WHY DID AMERICAN

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Today the same people who want protectionism want an aggressive antitrust policy. But a century ago many Americans thought that protectionism was what made antitrust laws necessary. They may have been right.

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by Colleen A. Dunlavy

BETTMANN ARCHIVE

BUSINESS GET SO BIG?

Why did big business in the United States become so big that in the late nineteenth century Americans came to demand antitrust legislation? Historians, by and large, have agreed that pure economic forces brought on concentration. But in taking this view they have neglected a strikingly different explanation that was widely propounded at the time it was all happening. This alternative view saw the bigness of some American business as the result of government policies—in particular, protectionism in the form of high tariffs. Because they believed that protective tariffs had encouraged excessive concentration, a number of them viewed free trade as one of the best remedies against the trusts.

Free trade iconography in 1897: trusts, already bloated by protectionism, strike gold in new tariffs.

The accepted view among business historians, strongly influenced by the work of Alfred D. Chandler, Jr., is that the extraordinary bigness of American business grew naturally from the workings of the market and the demands of

THE UNHAPPY BICYCLIST.
GROVER—"Those blooming idiots called this a Safety!!"

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modern, capital-intensive technology. The United States, already world-renowned for giant enterprise by the turn of the century, possessed both the world's largest domestic market and entrepreneurs capable of perceiving, exploiting, and expanding that market. In doing so, some built mass production enterprises of impressive proportions and then went on to integrate forward and backward, producing even larger firms, while others joined forces with their competitors, combining horizontally during the great merger movement (1895–1904). The two paths often intertwined, but the result in every case was enterprises of truly enormous proportions. U.S. Steel, formed in 1901, epitomized the process of concentration.

In 1898 Congress created the United States Industrial Commission. It immediately began investigating the trusts, and from April 1899 through early January 1900 it heard testimony from a broad array of public figures. Among the witnesses was the New York attorney John R. Dos Passos.

In testimony that filled nearly forty pages, Dos Passos defended economic concentration as a natural development that legislation should not—and could not—inhibit. History makes abundantly clear, he declared, the futility of legislation to block combinations, whether of manufacturers, distributors, or labor. "And the simple reason," he maintained, "is that the laws of trade, the natural laws of commercial relations, defy human legislation; and that is all there is in it. Wherever the two clash the statute law must go down before the operations of those natural laws."

At the turn of the century the argument that big business was natural and inevitable was under attack.

John D. Rockefeller, the head of what was popularly termed the Standard Oil Trust, echoed this view in a written response to the commission in 1899. "It is too late to argue about advantages of industrial combinations," he flatly asserted. "They are a necessity."

Halfway across the country, Chicago's Civic Federation convened the Chicago Conference on Trusts in September 1899. "Some months since," the federation president, Franklin H. Head, explained, "no topic seemed so widely discussed as what was designated by the general title of 'Trusts,' —and . . . upon no current topic was there so widespread and general an ignorance and confusion of ideas." So the federation invited hundreds of men to Chicago for "a conference in search of truth and light." They included governors, attorneys general, state delegates, academics, congressmen, state and federal officials, representatives of chambers of commerce and boards of trade, and delegates from a large number of associations that represented agricultural, labor, and other interests.

The trusts, personified by Andrew Carnegie, pedal smoothly along while Grover Cleveland is thrown by his 1884 free trade reforms.

Many speakers at the Chicago conference also concurred with the economic view. "Consolidations are the outgrowth and the symptom of the advancing civilization of to-day, and the inevitable tendency of its complex trade conditions," maintained a Pennsylvania lawyer, A. Leo Weil. David Ross of the Illinois Bureau of Labor Statistics observed, "Men talk of destroying such combinations by legal enactment, on the supposition, presumably, that it is possible and desirable to return to the simpler systems of the past." But it would do no good, he thought: "Our development as an industrial state is the result of trade conditions and opportunities which no legislative power could anticipate or control." Even the labor leader Samuel Gompers adhered to the economic view. "For our part, we are convinced," he explained, "that the state is not capable of preventing the legitimate development or natural concentration of industry." Instead Gompers merely wanted the right for his men to organize on a scale comparable to the level of organization achieved in industry.

