YOUR KINDLE NOTES FOR:

Triumph of Conservatism

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> Progressivism was initially a movement for the political rationalization of business and industrial conditions, a movement that operated on the assumption that the general welfare of the community could be best served by satisfying the concrete needs of business. But the regulation itself was invariably controlled by leaders of the regulated industry, and directed toward ends they deemed acceptable or desirable. In part this came about because the regulatory movements were usually initiated by the dominant businesses to be regulated, but it also resulted from the nearly universal belief among political leaders in the basic justice of private property relations as they essentially existed, a belief that set the ultimate limits on the leaders' possible actions.

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> Despite the large number of mergers, and the growth in the absolute size of many corporations, the dominant tendency in the American economy at the beginning of this century was toward growing competition. Competition was unacceptable to many key business and financial interests, and the merger movement was to a large extent a reflection of voluntary, unsuccessful business efforts to bring irresistible competitive trends under control. Although profit was always a consideration, rationalization of the market was frequently a necessary prerequisite for maintaining long-term profits. As new competitors sprang up, and as economic power was diffused throughout an expanding nation, it became apparent to many important businessmen that only the national government could rationalize the economy. Although specific conditions varied from industry to industry, internal problems that could be solved only by political means were the common denominator in those industries whose leaders advocated greater federal regulation. Ironically, contrary to the consensus of historians, it was not the existence of monopoly that caused the federal government to intervene in the economy, but the lack of it.

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> Important businessmen did not, on the whole, regard politics as a necessary evil, but as an important part of their larger position in society. Because of their positive theory of the state, key business elements managed to define the basic form and content of the major federal legislation that was enacted. They provided direction to existing opinion for regulation, but in a number of crucial cases they were the first to initiate that sentiment. They were able to define such sentiment because, in the last analysis, the major political leaders of the Progressive Era—Roosevelt, Taft, and Wilson—were sufficiently conservative to respond to their initiatives.

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> The bureaucratic nature of the modern state and of modern industry, to Weber, restricted all possibilities for changing the basic structure of modern society. The tendency toward centralization in politics and industry, toward a mechanical impersonality designed to maximize efficiency, seemed to Weber to be the dominant theme in Western society, and the Weberian analysis has sunk deep roots into academic discussions of the problem. The systematic economics of Karl Marx—as opposed to that of "Marxists"—also sustained the argument that the basic trend in capitalist development was toward the centralization of industry. Indeed, such centralization was an indispensable aspect of Western industrialism, and could not be circumvented. Both Marx and Weber, one an opponent of capitalism and the other indifferent to it, suggested that industrialism and capitalism, as they saw both develop, were part of the unalterable march of history. The relevance of the American experience to the systematic theories of both Weber and Marx will be explored in greater detail in the conclusion, my argument being that neither of the two men, for all their sensitivity and insight, offered much that is of value to understanding the development of capitalism and industrialism in the United States. Indeed, the American experience, I shall try to contend, offers much to disprove the formal theories of probably the two greatest social theorists of the past century. It is perhaps unfair to Marx, who based his case on the conditions existing in England and Western Europe in the mid-nineteenth century, to burden him with American history at the beginning of the twentieth, but he was not terribly modest about its applicability, and any respectable theory should have the predictive value its author ascribes to it. Weber,

on the other hand, frequently stated that the United States was the prime example of modern capitalism in the twentieth century, if not the best proof of his theory.

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Important businessmen and their lawyers in the first years of this century were convinced that big business was necessary, inevitable, and desirable as a prerequisite to rationally organizing economic life. And the destructiveness of competition and the alleged technical superiority of consolidated firms were the catalytic agents of change which made industrial cooperation and concentration a part of the "march of civilization," as S. C. T. Dodd, Standard Oil's lawyer, phrased it. Although there was a formal commitment to varieties of laissez faire economic theory in most of the academic world, big businessmen developed their own functional doctrine very much opposed to competition as either a desirable mechanism or as a goal. "… the 'trust,'" wrote James J. Hill in 1901, "came into being as the result of an effort to obviate ruinous competition." "Competition is industrial war," wrote James Logan, manager of the U.S. Envelope Company in the same year. "Ignorant, unrestricted competition, carried to its logical conclusion, means death to some of the combatants and injury for all. Even the victor does not soon recover from the wounds received in the conflict."1 The instinct of survival made combination inevitable, for combination was "caused primarily by the desire to obviate the effects of competition"…or at least this was the dominant contemporary view of the matter.2

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Buttressed by this conviction, men such as Schwab, Elbert H. Gary, John D. Rockefeller, and John D. Archbold were certain that their economic behavior was "inevitably" preordained. This synthesis of the doctrines of the efficiency of consolidations and the destructiveness of competition is echoed again and again in the later part of this period. Even when the big business community developed an involved and often shifting set of political goals it never ceased to view itself as making the technologically efficient and inevitable response to the evils of unrestricted competition. "Unrestricted competition had been tried out to a conclusion," an American Tobacco Company executive wrote in 1912, "with the result that the industrial fabric of the nation was confronted with an almost tragic condition of impending bankruptcy.

Unrestricted competition had proven a deceptive murage, and its victims were struggling on every hand to find some means of escape from the perils of their environment. In this trying situation, it was perfectly natural that the idea of rational co-operation in lieu of cut-throat competition should suggest itself."3 At least a decade before his younger brothers embarked on that grey, pessimistic intellectual discourse which now has a classic place in American intellectual history, Charles Francis Adams, Jr., president of the Union Pacific Railroad from 1884-1890, was announcing that "the principle of consolidation … is a necessity—a natural law of growth. You may not like it: you will have to reconcile yourselves to it." "The modern world does its work through vast aggregations of men and capital…. This is a sort of latter-day manifest destiny." Periods of intense competition were perpetually followed by combinations and monopolies, according to Adams. "The law is invariable. It knows no exceptions."4 But, ignoring the fact that the essence of Brooks and Henry Adams' generalizations on the role of the corporation in modern Me can be found expressed with great clarity in the earlier writings of their older brother, what is significant is that the widespread belief among important businessmen in the inevitability, if not the desirability, of the concentration of economic power was shared by most contemporary intellectuals and journalists. And although many intellectuals and journalists were critical of the functions or even the nature of the massive corporation, most, like Charles Francis Adams, Jr., resigned themselves to their necessity and shared the consensus on the character and future of the American economy.

