COMMENTARY ON BREWER, KUJOVICH AND MOORE

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To those of you who attended the Business History Conference last year in Texas I would like to assure you that I do not have a monopoly on these sessions; you will see another smiling face before you next year when we again have the annual parade of new work done in business history by budding Ph.D.'s. This year the new work includes three very interesting studies addressing themselves to seemingly disparate subjects: that is, H. Peers Brewer's dissertation on the emergence of the trust company in the banking business of New York City, 1870-1900; Mary Yeager Kujovich's analysis of the dynamics of oligopoly in the meat packing industry: an historical analysis, 1875-1912; and, finally, T. Lane Moore's treatment of Gabriel Kolko's version of how the Federal Trade Commission operated in its early years. I say seemingly disparate subjects because I mean to imply that each of these studies can be used to examine the same body of ideas about the origins of the modern American business system and its special role in the polity. But I merely suggest that, offer it as a promise, and now I have to give the stars of this program their chance to appear and to explain to you what they have done in the course of their doctoral studies.

First, Mr. H. Peers Brewer, whose dissertation was submitted at New York University and who promises to supplement his written remarks with pictures--each one of which is worth at least a thousand words and three accupunctures!

Our next speaker is Ms. Mary Yeager Kujovich, and before she speaks, I would like to say that if I were a federal judge, I would have to disqualify myself from commenting upon her work; her dissertation was directed by Alfred D. Chandler, Jr., and I was second reader on the dissertation when it was submitted and accepted at the Johns Hopkins University, my own institution. In the circumstances, I might be considered to be a biased critic. But deep down in my heart and in the inner corners of my head as well, I realized that I am above all that and that you would realize that I am above all that--and besides I disagree with Mary on some important points and this gives me a chance to raise them today. The latter is, I suppose the real reason why I am commenting on this dissertation.

At any rate, Ms. Kujovich would like to tell us what she has found in her work on the meat-packing industry.

Our final presentation is by T. Lane Moore, who is a graduate student working under James F. Doster at the University of Alabama; his subject is Gabriel Kolko's particular version of the operations of the Federal Trade Commission during its early--that is Wilsonian-years. Mr. Moore:

Thank you Mr. Moore. In commenting on these three studies, I would like to suggest that all three can be used to explore a common subject, that is, the development of America's particular blend of politics and economic activity in the modern era, the era of large-scale business organizations beginning in the 1880's and 1890's. What do we have in the way of general analyses of this important transition?

1) we have, of course, Joseph Schumpeter, who saw America and other capitalistic countries oozing into socialism, as bureaucratized business failed to innovate, as private property lost its appeal, as government regulation encased business in regulatory and social welfare systems which stifled innovation.

2) we have the liberal version of these political developments.

3) and we have Gabriel Kolko's more recent view of big business failing to achieve its own objectives of a rationalized, controlled and profitable system in the private sector and turning to the government for assistance. The regulatory system which Schumpeter (and progressive historians) saw as a product of reformers who were interested in curbing business power; a system of informal detente's gradually became a new form of political economy, Kolko's political capitalism.

Each of the three dissertations has something to tell us about the emergence of this modern American economy, and about these several versions of how, why, and to what effect it changed.

First, the work of H. Peers Brewer on the emergence of the trust company in New York City, 1870-1900. In this carefully researched and carefully reasoned study we see a new form of financial institution emerging to meet the new needs of a business system in which the corporation, and in particular the large-scale corporation, was rapidly becoming the dominant form of economic organization. As Brewer shows, the shortterm timing of the growth of the trust company was influenced dramatically by the business cycle; high interest rates in the mid-1870's for instance, made it difficult to tap the capital markets--hence the low growth rate. Later, more favorable economic conditions brought about a rapid expansion. Brewer demonstrates to my satisfaction that this new institution was by 1900 playing an important role in the New York, and hence in the nation's, financial community; I was surprised to find that trust companies held almost one-quarter of the deposits in New York City by the beginning of the 20th century. As he points out, the trust companies went after the big deposits--and this was the corporation business. In this sense, they can be seen as an institutional response to the special needs created by the combination movement. Entrepreneurs took advantage of these needs, innovated, and produced a highly successful and remunerative form of business enterprise--much in the way that Joseph A. Schumpeter long ago described for us. Entrepreneurial profits were high, and perhaps the only thing I could not understand is why these profits did not attract more competitors than they did.

But the political dimension of this phenomenon is what particularly interests me here. As Brewer makes clear, the systems of taxation which favored these companies were important; similarly, the Act of 1887 released the pent-up demand for trust companies, bringing about a burst of innovation. Indeed, in this study, the political environment emerges as a major variable shaping the course of economic development and the patterns of innovation. What then were the relationships between the major business firms involved in this process of change and the political system which had such a dramatic effect on their fortunes?

What Brewer describes is a process of change in which economic factors and political factors were thoroughly interwoven in the latter part of the 19th century. We find heavy political participation in the trust companies. We find a somewhat chaotic process of growth (in the 1870's) which various parties then sought to regularize, to systematize through government administration. All that is missing from this picture to make it thoroughly compatible with a Kolkoesque version to our political economy is to find the bankers themselves prominent in the drive for a more stable, rational system. From Mr. Brewer's study I can not tell if this was the case, and it is a question I would hope he could answer for me.

Second--I would also like to know why the parties which were damaged by the favorable position the trust companies were in did not compete, through the political system, to improve their position. Was there collusion between the trust bankers and their competitors?

Finally, it is no criticism of Brewer's work, but I was made extremely curious about developments after 1900. I wondered what happened to the political environment of trust banking, and what was the role of the bankers in this change? In exploring that problem, my own working hypothesis would be that we would find something much like the Kolko version of the progressive period (and the origins of the Federal Reserve system), but perhaps this is a subject which Mr. Brewer can tell us about today.