Two years later a Chicago lawyer and the author of a two-volume tract on the law of combinations put the economic view succinctly. The legal world had not yet come to grips with combinations, Arthur J. Eddy observed; "the lack of harmony is only too apparent." But eventually the law would be brought in line: "Combination as an economic factor in the industrial and commercial world is a fact with which courts and legislatures may struggle, and struggle in vain, until they frankly recognize that, like all other conditions, it is a result of evolution to be conserved, regulated and made use of, but not suppressed."

The economic interpretation of the concentration movement then under way thrived in business circles in the ensuing years. "The business world generally," Francis Walker reported in 1912, "regards great combinations . . . as the natural and necessary development of trade, and declares in picturesque metaphor that 'natural laws can not be repealed by statute.'"

This is the view that has come down to us as a consensus, but it was nothing of the kind. On the contrary, out of the diversity of views expressed before the Industrial Commission, at the Chicago Conference on Trusts, and in print, a broadly opposing view emerged, one that saw dangerous economic concentration as a political phenomenon. The Industrial Commission recognized this broad dichotomy of views on the trust problem, and it concluded its hearings with testimony from both camps. Two men were called to speak on "general aspects" of the problem. One was Dos Passos; the other was the St. Louis lawyer Charles Claflin Allen, whose testimony filled another thirty pages and who took issue with Dos Passos on nearly every point.

Allen did not deny that *some* consolidations in the merger movement then under way "followed a natural normal tendency under economic laws," as the economic view maintained, but like others who endorsed a political view of trusts, he saw the bigness of American business as a product of the nation's industrial policy.

We usually associate the term *industrial policy* with direct intervention or "industrial targeting" of specific industries. But Chalmers Johnson, much acclaimed for his 1982 study of Japan's Ministry of International Trade and Industry (MITI) and Japanese policy, sees this as only one kind of industrial policy—what he terms *microindustrial policy*. More broadly, he argues, "industrial policy" also encompasses "all government measures [that] . . . have a significant impact on the well-being or ill-health of whole sectors, industries, and enterprises in a market economy." Thus what he terms *macroindustrial policy* comprises the array of policies (e.g., fiscal, monetary, trade, or labor policies) that subtly shape the broad environment in which business operates. Macroindustrial policies, in effect, create what Germans call the *Wirtschaftsordnung* (economic order).

Adherents of the political view of big business did not like the direction in which the American economic order was moving at the turn of the century, but it would be wrong to assume (as their contemporaries often did and as historians frequently do) that these critics opposed economic development or did not understand the value of large-scale enterprise. Their quarrel was with the form that economic change was taking. Those who saw economic change as fundamentally political in origin, as the historian Victoria Hattam suggests in *Labor, Visions, and State Power*, preferred a decentralized pattern of growth that would be devoid of concentrations of power. Seeing government policies at the root of the problem, they sought to revamp those policies to promote economic development along more decentralized lines. Therefore, they drew special attention to two aspects of late-nineteenth-century industrial policy: tariffs and railroad-rate regulation.

"The mother of all trusts is the customs tariff bill," declared the head of the Sugar Trust in 1899.

"The mother of all trusts is the customs tariff bill," Henry O. Havemeyer, the president of the American Sugar Refining Company, declared before the Industrial Commission in June 1899. Since he headed what was popularly known as the Sugar Trust, Havemeyer's statement generated a good deal of excitement. The potential benefits of horizontal combination, he argued, "bear a very insignificant proportion to the advantages granted in the way of protection under the customs tariff." He at first testified that tariff protection had helped the leaders of the iron and steel industries; but under questioning he admitted that his own sugar industry was affected too, conceding, as the commission's summary of evidence noted, "that had it not been for the high protective tariff existing at the time the original Sugar Trust was formed he would probably not have taken the risk of putting his refineries into the trust."