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Henry C. Adams, one of the founders of the American Economic Association, saw in monopoly, which was "natural" only in railroads, the possibility of "cheapness and efficiency," and was attracted by its advantages—provided it was controlled by minimal government regulations. By and large, historical economists such as E. Benjamin Andrews, Arthur T. Hadley, Edwin R. A. Seligman, and Simon N. Patten were ready to "accept," with little empirical analysis, the existence of a trend toward monopoly as a starting point on which to provide proof of their theories on the desirable relation of economics to government. And virtually all assumed that, whether monopolistic or not, combined capital avoided the waste of small-scale production.

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> It is ironic that the greatest celebrators of the alleged trend toward corporate monopolies could be found among that element in American politics with attitudes sufficiently critical of the status quo to suggest programmatic alternatives to the growth of monopoly—the socialists. After the demise of the Populist movement, only the socialists were in a position to explicitly reject a policy of economic change limited, as in the case of the advocates of laissez faire, by a conservative fear of undermining the fundamental institution of private control of the economy in the process of attempting to restore competition. But American socialists were Marxists, and Frederick Engels, with characteristic sharpness, had made it clear that "the progressive evolution of production and exchange nevertheless brings us with necessity to the present capitalist mode of production, to the monopolisation of the means of production and the means of subsistence in the hands of the one, numerically small, class…." Thus armed, American socialists shared the general belief in the inevitability of corporate concentration and monopoly, even after key business leaders began realizing it no longer fitted the facts.

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> But the resignation of the socialists to inevitable monopoly was not merely a passive commitment to an article of faith. It stimulated many of them to a personal admiration of big businessmen unequalled by most paid eulogists. Indeed, big businessmen were the vehicles of progress and the guarantors of socialism, and worth defending from personal attacks for the parts they played in an impersonal industrial process. For the socialists "are not making the Revolution," The Worker declared in April, 1901. "It would be nearer the truth to say that Morgan and Rockefeller are making it." When Ida Tarbell's History of Standard Oil appeared, Gaylord Wilshire, publisher of the mass circulation socialist Wilshire's Magazine, criticized her for not being more sympathetic to Rockefeller as an individual. The system was predestined and "Mr. Rockefeller was forced by unavoidable circumstances to pursue his path of consolidation…. The fault exists not in the individual but in the system." When J. P. Morgan died in 1914, the Socialist Call wrote "if Morgan is remembered at all, it will be for the part he played in making it [socialism] possible and assisting, though unconsciously, in its realization."7

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> In 1895 only 43 firms disappeared as a result of mergers, and merger capitalizations were $41 million. In 1898, 303 firms disappeared, and merger capitalization was $651 million; and in 1899 the peak was reached when 1,208 firms disappeared as a result of mergers, and merger capitalizations soared to $2,263 million. In 1900 the movement declined precipitously to 340 firm disappearances, and a capitalization of $442 million, and in 1901 the last great merger movement, largely centered about the formation of United States Steel, occurred when 423 firms disappeared, and capitalization amounted to $2,053 million. But the merger movement declined sharply after 1901, despite the permanent impact it had on the modern American intellectual tradition. During 1895-1904 there was an annual average firm disappearance of 301 companies and a total annual average capitalization of $691 million. During 1905-1914 an average of only 100 firms disappeared each year, and average capitalization was $221 million. More important, from 1895 to 1920 only eight industries accounted for 77 per cent of the merger capitalizations and 68 per cent of the net firm disappearances. In effect, the merger movement was largely restricted to a minority of the dominant American industries, and that for only a few years. The merger movement was caused primarily by the growth of a capital market for industrial stocks after the return of economic prosperity in late 1897. The railroad industry, which was the main preoccupation of European investors who had plunged $3.0 billion into the United States by 1890, was overexpanded and unprofitable. Capital invested in manufacturing increased 121 per cent from 1880 to 1890, and despite the depression of 1893-1897 increased 51 per cent over the next decade. In this context of shifting economic interests, the history of the 1890's is one of sharpening and extending the existing institutional structures for raising capital, and thereby creating movements for mergers, concentration, and, hopefully, monopoly in the American industrial structure.

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> Not infrequently a single manufacturer would turn promoter in order to try to eliminate competition or instability. John W. Gates successfully proved in a law suit that he earned less than $400,000 through underwriting profits and the exchange of shares in the promotion of American Steel and Wire Company in 1899. His only substantial profits were on his component properties that he turned over to the new firm. In the case of the Amalgamated Copper Company, formed in 1899 to

gain effective control over the copper industry, outsiders and insiders united. Thomas Lawson, Henry H. Rogers, and William Rockefeller, none of whom had any special competence in the copper industry, cooperated with Anaconda Copper. J. P. Morgan, the largest single industrial promoter and the dominating figure in railroad mergers, resorted to nearly every variation of insider and outsider promotions. Morgan, the Moore brothers, John R. Dos Passes, Moore and Schley, and Charles R. Flint collectively probably accounted for a minority of the total mergers and less than half of the value of all mergers; in addition, there were innumerable single individuals and investment bankers involved in the merger movement. If the merger movement as organized by promoters was the result of “inevitable” impulses within the capitalist economy, as well as technological imperatives to maximum efficiency, we should determine whether the organization of these new corporations was arranged in such a manner as to: (1) make the competitive entry of new firms increasingly difficult, and (2) avoid the accusation of being organized primarily to create the profits of promotion. It is understood that unless the merger of firms within an industry obtained control of a crucial raw material, patents, or trade advantage, it would have to maintain a reasonable price and profit level or else run the risk of attracting new competitors or allowing existing ones to grow, the risk being scaled to the capital requirements of successful entry. Overcapitalization of the stock of a merged firm, therefore, is an indication of the extent to which a merger was executed to obtain maximum industrial efficiency, control over the competitive annoyances of the industry, or the profits of promotion and speculation. Watered stock meant higher prices in order to pay dividends, and higher prices opened possibilities of new competitive entries. It is significant, of course, that the heyday of the merger movement was restricted to a few years, and ended almost as abruptly as it began. There are now few academic defenders of the thesis that the merger movement was primarily the outcome of industrial rationality or a desire for control of economic conditions. Charles R. Flint, one of the more important promoters and organizer of twenty-four consolidations, naturally claimed that mergers were intended mainly to attack the evils of competition, and that the profits of promoters were greatly exaggerated by critics. Capitalization, he…

