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“What forces shaped the scale of production and distribution in the United States economy between 1880 and 1914.”

In the first years after the Civil War, the main economic activity of the United States was still agriculture.

The manufacturers were usually represented by small plants, often owned and organized from the same person or family.

In the 1870s, the spread of the telegraph and of the railroads began to change this situation: making the communications faster and the market available bigger, these innovations increased competition.

The manufacturers reacted to this trend trying to reorganize their plants, and lowering prices to overcome competitors.

The last procedure contributed to cause the economic crisis of 1873: after this event, the industrials changed their strategy.

At first, they established associations to reach agreements on the prices and to share the markets, but these attempts were frustrated by the lack of an authority able to impose the respect of the pacts.

The largest firms bought stocks of the other companies to have the possibility to read their books, but also this expedient demonstrated to be ineffective.

An efficient way of controlling competition was finally found in the form of trust: the members exchanged the stock of their companies with that of the combine, giving to some trustees the power to behave as managers of the whole merger.

This device was exploited for the first time by the Standard Oil Trust, formed in the January 1882 by the reunion of 40 firms.

The petroleum industry was organized in a cartel since 1872, mainly for the influence of John D. Rockefeller, owner of Standard Oil.

After achieving the result of controlling prices, this group made special agreements with railroad companies in order to lower the cost of transportation.

In 1881, the association controlled about 90% of the market, but their predominance was threatened by the invention of the pipeline and, on the long term, by the discovering of oil-fields in the Southern part of Russia.

In the years immediately after the construction of the first pipeline by the Tidewater Company, in 1879, appeared clear that the new system of transporting oil was cheaper than the railroad, and the members of Standard Oil Group decide to merge to face this challenge.

After this first trust, other companies decided to combine: according to the data reported by A. Chandler in his book "The Visible Hand", seven consolidations reached the national market in the sectors of cattle, cordage, cottonseed oil, linseed oil, sugar, whiskey and lead processing.

The formation of trusts was not a sufficient condition to obtain economical success: two of them, the American Cattle Trust and the National Cordage Association, were liquidated before 1893.

The process of consolidation was useful only if accompanied by the reorganization of production in order to cut the costs.

At this regard, Patrick O' Brien has noticed that the 1870s and 1880s saw a strong increase in the average plant size, accompanied by technological innovations.

The form of trust was seen with growing suspect from the legislatures of various states, as a device susceptible to restrain trade.

In 1889 Kansas, Maine, Michigan, North Carolina, Tennessee and Texas outlawed the trusts, while the legislature of New Jersey promulgated a law allowing the constitution of holding-companies.

This act, issued to increase the income of the state by taxes on the consolidation chartered, entitled a company to buy stocks of other firms.

Standard Oil and most of the trusts formed in the 1880s turned into the new form of combine.

In this way they could also reach the capital market, benefiting of a demand for shares particularly strong after the end of the railway's expansion.

In 1890, the Congress of the United States with the "Sherman Antitrust Act" declared illegal the trusts and other combinations in restraint of trade.

This law was not really effective, because it lacked of a precise definition of the concepts of trust, monopoly, and activities against free competition.

Nevertheless, this statement caused the first "merger wave", from 1890 to the Panic of 1893.

According to A. Chandler, this period saw the formation of 51 holding companies.

During the depression of the middle of the decade, other states approved laws similar to that of New Jersey, making easier to form mergers.

Consequently, a second merger wave occurred between 1898 and 1902: in this phase about 2650 firms consolidated.

The greatest part of them combined with at least other five companies, limiting considerably the number of competitors.

During both the periods of more intensive merger activity, often recurred some patterns that in the last years have been studied by some scholars.

Naomi Lamoreaux has underlined that consolidations were more probable in sectors of production where there was not a great differentiation in the goods manufactured by the competitors.

Other favourable conditions were the appearance of technical innovations and the necessity of capital-intensive processes.

These factors made the prospective of imposing to the market a price and exploiting the plants in the best way extremely attractive.

Typical industries in which merger occurred were tobacco, sugar, steel, meat packing, newsprint.

Leslie Hannah has noticed that the increases of the tariff on import goods, in 1883 and 1897, made more desirable to realise a monopoly.

These researchers, as well as Chandler, have also found that the successful mergers developed vertical integration and centralised management.

Horizontal consolidation was the first step in the creation of a combine, but it was an expensive strategy and ineffective in the long term, especially when pursued buying the firms of the competitors.

Guaranteeing a continuous demand for a certain type of plants, this system encouraged competition.

Vertical integration, backward to the raw material, upward to the distribution of the finished goods, was more effective and permitted the firms to optimise production.

A. Chandler has also emphasised the appearance, in the holding companies, of a professional managerial hierarchy.

This group substituted the direct control of the shareholders, and made possible the coordination of multiunit firms.

For the author of "The Visible Hand", this type of organization represented the passage to the modern type of enterprise.

The management substituted the "invisible hand" of the market in planning the firm administration.

After 1903, the merger wave came to an end. The great availability of shares of the consolidations had the interest of the investors; moreover, in 1904 the administration of President Theodore Roosevelt prosecuted the Northern Securities Company, demonstrating that the Sherman Act could be used also against the holdings.

In 1909 Standard Oil was judged by the circuit court an obstacle to free trade, and in 1911 the Supreme Court ordered its division.

In 1914 was instituted the Federal Trade Commission, an authority with the right to order the cessation of combinations, but its decisions had to be confirmed by a court.

In the same year, the Clayton Act prohibited some type of practices in restraint of trade, also if there was not a precise definition of the forbidden activities.

Some "New Left" historians, and among them Gabriel Kolko¹, have argued that these laws were deliberately vague and ineffective.

N. Lamoreaux has noticed that horizontal combination was prohibited, but vertical integration was not, while this device was much more important for the success of a consolidation.

At the end of the merger movements, the United States were the most powerful industrial economy of the world.

This evolution has raised questions about the type of changes that the existence of the trusts and of the holding company involved in the structure of American economy.

J. Atack, A.P. O'Brien, J. Kinghorn and J. Nye have related the appearance of the consolidations to the whole process of economic growth began in the 1870s and 1880s, diminishing in some way their importance.

Few industries really experienced an increase in their size superior to what was expectable looking at the rate of increase during those years.

Between 1904 and 1913, the American firms were on average bigger than the German or English ones, but of the some dimension of the French.

In conclusion, the merger waves took place for the almost simultaneous happening of different circumstances.

After the Civil War, the progresses in transportation made competitor firms previously almost in a situation of monopoly.

At the same time, the introduction of expensive technical innovations and the recurrence of periodical crisis stimulated the search for stability.

The trusts and the holding companies introduced new forms of organization and represented a good system to make profitable capital-intensive productions.

They did not introduce a durable alteration in the structure of enterprises, as demonstrated by their progressive failure after 1914.

¹ Kolko, G. "The triumph of conservatism: a reinterpretation of American history, 1900-1916", (Free Press, 1977).

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