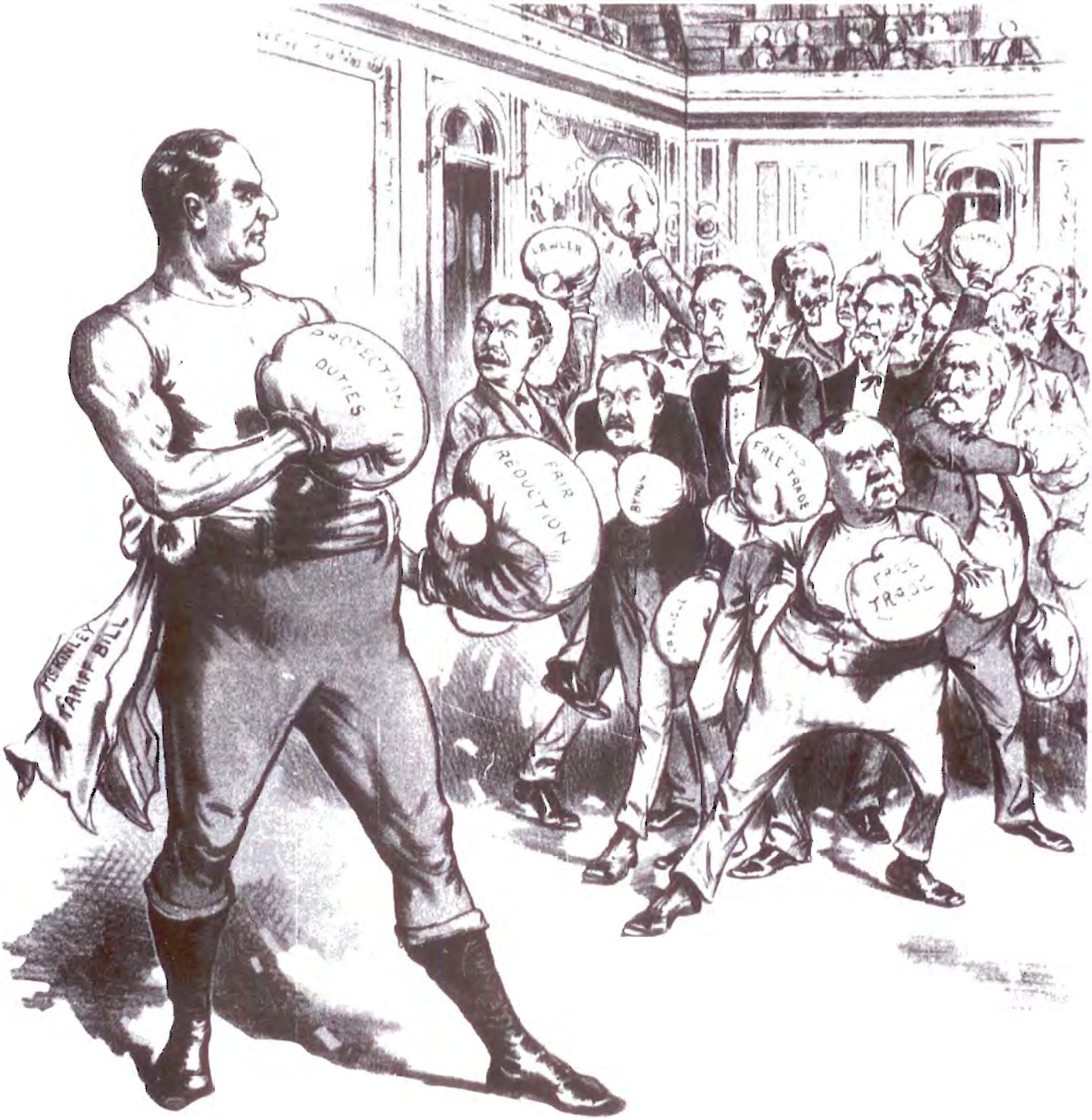
At the Chicago Conference on Trusts three months later, Havemeyer's opinions stirred considerable interest. Byron W. Holt, of the New England Free Trade League, applauded his comments. Havemeyer's views had "startled the country," Holt reported, but they ought not to have: "That the tariff, by shielding our manufacturers from foreign competition, makes it easy for them to combine, to restrict production, and to fix prices—up to the tariff limit—ought to be evident to every intelligent man." Among protected industries, he named "glass, furniture, leather, iron and steel, paper, coal, woolen goods, and silk goods"—not to mention Havemeyer's refined sugar—and he singled out for lengthy discussion the tinplate industry. "The heart of the trust problem is in our tariff system of plunder," Holt concluded. "The quickest and most certain way of reaching the evils of trusts is not by direct legislation against them, or by constitutional amendment, but by the abolition of tariff duties."