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P. Morgan persistently overcapitalized his promotion schemes whenever he was able to do so. His greatest triumph was United States Steel, but

when the merger initiative came from insiders, as in the case of International Harvester, Morgan restricted himself to more limited, yet amply lucrative profits. In every case, however, Morgan sought to obtain substantial, if not total, managerial control or board representation. Morgan's efforts were generally marked by success, and had he avoided managerial responsibilities his fortunes might have been larger and his reputation would certainly have been better. In the case of the formation of the International Mercantile Marine Company, Morgan became deeply involved in a grossly overextended venture. His firm initially received $5.5 million in preferred and common stock at par, and a share of the $22 million paid to bond underwriters. An additional $6 million went to shipper-promoters, and the new firm was burdened with a total of $34 million in merger fees on a preferred and common stock issuance of $120 million and $50 million in cash. But the company was poorly conceived and poorly managed: in the end the Morgan firm lost about $2 million, and International Mercantile Marine went out of business after World War I. In the case of American Telephone and Telegraph, Morgan fought for effective control of the board, which he managed to obtain in 1907. As part of an over-all effort to replace New England management and financial connections, a Morgan-led syndicate obtained a $100 million bond flotation, but was able to dispose of only $10 million before giving up the effort in 1908. Although Morgan's philosophy of trying to obtain managerial control along with the profits of promotion was, on the whole, profitable, it is questionable whether he increased managerial or industrial efficiency. The primary goal of promotions was, as Francis Lynde Stetson admitted, profits. Insofar as Morgan's profits were not immediate or short-range, but tied to the managerial and profit performance of the new company, Morgan tended to do relatively poorly. And in several spectacular instances Morgan either lost money or, as in the railroad industry, bankrupted companies.

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THE FIRST DECADES of this century were years of intense and growing competition. They were also years of economic expansion and, in a number of industries, greater internal concentration of capital and output. But neither of these phenomena was incompatible with increased competition. From 1899 to 1904 the number of manufacturing firms in the United States increased 4.2 per cent, and from 1904 to 1909 they increased 24.2 per cent—a growth of 29.4 per cent for the entire decade. Of the nine manufacturing industries with a

product value of $500 million and up in 1909, only one, the iron and steel industry, had less than 1,000 establishments, and the exception had 446. In the thirty-nine industries with products valued at $100-500 million, only three had less than one hundred establishments.1 The numbers of business failures from 1890 on followed the classic pattern of being high in depressions and low in periods of prosperity, and there is no evidence whatsoever that failures due to competition were any more numerous in 1900 than in 1925. The new mergers, with their size, efficiency, and capitalization, were unable to stem the tide of competitive growth. Quite the contrary! They were more likely than not unable to compete successfully or hold on to their share of the market, and this fact became one of utmost political importance. The very motives behind the merger movement, and the concern with promotion of enterprises irrespective of the health of the component firms or the advantages of combination, led to an immediate apprehension among well-informed businessmen. “One question of great interest in relation to our new industrial combinations is whether a proper readjustment of their hugely inflated capital and excessive charges will place them permanently in a condition of efficiency, productiveness, solvency, and prosperity, or whether they will ultimately drift, one by one, into the hands of receivers …” said Henry Clews at the opening of the century.2 This

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The inescapable conclusion is that mergers were not particularly formidable and successful, and surely were incapable of exerting control over competitors within their own industries. “Mere bulk, whether of capital or of production, is not, per se, an element of strength,” The Iron Age commented in 1900. “Some of the new plants are better equipped, carry less dead weight of unproductive assets and can produce more cheaply per unit of output than the consolidations can. So far as can be judged, the great industrial aggregations, instead of discouraging competition, have rather encouraged it.”3 Most of the new mergers started out with less than monopoly control, and virtually all lost their initial share of the market. This failure, discussed in detail later in the chapter, was due to the rise of important new competitors and the significant economies of size attainable at lower production levels. Thirteen consolidations studied by Dewing controlled an average of only 54 per cent of the output of their industries upon organization, and the U.S. Industrial Commission studied a sample with an average market share of 71 per cent. Of seventy-two mergers listed by Ralph L. Nelson,

twenty-one controlled 42.5 to 62.5 per cent of their markets upon formation, twenty-five controlled 62.5 to 82.5 per cent, sixteen controlled over 82.5 per cent, and ten controlled “large” portions. There is also data to suggest that very large corporations as a whole did poorly—and many of these were recent mergers. Alfred L. Bernheim studied the 109 corporations with a capitalization of $10 million and up in 1903. Sixteen of these failed before 1914 and were dropped from the list, leaving ninety-three. Only twenty-two of the remainder paid common stock dividends of over 5 per cent during 1900-1914, and twenty-four paid nothing. Their average dividend on common stock over the period was 4.3 per cent. The market value of the common stock of forty-eight of the companies declined over 1900-1914, and rose in only forty-five instances.

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In the light of such mediocre profit records it should not surprise one to discover that the mobility of giant firms out of the ranks of the largest hundred industrial corporations was high. Of the fifty largest companies in 1909, seven could not be found in the ranks of the top hundred in 1919, and twenty could not be found there in 1929; for the top hundred corporations in 1909 the figures are fortyseven drop-outs by 1919 and sixty-one by 1929. By comparison, of the top one hundred industrials in 1937, only twenty-eight could not be found in that category in 1957. Bernheim studied the fate of the ninety-nine largest industrials of 1909 by 1924, and found that fortyseven of them could not be found among the largest two hundred corporations of every type. Of this forty-seven, seven had dissolved, three had written down their capital to realistic proportions and were disqualified, nine had become unable even to pay their preferred dividends in full, two had paid no common dividends, ten had merged or reorganized without loss, and sixteen had failed to grow fast enough after 1909.4 Many

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In 1889 there were 719 companies in the blast furnace, steel work, or rolling mill industry.7 Many of these firms produced a whole range of steel and iron products, from wire to tinplate, and the steel and iron industry is best characterized as being highly competitive at the time. Since the capital requirement for the consolidation of any important segment of the industry was too high, and since there was no means of

preventing the sufficiently powerful firms specializing in one branch of the industry from diversifying into others, the history of the steel industry in the late 1880's and 1890's is one of voluntary efforts to arrange a variety of pools and price and marketing agreements. These, as we shall see, were almost universally failures, and did not solve any of the basic problems inherent in a competitive market structure. The result was a series of mammoth mergers and consolidations which ultimately led to the formation of United States Steel, which also failed to attain stability and control of the market. The price of most steel goods declined more or less regularly until 1894-1895, and although prices generally rose in subsequent years, there was continual insecurity within the industry as to what each competitor might do next.