Ms. Kujovich's dissertation provides a different answer to my general question. She has set forth for us an extremely cogent and detailed picture of the evolution of one of America's most important (and interesting) industries. As she shows, the major forces making for innovation and controlling the patterns of development in the industry were the market and technology. She wisely avoids an emphasis upon individual entrepreneurs--we find no hero of industry here. Instead she concentrates upon the general factors which made for innovation, for major patterns of innovation, in a particular American historical setting.

If she is right, and if what she describes is the general picture of the American economy and American industry at the turn of the century, then we can throw away one important part of Kolko's analysis: that is, in his treatment of the origins of progressivism, Kolko said that big businesses were unable to solve their problems in the private sector and were forced to turn to the government for assistance--hence regulation. But Kujovich describes an industry which seemed perfectly capable of solving its problems of competition without recourse to the national government. Nor, in fact, is the political environment particularly important (as it was in Brewer's case) in shaping the major institutions in the industry. These, she reminds us today, were market forces and technological developments, the two factors stressed in the work of Alfred D. Chandler, Jr.

I am willing to accept what she tells us about the meat packing industry, something I was hesitant to do before reading her study; before, I had assumed that antitrust and regulation were important. My question for her today is how typical was this industry of the general economy? I am impressed by the fact that concentration and oligopoly arose in this industry not by the common route of combination aimed at suppressing price competition--with vertical integration tagging along behind. Concentration arose instead out of the particular technological needs of a very different type of industry, needs for vertical integration and for large-scale operations which predated the need for oligopoly as a means of stabilizing price competition. Other industries developed in a similar way, especially where perishable products were involved; but my reading of the history of the combination movement suggests that these industries were the exception and not the rule. What, then, is my conclusion? This does not make Kolko right--Kujovich wrong. It merely suggests that Kujovich has provided an exception, and left a rule remaining to be proven. In my own judgment this is actually the weakest link in Kolko's argument--and I am still impressed by the measures of price stability achieved in oligopolies of the sort that economic theory suggest should be inherently unstable. My feeling is that what is most unstable is probably the economic theory involved--another reason to be grateful to Ms. Kujovich for providing us with the kind of reliable, longrange study which can be used to improve our theory as well as our history of business behavior.

Finally, we have T. Lane Moore's study, which directly confronts one major element in the Kolko thesis. In doing so Mr. Moore is attacking a difficult problem and he deserves credit for taking on such a prolific and popular historian as Kolko.

Moore has isolated a special problem, that is the performance of the Federal Trade Commission; in doing so, he has eliminated the two parts of the thesis we have already discussed, that is the origins of reform and the political process of introducing and passing regulations. Moore is thus dealing with Kolko on his strongest ground and his reappraisal raised some serious questions in my mind. I was willing to concede that Moore discovered in Kolko's treatment of the FTC errors of commission and omission. I think it is certainly true that Kolko slid over subtle but important distinctions are all-important, and I think they deserve the kind of careful attention which Moore has given to them. Similarly, I think he has done an excellent job of establishing that Kolko selected his evidence to support his thesis; to wit, the antitrust actions of the Federal Trade Commission deserved at least as much attention as the FTC's advance rulings and willingness to use informal, instead of court, action.

While thus developing an important caveat about Kolko, I found in Moore's work a tendency (similar to that of Kolko) to lean too hard on flimsy evidence. Let me give you a specific example in an erea in which I think I can claim some expertise, that of trade assocation law. Moore points out that there was a difference between the position taken by FTC Commissioner David and that taken by Arthur Jerome Eddy. Indeed, he is correct, and one would be surprised to find a government official charged with enforcing the antitrust laws taking exactly the same position advanced by an antitrust lawyer who was paid to help people evade the antitrust laws. That there was any similarity at all between the two seems to me to support Kolko more than it does Moore. On the question of Woodrow Wilson's statement about trade associations and the FTC's policy on cost accounting, Moore's analysis reads to me like a brief from a trade association lawyer. These lawyers were eager to establish the fact that their programs were not violations of the antitrust laws. In the various open price programs they wanted to establish that the exchange of information could increase the overall efficiency of the American economy. These arguments overlooked, however, the main thrust of trade association development and the basic reason these programs were implemented in the first instance. The drive for uniform cost accounting and for exchange of information was rooted in every instance that I have seen in a desire to prevent cutthroat competition and to stabilize, that is fix, prices. Most often these policies were adopted in industries with excess capacity. Businessmen were not spending money to make an economy which was already intensely competitive even more competitive and efficient.

Given this situation, any statement by the FTC or by the President which did not directly attack these programs was seized upon by the associations and their lawyers as evidence of some change in the gray area in antitrust law. The President and the Federal Trade Commission said of course that they were not for the more blatant forms of price fixing. Consequently, the associations tried not to be blatant. They tried nevertheless to achieve their longrun goals of price stability and cooperative, not competitive, behavior. In doing so they were sometimes hurt and sometimes helped by the FTC. Had Moore extended his study through the 20's he would probably have found that Kolko was more right than wrong. Had he extended it through the 30's, particularly after the NRA, he might well come to the opposite conclusion. But in either case he would not reject Kolko wholesale.

And I guess that is my general conclusion from these three studies; I find data here which prompts me to qualify and condition Kolko's version of the origins of our modern system of political economy. But I find nothing which forces me to reject his interpretation out of hand. Indeed, quite the opposite. And for that I am grateful to our three participants and to their well-written, carefully researched and skillfully analyzed studies in business and economic history.