdrow, which states : “It is in Germany, however, of all European countries, that trusts have spread most extensively and have been most successful. . . . The German and Austrian rolling-mill unions, the trusts of the chemical industries, as well as the most important French trusts—the latter embracing more particularly the

<sup>1</sup> P. 177.

<sup>2</sup> “On Trusts in the United States,” in *Economic Journal*, March 1892, p. 73.

<sup>3</sup> P. 69.

iron, petroleum, and sugar industries—have all adopted the method of selling conjointly by means of a central bureau, in order to dictate prices and to deprive the individual members of every vestige of independence. . . . As far as England is concerned, it must be admitted, notwithstanding her great industrial activity and her competitive warfare not less pronounced than that of other states, the trust system has as yet found but tardy acceptance in that country. This is doubtless due in some degree to the thorough application of the principles of free trade ; for it is well known that the largest trusts are powerless unless their interests are secured by a protective tariff excluding from the home market the products of foreign countries.”

Combinations have been so rarely successful in Great Britain that, dealing with the recent amalgamation of the sewing-cotton factories, the *Economist* of 4th December 1897, could say :—

“ This is the introduction of the American trust system into Great Britain. . . . There is a certain consolation, however, in the fact that in such a country as ours industrial monopolies seldom attain anything like permanent success.”

While protection alone is thus the fruitful parent of one set of industrial monopolies, others owe their origin to a combination of protection with the ownership of mineral lands ; still others to a combination between the owners of railways and mineral lands, or indirectly to the existence of privately owned railways, canals, and mineral lands alone.

As an example of the former, the anthracite coal pool in the United States may be cited.<sup>1</sup> Practically all the anthracite coal mined in the United States comes from a limited area of rich deposits in the state of Pennsylvania. This area is intersected by canals and railways, owned by three companies, which control about 90 per cent of the output through the purchase of this proportion of the coal-land. The duty on foreign anthracite coal is 67

<sup>1</sup> See “ Anthracite Mine Labourers,” by G. O. Virtue, in *Bulletin of the Department of Labour, U.S.*, Nov. 1897 ; and Jeans, *Trusts, Pools, and Corners* ; and H. D. Lloyd, *Wealth against Commonwealth*.

cents per ton, equal to about 30 per cent *ad valorem*. Being thus secured against foreign competition, and holding their local competitors in the hollow of their hand, through the ownership of all the routes of transportation, the three railway and canal companies, as long as they are united, dictate prices for the whole of the output and wages for all who seek employment. Though quarrels between them have been frequent, each being followed by a reduction in the monopoly price of coal, they have only been intervals in the general course of exploitation through the combination of their interests.

A more remarkable case, as exhibiting the indirect influence of the monopolising tendency of private ownership of routes of transportation, is the rise and progress of the small group of men, which, after monopolising the kerosene oil trade of the United States, is now extending its supremacy in so many directions as to foreshadow the coming of an autocracy over the entire industry of that country. This monopoly has been established, and is still being maintained by secret, illegal, and immoral contracts with the privately owned railways of the United States, which not only give lower freights to these favourites than to their competitors, but which in various other ways utilise the control over these public highways for the destruction of the business of the latter. The following evidence, of which that furnished by Mr. Henry W. Lloyd in his painstaking work, *Wealth against Commonwealth*,—the statements of which are based entirely upon official evidence,—is of special interest, will sustain this contention :—

“He (Mr. Rockefeller) was able to secure special rates of transportation with the help of some bribed railroad freight-agents.”<sup>1</sup>

“One witness declared that the trust received from the railway companies fourth-class rates on quantities of oil in less than car-load rates, whereas he had to pay first-class rates; and that he had practically been driven out of business in localities covered by certain roads who thus favoured the trust.”<sup>2</sup>

<sup>1</sup> E. von Halle, *Trusts in the United States*, p. 11.

<sup>2</sup> J. S. Jeans, *Trusts, Pools, and Corners*, p. 95.