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The apprehension was later justified. The dozens of attempts at voluntary pools in various sections of the steel industry took place after periods of intense price competition, and the pools were in effect agreements to recuperate before more internecine wars. The Bessemer Pig Iron Association and the Bessemer Steel Association were formed in the mid-1890's and failed to control either prices or excess output. The steel billet pool failed, as did the wire and wire-nail pools. No sooner was an agreement made than a single firm would decide to violate some phase of it and eventually bring the whole structure down. Only the steel rail pool, among the many tried, was moderately successful. Its unique position was due to the small number of competing firms, their willingness to accept low profit levels, and the fact that the pool handed 53 per cent of the market over to the major pool buster, Andrew Carnegie. The Addyston Pipe decision by the Supreme Court in December, 1899, ended the possibility of lawfully resurrecting the pool system by declaring illegal the division of markets and price-fixing.

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Carnegie and Gates were clearly dangerous nuisances to Morgan, especially since Carnegie probably had the lowest steel costs in the nation and could be especially formidable in any competitive struggle. Moreover, Carnegie was threatening Morgan on another front. In 1899 Alexander J. Cassatt became president of the Pennsylvania Railroad and moved to end a long-standing rebate agreement established by Carnegie and Thomas Scott, former Pennsylvania president. The

agreement had allowed Carnegie to receive rates equivalent to what he would have charged himself had he built his own railroad, often cutting rates by one-half. Carnegie decided to retaliate against Cassatt by making an agreement with George Gould, son of Jay Gould, to build a railroad to Baltimore parallel with the Pennsylvania Railroad for much of the way, thereby threatening the entire Eastern railroad system. With Gates calling for renewed competition and Carnegie endangering the Morgan steel and railroad empire, it was inevitable that attempts at permanent reconciliation via a merger be made. By the end of 1900 both Gates and Carnegie were having sober second thoughts about the desirability of a full-scale conflict with the Morgan steel companies. In addition, since 1898 Carnegie had been undergoing a series of internal company disputes with Henry Clay Frick which eventually led to a total break and a reorganization of the company. The old man was tired, and the idea of retiring must have appealed to him. Carnegie authorized Charles M. Schwab to hint at a banquet in New York in December, 1900, at which Morgan was present, that the integration and specialization of the entire steel industry was a desirable goal. Within a month Schwab, Gates, Morgan, and Carnegie completed all negotiations, and the United States Steel Corporation was officially organized in New Jersey on February 23, 1901. But the integration of the steel industry was not the primary goal of the merger, since the company started with substantial competition left in the field. The goal was to eliminate the two most important and irrational steel producers in the industry, and, hopefully, to introduce stability, not control, over the steel market. Approximately 40 per cent of the steel industry was left outside the merger. Instead of making an effort to extend control over it, Morgan chose to capitalize United States Steel with over 50 per cent water and to filter over $150 million of U.S. Steel's $1,403 million capital to the promoters and underwriters.

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The collapse of the Gary agreements is an important turning point in the history of steel, for it represents the final failure of the promised stability and profit that motivated the U.S. Steel merger. It represents, as well, the opening of a period of intense competition for steel markets, in which price competition was an important element, which lasted until World War I and the establishment of a working coordination over prices under the auspices of the American Iron and Steel Institute. In 1908 the prices of most important steel products fell sharply according to published data, and even more sharply if individual

secret rates are taken into account. It was not until 1916 that the prices of the peak years of 1902 and 1907 were restored in most lines of steel, even though output in 1909 and subsequent years was as great, if not greater, than in 1907. The

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U.S. Steel's decline was in large part due to its technological conservatism and its lack of flexible leadership. The iron and steel industry as a whole was in a state of rapid growth and flux from 1900 on, and accounted for 6.9 per cent of the total capital of manufacturing in 1900 but 11.4 per cent in 1919. Technologically, openhearth steel making replaced the Bessemer process; it accounted for 28 per cent of the steel ingot and castings tonnage in 1899, 79 per cent in 1919. U.S. Steel's basic investment in 1901 was essentially in the Bessemer process, and its expansion program was limited in the belief that its existing facilities were largely adequate. With the exception of the establishment of its Gary, Indiana works and its improvement of its Tennessee Coal and Iron property, U.S. Steel failed to alter the location of its facilities sufficiently or to improve its technology at a time when its competitors were rapidly moving ahead. Moreover, the market for steel goods began shifting radically to lighter steel products, a field which U.S. Steel was slow to enter. The introduction of alloy steels and the continuous rolling mill, and the increasing use of scrap rather than ore—U.S. Steel was heavily committed to ore—only aggravated the firm's decline. U.S. Steel, in short, was a technologically conservative, increasingly expensive operation that illustrates the inadequacy of the dominant theories on the positive relationship between size and efficiency current since the end of the nineteenth century. U.S. Steel never had any particular technological

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If nothing else, the steel industry was competitive before the World War, and the efforts by the House of Morgan to establish control and stability over the steel industry by voluntary, private economic means had failed.

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> Having failed in the realm of economics, the efforts of the United States Steel group were to be shifted to politics.

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> The rebate, Attorney General William H. Moody concluded in 1906, was the key to Standard's monopoly. However onerous the burden of rebates on the railroads—a burden which the railroads usually passed to the other shippers and eventually the consumer in the form of higher rates—it is nevertheless true that Standard treated the consumer with deference. Crude and refined oil prices for consumers declined during the period Standard exercised greatest control of the industry, 1875-1895, and rose thereafter along with prices for most consumer goods. Standard's ignominious reputation was based primarily on its relations to the independent oil producers: the company acted ruthlessly to keep prices low at the expense of small producers. Ironically, had the producers won, the consumers' price of oil would have been significantly higher. Indeed, the whole purpose of the Petroleum Producers' Union of Pennsylvania in the late 1870's and early 1880's was to raise prices by restricting output and controlling other producers unable to withstand the enticing and often enriching prospect of selling to Standard—"to make clear the way for a deliverance of the business from the condition in which it has been placed by the irrational course of producers, not less than by the unjust and unnatural restrictions placed upon it by those who seek to monopolize its control."14 By controlling production, and creating their own monopoly, the producers hoped to become independent of the most powerful buyer, Standard Oil. Standard never controlled a consequential share of the oilproducing industry, but restricted itself to refining and sales. As a producer of oil Standard accounted for 11 per cent of the output in 1906. Its somewhat ruthless relationship with the not altogether altruistic producers has often erroneously been projected onto its relations with competitive refiners. Standard attained its control of the refinery business primarily by mergers, not price wars, and most refinery owners were anxious to sell out to it. Some of these refinery owners later reopened new plants after selling to Standard. In 1899 Standard refined 90 per cent of the nation's oil, and reached the peak of its control over the industry. During 1904-1907, however, Standard refined 84 per cent of the oil, and in 1911, the year of the dissolution, it refined 80 per cent. The dissolution decree left the component Standard companies in noncompetitive positions with one another, and the combined share of refining of this conglomeration declined to 50 per cent in 1921 and 45

per cent in 1926. It is clear that from 1899 on Standard entered a progressive decline in its control over the oil industry, a decline accelerated, but certainly not initiated, by the dissolution. And until 1920 it faced uncertainty and growing competition. In 1899 there were sixty-seven petroleum refiners in the United States, only one of whom was of any consequence. Over the next decade the number increased steadily to 147…