In *The Tariff and the Trusts*, a book published in 1907, the New York lawyer Franklin Pierce also laid the problem at the feet of Congress: "Our protective tariff is the genesis of the trust. The trust comes out of it as naturally as fruit from blossom. Obviously the control of a market by a combination or trust is facilitated where the field of competition is artificially limited to one country since it is easier to combine the producers of one country than those of all countries, and to that extent all must concede that the tariff encourages trusts."

The McKinley tariff of 1890 had raised rates to levels not seen since the Civil War, and the Dingley tariff of 1897 had pushed them even higher. Events in the business world since then, Pierce maintained, left little doubt about how the process worked.

But in one sense Pierce endorsed the economic view of American "bigness." He too saw the nation's large domestic market as essential to the rise of the trusts: "When the trust is established the very largeness of our country results in the largeness and success of the trust." But only market size and tariff protection working in tandem produced giant enterprise: "So vast a field secured to them from outside competition is tempting enough to invoke the energies of immense capital for its exploitation, and as a result gigantic trusts protected by the tariff come into existence with a power for evil in trade and politics which would be impossible in a small country, however high might be the tariff sheltering them from competition."

Although pessimistic, Pierce knew what should be done: "The true remedy against our trusts is to seek out the cause of a trust and remove that cause." He meant lower tariff levels: "Throw down the tariff wall which encircles every trust . . . and let the trust contend with the full stream of interna-