“After taking 3700 pages of evidence and sitting for months, the committee of 1879 of the New York Legislature said in their report: ‘The history of this Corporation (the Standard Oil Trust) is a unique illustration of the possible outgrowth of the present system of railroad management in giving preferential rates, and also showing the colossal proportions to which monopoly can grow under the laws of this country. . . . The parties whom they have driven to the wall have had ample capital and equal ability in the prosecution of their business in all things save their ability to acquire facilities for transportation.’

“More than any others the wrongs of the oil industry provoked the investigations by Congress from 1872 to 1887, and caused the establishment of the Interstate Commerce Commission, and more than any others they have claimed the attention of the new law and the new court. The cases brought before it cover the oil business on practically every road of any importance in the United States—in New England, the Middle States, the west, the south, the Pacific Coast; on the great east and west trunk roads—the Pennsylvania, the Erie, the Baltimore, and Ohio, the New York Central, and all their allied lines; on the transcontinental lines—the Union Pacific, the Central Pacific, the Southern Pacific; on the Steamship and Railroad Association controlling the south and southwest. They show that from ocean to ocean, and from the Gulf of St. Lawrence to the Gulf of Mexico, wherever the American citizen seeks an opening in this industry he finds it, like the deer forests and grouse moors of the old country, protected by gamekeepers against him and the common herd.

“The terms in which the commission have described the preference given the oil combination are not ambiguous: ‘great difference in rates,’ ‘unjust discrimination,’ ‘intentional disregard of rights,’ ‘unexcused,’ ‘a vast discrepancy,’ ‘enormous,’ ‘illegal,’ ‘excessive,’ ‘extraordinary,’ ‘forbidden by the Act to regulate commerce,’ ‘so obvious and palpable a discrimination that no discussion of it is necessary,’ ‘wholly indefensible,’ ‘patent and provoking



discriminations for which no rational excuse is suggested, 'obnoxious,' 'disparity,' . . . 'absurd and inexcusable,' 'gross disproportions and inequalities,' 'long practised,' 'the most unjust and injurious discrimination . . . and this discrimination inured mostly to the benefit of one powerful combination.'"<sup>1</sup>

The control exercised by a few millionaires over the meat and cattle trade of the north-western States of the Union originates in the same cause. E. von Halle states :—

"The special investigation of the meat and cattle trade" (United States Senate Report, No. 829, 51st Congress, second session, 1st May 1890) "demonstrates that heavy pressure on the railroads and ownership of the Chicago stockyards on the one hand, 'friendly agreements' on the other, had resulted in an effective control of the whole market. . . . They fix the prices for the purchase of cattle and sales of meat in the markets of Chicago, Kansas City, and Omaha."<sup>2</sup>

This is confirmed by Henry D. Lloyd :—

"When a farmer sells a steer, a lamb, or a hog, and the housekeeper buys a chop or roast, they enter a market which for the whole continent, and for kinds of cattle and meats, is controlled by the combination of packers at Chicago known as 'the Big Four.' This had its origin in the 'evening' arrangement, made in 1873 by the railroads with preferred shippers, on the ostensible ground that these shippers could equalise or 'even' the cattle traffic of the roads. They received \$15 as 'a commission' on every car-load of cattle shipped from the west to New York, no matter by whom shipped, whether they shipped it or had anything to do with it or not. The commission was later reduced to \$10. They soon became large shippers of cattle; and with these margins in their favour 'evening' was not a difficult business. By 1878 the dressed beef business had become important. As the Evener Combine had concentrated the cattle trade at Chicago, the dressed-beef interest necessarily had its home

<sup>1</sup> Henry D. Lloyd, *Wealth against Commonwealth*, pp. 476-478.

<sup>2</sup> E. von Halle, *Trusts*, pp. 21, 22.

at the same place. It is a curious fact that the Evener Combine ceased about the time the dressed-beef interest began its phenomenal career. The committee appointed by the United States Senate to investigate the condition of the meat and cattle markets found that under the influence of the combination the price of cattle had gone down heavily. For instance, in January 1884 the best grade of beef cattle sold at Chicago for \$7.15 per hundred pounds, and in January 1889 for \$5.40; north-western range and Texas cattle sold in January 1884 at \$5.60, and in January 1889 at \$3.75; Texas and Indian cattle sold in 1884 at \$4.75, the price declining to \$2.50 in December 1889. These are the highest Chicago prices for the months named.