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The second major cause of Standard's decline was the radical transformation of the uses for oil as a result of the advent of the automobile and electricity. Standard made its early fortune primarily in illuminating oils and kerosene, which accounted for 63 per cent of the industry's production in 1899. By 1919, however, electricity had eliminated the demand, and this type of production accounted for a mere 15 per cent of the industry's output. Fuel oil spiralled from 15 per cent to 52 per cent of the output over the same period, and light oil products, including gasoline, increased from 14 per cent of the industry's output in 1899 to 27 per cent in 1919 and 48 per cent in 1929. Between 1910 and 1925 the number of auto registrations increased forty times, and gasoline and its distribution became the central core of the industry. In this area the independent oil companies led the field, pioneering in gas stations in the same way that they had surpassed Standard in developing improved tank cars and trucks as well as most of the major innovations in petroleum chemistry. In a spiralling market for oil such as existed from the turn of the century on, Standard, conservative and technologically uncreative, was no match for the aggressive new competitors. The dissolution decree of 1911 tended to knock Standard out of its lethargy, and its component companies began merging with many of the new independents to diversify and integrate in all regions. Without the managerial skills the managers of these independents brought with them to Standard, it is likely that the former near-monopoly would have been even weaker in the 1920's. The oil industry, as well, had failed to establish stability and integration via voluntary economic means in the period before World War I.

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The result of Ford's legal victory was to destroy partially the patent system within the auto industry. In 1915 the National Automobile

Chamber of Commerce was formed by one hundred producers to freely cross-license routine patents among themselves. This policy lasted until 1935, and helped keep the industry competitive. After 1935 the possibility of patent exclusion and market growth became too great an attraction to resist, and the system largely collapsed.

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Despite massive capital support and the weaknesses of the independents, A.T. & T. faced intense competition and began losing control of the industry. In 1902 there were 9,100 independent telephone systems, and by 1907 there were 22,000. The number of phones in the independent system expanded so rapidly that in 1907, the year of peak relative strength for the independents, A.T. & T. had 3.1 million phones in service, the independents 3.0 million. The number of independent phones continued to grow in subsequent years, but by the 1920's A.T. & T. far outstripped them. The pressure of competition increased A.T. & T.'s need for capital, and from early 1902 to early 1907 J. P. Morgan was an important minority faction within the board of directors; 1907 saw his victory over Boston control. Morgan's financial aid to the company, however, was singularly unsuccessful in 1906-1908. His major contribution was to reorient the company's policy from competing with the independents, where A.T. & T. had been most unsuccessful, to attempting to merge with them. Theodore N. Vail, the new president, asserted that the independents were all essentially promoters, that large size and "centralized general control" created economies, and that the public opposed competition in telephones. At the same time, however, A.T. & T. began selling equipment to the independents and trying to cut off their access to capital. The independents complained that A.T. & T. was treating them all as prospective mergers and was trying to obtain control over the independent telephone equipment companies. By 1911 Vail was freely admitting that the policy of the company was to merge with independents. Reversing the earlier centralization of its organization, which Vail granted was largely based on accident, A.T. & T. broke up into eight to ten decentralized and semi-autonomous divisions. Thus able to compete more successfully with the independents, or to merge with them, A.T. & T.'s relative strength began growing. In early 1913 Attorney General Wickersham forced the company to dispose of Western Union, which it acquired in 1909, to agree to cease its merger policy, and to connect with the independents for toll service—an order that was effective only until 1919. It is true that many of the independent

telephone companies were poorly run, inadequately financed, and based largely on the power of local franchises. But the independents were primarily responsible for the rapid growth of the telephone system, and even the growth of the Bell System. During its period of total monopoly, 1885-1894, Bell's phones increased at a rate of 6.3 per cent a year; but during 1895-1906 they increased at an annual rate of 21.5 per cent. Moreover, by 1907 many of the independents were extremely well run and profitable firms. In 1907, a year of business decline, all but a few of the independents in Ohio, Indiana, and Illinois paid dividends of 4 to 12 per cent on their stock. A.T. & T. subsidiaries did no better,…

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The price of meat rose consistently from 1890 to 1916, and this fact was often cited as proof of monopolistic control in the industry; but so did the prices of many other foods and the prices of all foods and farm products combined. It was easier for the large packers to obtain railroad rebates on large shipments than to try to have the consumer pay for allegedly greater than average profits. Profits were certainly substantial, but not because of higher than competitive prices. As Edward F. Swift explained in 1905, "Even if these large packers were acting in harmony [which they were!], they would not be able to control prices to any considerable extent, for the reason that there are a sufficient number of other individuals, companies, or corporations in the business, who would increase the volume of their business the minute abnormal profits appeared. Therefore they would gradually take away the business from the large packers, should the latter attempt to buy their cattle unreasonably low or sell their beef unreasonably high."25 In smaller towns the packers frequently cut prices to meet local competition during certain times of the year when local beef was plentiful, but in most of these places the proportion of the total business done by the large packers was generally quite low. Entry into the packing industry was, and still is, comparatively easy. The raw materials were freely available and could be produced virtually anywhere. The major difference in profits was the exploitation of the byproducts of meat. Local slaughterers had less expense per head for refrigeration and freight, and usually had lower administration, sales, and accounting expenses as well. For identical grades of meat, local meat often commanded higher prices than Western meat. Liabilities were many as well, ranging from the cost of slaughtering to economies

of mass purchases of animals, but the assets were sufficiently important to create serious competition.