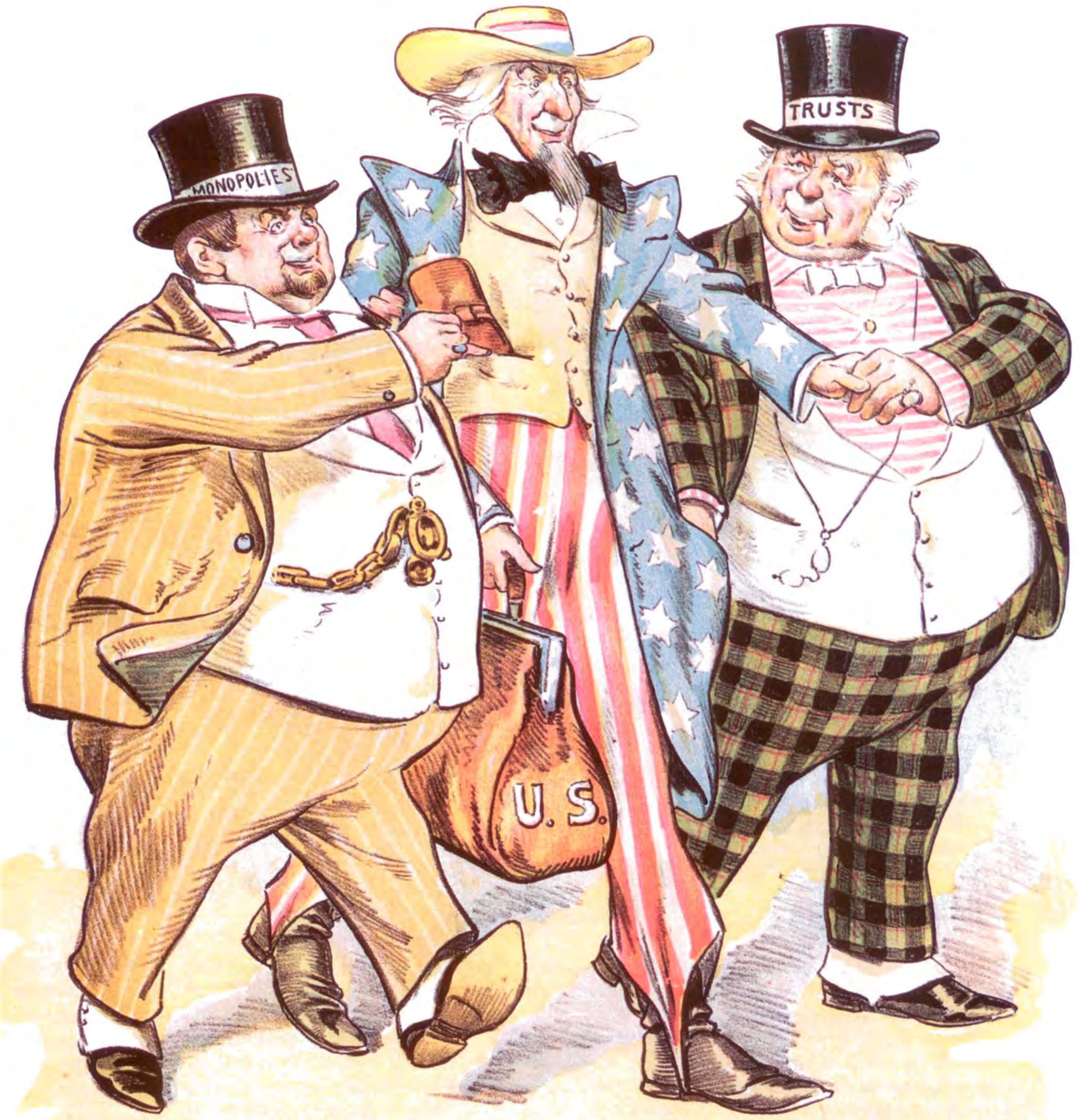
AMERICAN HERITAGE PICTURE COLLECTION

William McKinley was chairman of the House Ways and Means Committee when he wrote the 1890 tariff bill that took protectionism to new heights.

tional commerce. If it continues to exist, it will be because it sells its products at home for cheaper prices than the cost of the imported foreign product."

But the necessary political action, Pierce thought, would demand "a rebirth of patriotism." His words sound oddly contemporary to the late-twentieth-century ear: "Let the people come together, not as Republicans nor as Democrats but as Americans loving their country and ready to join battle against the interests which corruptly rule it. There is no other question of importance before the country. It is simply a fight at close quarters between the people and this mighty system of wrong and corruption." In the late twentieth century his words would have rallied support for NAFTA—provided, of course, that *it* would not be surrounded by a new wall of protection.

Turn-of-the-century proponents of the political view also perceived another kind of tacit industrial policy promoting combination: railroad rate regulation, or more precisely the failure of regulation to eliminate discriminatory rates. "Numerous witnesses," according to the Industrial Commission's summary of evidence, "attribute the growth of combinations primarily



IN THE HANDS OF HIS PHILANTHROPIC FRIENDS.

to discriminating rates or other advantages given by railways."