“‘So far has the centralising process continued that for all practical purposes,’ the report says, ‘the market of that city dominates absolutely the price of beef cattle in the whole country. Kansas City, St. Louis, Omaha, Cincinnati, and Pittsburg are subsidiary to the Chicago market, and their prices are regulated and fixed by the great market on the lake.’

“‘As to the effect on retailers, local butchers, and consumers, it was admitted by the biggest of ‘the Big Four,’ ‘that they combined to fix the price of beef to the purchaser and consumer, so as to keep up the cost in their own interest.’

“‘The favouritism on the highways, in which this power had its origin in 1873, has continued throughout to be its mainstay. The railroads give rates to the dressed-beef men which they refuse to shippers of cattle, even though they ship by the train load—‘an unjust and indefensible discrimination by the railroads against the shipper of live cattle.’ The report says: ‘This is the spirit and controlling idea of the great monopolies which dominate the country . . . no one factor has been more potent and active in effecting an entire revolution in the methods of marketing the meat supply of the United States than the railway transportation.’”<sup>1</sup>

Similar preferential treatment on the part of railway

<sup>1</sup> Henry D. Lloyd, *Wealth against Commonwealth*, pp. 33-36.

companies has been instrumental in creating many other monopolies which apparently have no such causal connection with railway monopolies, notably that of some English and American express companies.

Still another series of monopolies owes its origin and existence to the ownership of patents and copyrights, as is the case with the Western Union Telegraph Company, the Bell Telephone Company, the School Book Trust, and many others.

The manner in which the semblance of capital is given to these monopoly rights is stated as follows :<sup>1</sup>—

“It is said to be customary for the preferred stock in all American stock-companies to represent the money, value of land, plant, materials, products, etc., whilst the common stock at the beginning represents goodwill, rights, etc., to which by and by accumulated profits add a more tangible basis.”

The magnitude of this process of converting monopoly rights into spurious capital, generally known as “watering stock,” is illustrated by the same investigator as follows :<sup>2</sup>—

“From 45.2 per cent in 1891, the actual value of the property” (of the Cotton Oil Trust), “it rose to 48 per cent in 1892, 50 per cent in 1893, 50.8 per cent of the capitalisation in 1894. From this we may conclude that . . . the actual value of the undertaking, minus the goodwill, was not much more than from one-fourth to one-fifth of the capital stock. This agrees with the testimony of Mr. John Scott before the New York State Committee in 1888.”

The latest available balance-sheet of the “American Tobacco Company,” published in *Bradstreets* of 14th May 1898, exposes an even greater discrepancy between real and spurious capital. This company, with the assistance mainly of the tariff, but, to some slight extent, with the help of some patents, controls the cigarette trade of the United States, and is now underselling the makers of plug tobacco with a view of forcing them into a combination with itself. In the course of 1897 it lost \$1,000,000

<sup>1</sup> E. von Halle, *Trusts*, p. 107.

<sup>2</sup> *Ibid.* p. 106.

in this endeavour. Nevertheless, the net profit on all its transactions during this year was \$4,179,460, on a capital composed of \$4,009,000, representing real estate, plant, and machinery, and of \$24,876,000, representing monopoly rights, such as patents, trade-marks, and goodwill. There is also a reserve fund, accumulated out of past profits not divided, amounting to \$10,900,000.<sup>1</sup>

<sup>1</sup> While this book was awaiting publication, two articles, respectively entitled "The Rage for Trusts" and "The Trend of Trusts," appeared in *The Public*, a weekly journal published in Chicago. They are from the pen of the editor of the journal, Mr. Louis F. Post, an accomplished economist, and are so instructive that the present author sought and received permission to republish them in combined form. They are reproduced accordingly as Appendix VII.