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The Bureau of Corporations' study of the meat industry in 1905 concluded that the Big Six killed and sold about 45 to 50 per cent of the nation's beef. Packing firms other than the largest three companies accounted for 65 per cent of the meat output in 1905, and 78 per cent in 1909. The number of slaughtering and meat packing establishments increased sharply during our period—from 1,080 in 1899 to 1,641 in 1909. This increase in the number of packers by 52 per cent in one decade later had the greatest significance for the political role of the meat industry in the Progressive Period.

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Additional cases and examples abound, and there is no point in tiring the reader with them. The trend is altogether clear: the manufacturing sector of the economy after the period of numerous mergers in 1897-1901 was growing increasingly competitive. Private efforts to establish stability and control within the various manufacturing industries had largely failed.

Note:

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Rapid technological innovation in this period often meant, as Schumpeter suggested, innovation embodied in new firms. This was certainly true in totally new industries, such as the automobile and electrical manufacturing industries, where older wealth was loath to speculate, and generally true within established industries as well. New products, new methods of production, new markets, new sources of supply, and new business combinations always affected the existing distribution of power and shares in older industries. Established firms participated in this growth, but were rarely able to prevent intruders from grabbing their share as well. All grew, but the smaller entries generally grew more rapidly. Internal financing out of profits or rapidly decentralizing sources of cash made it possible for many of these new entries to prosper quite independently of the larger financiers whose major efforts went into the merger movement. It is, of course, true that the economic and industrial mobility described does not warrant a

belief in the Horatio Alger myth which has been so thoroughly analyzed, and largely disproven, by William Miller and his associates. Occupational or educational mobility and income or power mobility are two separate questions, however, and the burden of Miller's work has been in critically examining the oversimplified notions of apologists of the status quo on the social origins of the business elite. Many of our new business leaders came from those wealthier educational and occupational backgrounds capable of providing the prerequisite for that genuine, decisive mobility which is significant in power and income terms. And the dynamics of economic growth were such in the period that those individuals with the educational criteria, social manners, and minimum capital could and often did obtain radically magnified positions of economic importance without necessarily altering their precise family educational status or formal occupational designations. What should not be ignored are the important distinctions within that broad category, "the upper class."

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The dominant fact of American political life at the beginning of this century was that big business led the struggle for the federal regulation of the economy.

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It was never a question of regulation or no regulation among businessmen during the Progressive Era, or of federal control versus laissez faire; there was, rather, the question of what type of legislation at what time. On the fundamental proposition that the government was to be utilized freely, if not for someone else's problems then at least for one's own, there was never any disagreement in practice, and frequently little in theory as well. If American business did not always obtain its legislative ends in the precise form it wanted them, its goals and means were clear. And the dominant trend in the political decisions that were made, with few exceptions, preserved the type of distribution of power and decision-making that also insured the power of regulated industries.

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This bill does not seek to cripple combinations of capital and labor, the formation of partnerships or of corporations, but only to prevent and control combinations made with a view to prevent competition, or for the restraint of trade, or to increase the profits of the producer at the cost of the consumer. It is the unlawful combination, tested by the rules of common law and human experience, that is aimed at by this bill, and not the lawful and useful combination.1 The result, if not the intent, was clearly to establish a rule of reason with a variable, if not ambiguous, definition of the "restraint of trade." Despite Sherman's disclaimer that the law would not be applied to trade unions or farmer organizations, many of his colleagues in the Senate predicted that "It would be a weapon in the hands of the rich against the poor," and they anticipated the law's subsequent use against unions.2 But the law, with its loose emphasis on "intent" rather than specific actions, and its curiously abstruse lack of precision, was clearly ready-made for free interpretation by some administrative agency. If the Attorney General, Richard Olney, happened to be a former State Street lawyer for the Boston & Maine Railroad, a member of "good clubs," and a director of railroads, the results justified the anxieties of the skeptical Senators when Olney ordered federal troops to intervene in the Pullman strike of 1894. And if the Supreme Court, deeply committed to laissez faire and a literalist interpretation of the law, saw the Sherman Act as a justification for thwarting big business desires for concentration and cooperation—as in the Addyston Pipe decision (1899) and the Trans-Missouri decision (1897)—the law could be as disturbing to business leaders as to labor unionists.

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The issue was never joined. Eastern life insurance remained strongly in favor of federal regulation of insurance, but Roosevelt and Taft dropped the issue altogether. The problems that in the past had stimulated the demand for federal regulation only grew greater. Between 1905 and 1915 the number of life insurance companies alone more than doubled, and state taxes, licenses, and fees in 1907 amounted to $11 million—or 2.1 per cent of premium income. During the Wilson Administration the issue was consciously allowed to lie dormant, despite a campaign by Darwin P. Kingsley, president of New York Life, to unite the hundreds of presidents favoring federal regulation behind him. In 1914, when Kingsley managed to get a joint resolution before Congress providing for a Constitutional amendment, his effort had no public support. What was necessary was another public scandal similar to the Equitable

revelation that would allow a President to take decisive “progressive” action to satisfy the public—and the large insurance companies. The scandal never occurred, and the issue of the federal regulation of insurance died.24

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October, 1904, a young man named Upton Sinclair arrived in Chicago with a $500 stake from Fred S. Warren, editor of The Appeal to Reason. After seven weeks of interviews and observation in the stock yard area, Sinclair sent back stories to Warren on the working conditions, filth, and gore of the packing industry, and his novel The Jungle electrified the nation, spreading Sinclair’s name far and wide and, finally, bringing the Beef Trust to its knees. The nation responded, Roosevelt and Congress acted by passing a meat inspection law, and the Beef Trust was vanquished. Or so reads the standard interpretation of the meat inspection scandal of 1906. Unfortunately, the actual story is much more involved. But the meat inspection law of 1906 was perhaps the crowning example of the reform spirit and movement during the Roosevelt presidency, and the full story reveals much of the true nature of progressivism. Alas, the movement for federal meat inspection did not begin with the visit of Sinclair to Chicago in 1904, but at least twenty years earlier, and it was initiated as much by the large meat packers themselves as by anyone. The most important catalyst in creating a demand for reform or innovation of meat inspection laws was the European export market and not, as has usually been supposed, the moralistic urgings of reformers. And since the European export market was more vital to the major American meat packers than anyone else, it was the large meat packers who were at the forefront of reform efforts. Government meat inspection was, along with banking regulation and the crude state railroad regulatory apparatus, the oldest of the regulatory systems. In principle, at least, it was widely accepted. The major stimulus, as always, was the desire to satisfy the European export market. As early as December, 1865, Congress passed an act to prevent the importation of diseased cattle and pigs, and from 1877 on, agents of the Commissioner of Agriculture were stationed in various states to report on diseases.