Independent oil producers, for example, argued before the Commission that Standard Oil's market control depended on the special low rail rates that it enjoyed, even after creation of the Interstate Commerce Commission. M. L. Lockwood, the president of the American Anti-Trust League and an oil producer in Pennsylvania since 1865, maintained that the roots of the problem extended back to his first years in business: "Away back in the latter part of the sixties some of the refinery men in the oil regions who did not have the ear of the railway managers were unable to get a freight rate over the railroads that would enable them to sell their oil in New York and the export cities at a profit. They were obliged to sell the refined oil to the men who afterwards helped to create the Standard Oil Company, for these men even at that early date seemed to have an advantage in freight rates that enabled them to market oil at a profit when no one else could." He wanted it understood that his testimony was directed not at the Standard Oil men themselves but "against an accursed system of railway discriminations which has made this great curse, the Standard Oil Trust monopoly, a possibility. . . ."

Free traders who backed antitrust laws argued that only legislation could undo the damage tariffs had done.

Lockwood proposed three measures to combat monopoly: government ownership of the railroads, a policy of equal rates, and "a law forcing the great trusts and monopolistic combinations to fix a price upon their goods which, freights considered, will be the same in every township and hamlet of the land." Lockwood, like others at the time, saw capital-intensive industry in a class with natural monopolies and wanted to see pro rata principles applied to the mass production industries as well as to the railroads. A committee member interrupted to clarify Lockwood's views: Did he consider rate discrimination "the mother of all the great trusts of this country?" Lockwood replied: "I do, largely, yes; that is really the foundation; a trust must be protected in some way; the brains of the country are not in the heads of a few men. The protection which has created the Standard Oil Company, the Big Four Beef Combine, and trusts and monopolies of that class, is that of discrimination in freights."

In these views Lockwood had the support not only of other independent oil producers but also of men outside the industry. Charles Claflin Allen concurred with and elaborated on Lockwood's views. "It is in the railroad companies that the greatest danger lies," he declared, for their discriminatory rates, contrary to law, formed the basis on which "the large trusts or combinations" accumulated "their wealth and power." At the Chicago conference testimony ran along similar lines, although with interesting variations. S. H. Greeley, of the National Grain Growers' Association, viewed railroads as "the very mainspring of many of the combinations and trusts, which are now crushing out the middle class in the United States." The "skillfully managed combinations" that controlled the grain trade of the Mississippi Valley, he said, had been "created by secret rates and special privileges, granted them by railroads." His solution was government ownership of the railroads.

A 1900 cartoon illustrates the free traders' worst fear: that monopolies would play the state for a sucker.

Others at the Chicago conference went further, however, stressing the interplay of tariffs and discriminatory railroad rates. J. G. Schonfarber, a member of the Executive Committee of the Knights of Labor, neatly tied trusts to railroads to tariffs, and he advocated political action to cut the knots that bound them: "Corporate ownership of railroads is the backbone of the trust and a protective tariff its right arm. It is within the limit of possibilities for the government, by the right of eminent domain, to come into the ownership and control of the railroad, and also to repeal the tariff tax upon every article controlled by a trust. Do both these things, and it is scarcely probable that trusts could exist at all." Implicitly, his words denied that concentration was a natural economic process. In his view, a trust problem created by government policy could be cured by government policy.

But not all those who adhered to the political view of big business agreed. The Democratic presidential candidate William Jennings Bryan also spoke to the Chicago conference, creating a great stir among the public. Although Bryan maintained "that the primary cause of monopoly is the love of money and the desire to secure the fruits of monopoly," he also allowed that high tariffs and discriminatory rates were contributing factors. "No question about it," he said of rate discrimination. But he did not think that lowering tariffs and equalizing rates would suffice. "The great trouble has been," he noted, "that, while our platforms denounce corporations, corporations control the elections and place the men who are elected to enforce the law under obligations to them." Thus he proposed that antitrust law be made uniform at the state and national levels and that it be made "a penal offense for any corporation to contribute to the campaign fund of any political party."

Such differences in strategy aside, these men clearly brought to bear a broader analysis than business historians and economists have employed in understanding how American business became so big. Viewing the world through the lens of a different political economy, they saw a de facto industrial policy at the root of the trust problem—and at least a partial remedy in free trade. ★

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