THE DYNAMICS OF OLIGOPOLY IN THE MEAT PACKING INDUSTRY: AN HISTORICAL ANALYSIS, 1875-1912

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Oligopoly, that horrible sounding word created by economists to describe a situation where a few sellers control a major share of the market, is also and more importantly, an identifying characteristic of all modern, technologically advanced economies. Yet as widesspread as oligopoly is, we know surprisingly little about the process by which it emerged or why oligopoly came when it did and persisted in some industries and not others. Few historical studies have analyzed changing competitive patterns or intra-firm and inter-industry relations in order to understand their impact on the emergence of an oligopolistic industrial structure, and only a handful of historians have explored the internal operation and administration of oligopolistic firms.

This study, it is hoped, will be of value to both economists and economic historians interested in the problem of oligopoly. Although focusing on a single industry, meat packing, it adopts a framework that is potentially useful to inter-disciplinary work and comparative studies of oligopoly. That framework, based largely upon the work of Alfred D. Chandler, Jr., focuses upon the strategies and structures of individual firms through time; examines the reasons that strategies and structures changed; identifies the forces which promoted or impeded the effective implementation of those changes, and; assesses the qualitative impact of those changes upon the larger industrial structure.

The meat packing industry provides an especially rich opportunity to analyze the historical origins and operation of oligopoly, for it was one of the first manufacturing industries to become dominated by a few large firms. Not only did it pioneer in administrative techniques and competitive patterns that came to characterize other key industries, but it also paved the way for the transformation of the larger American economy from its mercantile-agrarian orientation to its status as a great industrial giant. Traditionally a seasonal, locally-oriented, atomistic and competetive industry that produced primarily pork products, it became dominated in the late 1880's by a few, large integrated firms which operated in national and international markets. The key elements in this transition were a rapidly expanding urban market and the innovation of the commercial, all-weather refrigerator car that enabled dressed meat to be shipped from major production regions in the west to consuming centers in eastern cities.

By 1910 oligopoly characterized many other technologically oriented, urban-based industries in the center economy. As Robert Averitt has pointed out, these firms differed significantly from the older and smaller firms in the peripheral economy which had grown up to service the needs of an agrarian society. Oligopolies seldom engaged in price competition. They made their decisions regularly, on the basis of bureaucratic relationships, utilized complex technological processes, and frequently adopted strategies of vertical integration and consolidation in order to strengthen and/or to secure their position in national and international markets. The smaller firms in the peripheral economy, on the other hand, usually made their decisions informally, on the basis of family relationships, operated in local and diffuse markets, and utilized less efficient production and distribution techniques.

An analysis of how and why the leading meat packing firms arrived at their position of dominance, an investigation of the forces involved in this transition and of the factors which enabled the major packers to perpetuate their lead therefore, tells us a great deal, not only about one of the nation's most important oligopolistic industries, but also about the process of change involved in the emergence of the center sector of the Dual Economy.

The study shows that the origins of oligopoly lay more in fundamental and interrelated forces of technology and markets than in any rare commodity such as entrepreneurial genius or in any master plan to dominate the industry. Entrepreneurs in the meat packing industry played an important role, not so much as unique personalities but as functional economic agents. Swift, Armour, Hammond and Morris became the pioneers of the large integrated packing corporation primarily because they were the first to use the refrigerator car and to create the distribution and administrative networks it required. The organizations they created enabled them to solve the problems of shipping a perishable produce long distances and to meet the needs of an expanding urban market. As entrepreneurs, they determined the rate and effectiveness of change, but they were not the fundamental cause of change.

Secondly, the study shows that the pattern of combination in an industry depends to a large extent upon the technological, marketing and organizational imperatives of the business, and upon the strategies adopted to meet these requirements. Unlike the experience of Standard Oil or American Sugar, in the dressed beef industry, vertical integration and oligopoly came first, largely because the first and major problem in the industry was marketing, not over-production, as had been the case in oil and sugar. Extensive vertical integration reduced (but did not eliminate) the pressure for horizontal combination, for it helped these firms to secure a reliable flow of materials and to rationalize distribution and marketing.

Thirdly, the study illustrates the continuing requirements generated by large, vertically integrated business organizations and the effect of those imperatives on the form and intensity of competition in an oligopoly.

The high capital investments required to build and operate large integrated firms reduced profit margins and created severe pressures to keep resources fully employed. These pressured, in turn, itensified competition. Because a few firms dominated the industry and operated in the same markets, it soon became more important to cooperate than to compete in order to stabilize market shares and assure continuous high volume flows.

Finally, the study reveals that the government played a more influential role in preventing monopoly than in regulating oligopoly. Firmly held attitudes about the sanctity of private property, the novelty and uncertainty of the nation's first anti-trust law, and the lack of economic sophistication in the courts and the Justice Department were among the obstacles that faced the Government. Unable or unwilling to confront the unique problem of oligopolistic competition, the Government sought to characterize the industry as monopolistic and therefore undercut effective regulation of oligopoly.

Although the study does not produce a new "theory of oligopoly," it does analyze one important example of oligopoly in terms of forces to which economists and economic historians are accustomed. It therefore provides a foundation for inter-disciplinary and comparative studies that should prove invaluable in understanding the process by which oligopoly develops in a technologically advanced economy.