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Despite the research and regulatory activities of the bureau, which by 1888 cost one-half million dollars per year, the Department of Agriculture from 1885 on began appealing for additional federal regulation to help improve exports to Europe. Its major impetus was to fight European restrictions, not to aid the American consumer, and in doing so it effectively represented the interests of the major American packers who had the most to gain from the Department's success.25 Rather than improving, the situation further deteriorated with a hog cholera epidemic in 1889 worsening the American export position. Congress acted to meet the challenge, and in August, 1890, responding to the pressure of the major packers, passed a law providing for the inspection of all meat intended for export. But since provision was not made for inspection of the live animal at the time of slaughter, the foreign bans remained in effect. Desperate, in March, 1891, Congress passed the first major meat inspection law in American history. Indeed, the 1891 Act was the most significant in this field, and the conclusion of the long series of efforts to protect the export interests of the major American packers. The Act provided that all live animals be inspected, and covered the larger part of the animals passing through interstate trade. Every establishment in any way involved in export was compelled to have a Department of Agriculture inspector, and violations of the law could be penalized by fines of $1,000, one year in prison, or both. Hogs were required to have microscopic examinations as well as the usual pre- and postmortem inspections. The law, in brief, was a rigid one, and had the desired effect. During 1891 and 1892, prohibitions on importing American pork were removed by Germany, Denmark, France, Spain, Italy, and Austria. The Act of 1891 satisfied the health standards of European doctors, but greatly distressed the European packing industry. Slowly but surely the European nations began imposing new medical standards in order to protect their own meat industries.

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Major American packers failed to appreciate the retaliatory tactics of their foreign competitors, and protested to the Department of Agriculture, which pressured the Department of State into helping it defend the vital interests of the American meat industry. The government's meat inspection organization, in the meantime, gradually extended control over the greater part of the interstate meat commerce, and in 1895 was aided by another act providing for even stronger enforcement. In 1892 the Bureau of Animal Industry gave 3.8 million animals ante- and post-mortem examinations; it examined 26.5

million animals in 1897. It maintained 28 abattoirs in 12 cities in 1892, 102 abattoirs in 26 cities in 1896. The inspection extended to packaged goods as well, despite the rumors that American soldiers during the Spanish-American War were being served “embalmed meat” that damaged their digestive systems—rumors strongly denied by Harvey W. Wiley, the leading American advocate of pure food legislation. By 1904, 84 per cent of the beef slaughtered by the Big Four packers in Chicago, and 100 per cent of the beef slaughtered in Ft. Worth, was being inspected by the government; 73 per cent of the packers’ entire U.S. kill was inspected. It was the smaller packers that the government inspection system failed to reach, and the major packers resented this competitive disadvantage. The way to solve this liability, most of them reasoned, was to enforce and extend the law, and to exploit it for their own advantage. They were particularly concerned about the shipment of condemned live stock to smaller, noninspected houses, and applied pressure on the bureau to stop the traffic. When the Association of Official Agricultural Chemists created a committee in 1902 to determine food standards for meat products, the major meat companies cooperated with the effort and agreed with the final standards that were created.

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Roosevelt had been sent a copy of The Jungle before its publication, but took no action after it was released. The controversy over it was carried on for several months by J. Ogden Armour, Sinclair, and the press, and Roosevelt was dragged into the matter only after Senator Albert J. Beveridge presented a new inspection bill in May, 1906. In February, shortly before The Jungle received wide attention, the Department of Agriculture ordered the packers to clean up their toilet and sanitary conditions for workers, even though it had no legal power to do so. J. Ogden Armour, in early March, took to the Saturday Evening Post to defend government meat inspection. He pointed out that the Chicago packing houses had always been open to the public, and that the stockyards, for the past six years, had been in the process of total reconstruction. The large packers, Armour insisted, strongly favored inspection.

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> Attempt to evade it would be, from the purely commercial viewpoint, suicidal. No packer can do an interstate or export business without Government inspection. Self-interest forces him to make use of it. Self-interest likewise demands that he shall not receive meats or by-products from any small packer, either for export or other use, unless that small packer's plant is also "official"—that is, under United States Government inspection. This government inspection thus becomes an important adjunct of the packer's business from two viewpoints. It puts the stamp of legitimacy and honesty upon the packer's product and so is to him a necessity. To the public it is insurance against the sale of diseased meats.28

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> Historians, unfortunately, have ignored Upton Sinclair's important contemporary appraisal of the entire crisis. Sinclair was primarily moved by the plight of the workers, not the condition of the meat. "I aimed at the public's heart," he wrote, "and by accident I hit it in the stomach." Although he favored a more rigid law, Sinclair pointed out that "the Federal inspection of meat was, historically, established at the packers' request; … it is maintained and paid for by the people of the United States for the benefit of the packers; … men wearing the blue uniforms and brass buttons of the United States service are employed for the purpose of certifying to the nations of the civilized world that all the diseased and tainted meat which happens to come into existence in the United States of America is carefully sifted out and consumed by the American people."30 Sinclair was correct in appreciating the role of the big packers in the origins of regulation, and the place of the export trade. What he ignored was the extent to which the big packers were already being regulated, and their desire to extend regulation to their smaller competitors. In

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> Meat inspection ceased to be a significant issue during the remainder of the Progressive Era. Beveridge, for several years after the passage of the 1906 Act, tried to restore his defeated amendments, but he had no support from either Roosevelt or other important politicians. Secretary of Agriculture Wilson, among others, opposed Beveridge's efforts to have the packers pay for the expenses of inspection. The packers naturally resisted all attempts to saddle them with the costs, but

strongly defended the institution of meat inspection and “the integrity and efficiency of the Bureau’s meat inspection service.”39 Despite the urging of the American Meat Packers’ Association, which wanted action to eradicate tuberculosis and other diseases in livestock, the issue of meat inspection died. On the same day that Roosevelt signed the Meat Inspection Act he also signed the Pure Food and Drug Act, and these two measures have been commonly regarded as companion bills representing the triumph of progressivism, health, and decency. The pure food story, however, vividly illustrates the confused understanding by many historians of what factors actually motivated legislation in the Progressive Era. The history of the pure food movement is the history of Harvey W. Wiley. Before Wiley’s rise to importance in the movement, the campaign for unadulterated, honestly marked food was carried on by the National Board of Trade with the aid of the Grange, various state legislatures, and special food interests whose markets were being damaged by cheap competition. One of the earliest campaigns was directed against the adulteration of sugar products with glucose. Wiley’s advent on the scene came in 1883, when he went to work for the Department of Agriculture as an expert on sugar chemistry. His earlier work had been in developing acceptable glucose adulterants for cane and maple sugar, and he was regarded as a friend of the industry. Wiley’s contacts with industry continued through his work as a private consultant, and in his agitation for pure food legislation he initially maintained the position that it was mislabeling, not the purity of the food, that was the primary problem. The poor, he felt, had to have cheap food, and “It is not for me to tell my neighbor what he shall eat….”40

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In 1902 a bill drawn up by Wiley along the same basic lines as the Brosius Bill was presented to the House by Rep. William P. Hepburn and passed in December. By the end of that year the support for legislation was overwhelming. The National Association of Manufacturers, the American Baking Powder Association, and many individual food companies swung behind the movement. By 1903, however, the opposition to the measure organized, and was centered about the patent drug and whiskey industry and a few dissident grocers. Their line of attack was poorly conceived. The entire movement for legislation was designed, they claimed, to create a political lobby for Wiley and to aggrandize the power of the Bureau of Chemistry.41 This opposition,

however, was too weak and unrepresentative to alter the course of events. Roosevelt

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The dominant motive behind conservation was a realization that lumber resources were being permanently squandered by indiscriminate cutting, and that in the long run the fortunes of the lumber industry would decline as a result of such practices. Supported by the Northern Pacific Railroad, Weyerhaeuser Timber, King Lumber, and other giant corporations, Gifford Pinchot—the most famous of the conservationists—developed a program of sustained yield planting. Pinchot, who had the support of the American Forestry Association, regarded the forests as economic resources and strongly opposed using the forests as pure wilderness or game reserves. “The apostles of the gospel of efficiency subordinated the aesthetic to the utilitarian,” Hays points out.44 Roosevelt supported the Pinchot school against the “preservationists” opposing cutting of any sort. In this, as in most other matters, Roosevelt was fundamentally the conservative.

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The tobacco industry was one of the few in which a single company had anything like monopoly control. Moreover, the American Tobacco Company followed an aggressive merger policy and was ruthless in fighting its competitors. Indeed, American Tobacco was strategically in a better position to maintain control over tobacco than Standard was to dominate the oil industry. In 1904 American Tobacco absorbed Continental Tobacco, one of its few major competitors, and action by the government was inevitable. The nature of the government’s approach, and the diverse interests that entered into the case, illustrate the relationship between the Roosevelt Administration and “bad” trusts with which détentes of the U.S. Steel variety were politically impossible. Tobacco’s man in the higher circles of government was Elihu Root. Root had worked for Thomas F. Ryan in 1905, and Ryan was interested in Tobacco. In late 1906 the Justice Department began taking steps leading to possible litigation against Tobacco. W. W. Fuller, Tobacco’s counsel, persuaded Root to defend the Tobacco position within the Administration and, if possible, to prevent an antitrust suit. He sent Root considerable data to sustain Tobacco’s case, and in February, 1907, when it became apparent that Taft and Bonaparte were pressing for an

antitrust suit, Ryan suggested a possible compromise to Root. He had warned Tobacco executives to cooperate with the President, Ryan claimed, and he wished the company to distribute its direct stock holdings among the shareholders. In late February, however, the Justice Department subpoened various Tobacco executives. Although Root tried to reassure Ryan as to what the future held in store, Ryan decided to put his cards on the table. “I have just heard that the Harvester Company,” he wrote in March, “has made an agreement with the Department of Justice (that is the President) to do what I want Am Tob company to do—I think you could try to find out if the President would like us to walk in that line[.] I feel sure he [would] … get much credit by our doing so.”17 The key advocate of legal action against American Tobacco was James C. McReynolds, special assistant to Attorney General Bonaparte, who acted without interference from his superior. Root and Ryan decided to try to convince Roosevelt to accept Tobacco’s stock distribution plan or else hand the entire matter over to the Bureau of Corporations for an investigation. During March, as McReynolds moved to convene a grand jury inquiry into Tobacco, the firm offered to dispose of its stock in British-American Tobacco, Reynolds Tobacco, and others. McReynolds, who was given complete jurisdiction over the matter by Bonaparte, refused to budge, and the grand jury inquiry went on. An International Harvester-type détente was not consummated, but the bureau was brought into the matter nevertheless. The bureau had been toying with an investigation of Tobacco, and in early May an American Tobacco attorney visited Herbert…

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Key businessmen knew that Roosevelt relied heavily on Nelson Aldrich, especially for banking and financial advice, and that major machine politicians, such as Boise Penrose, could publicly proclaim their alliance with Roosevelt without a denial from the President. But their most important connection remained the Bureau of Corporations and its commissioners, first Garfield and then Herbert Knox Smith. Garfield went to great extremes during the formation of the bureau to assure that “the business interests of the country appreciated that the Bureau was not to be used as an instrument of improper inquisition nor, as some of the extremists feared, blackmail.” Upon leaving the bureau he wrote Straus that “the work of the Bureau has shown the absurdity of the antitrust act,” and the need for federal supervision.23 Smith took virtually the same position as Garfield and Roosevelt. Important businessmen were fully aware and appreciative of the policies of

Roosevelt and his chief aides, and hardly succumbed to the irritated clamor of the conservative press that criticized the President on the basis of deduction from its abstract theories rather than on an evaluation of his concrete actions. Roosevelt's special conflict with Harriman, which initially had nothing to do with the tycoon's conduct as a railroad operator, was caused by a conflicting interpretation of the basis on which Harriman had donated funds to the 1904 campaign. Until late 1905 their relationship was perfectly amiable, and even after the breach in their relationship Roosevelt never took antitrust action against any of the Harriman roads, despite the fact that Harriman and Standard Oil became the criteria for "bad" and "unreasonable" trusts. And big businessmen such as Perkins, Gary, and the leadership of the National Civic Federation, which included among its ranks Seth Low, August Belmont, Andrew Carnegie, and John Hays Hammond, knew better than most of their contemporaries that the Roosevelt Administration was eminently acceptable ideologically and politically.

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Conservative financial leaders in New York and Chicago were nevertheless completely aware of the possibilities for financial instability inherent in the diffusion of the banking system and the rigidity in the supply of money. Henry Clews, always ready to comment on the matter, urged federal regulation to create an elastic currency based on commercial assets and a wider variety of bonds. And decisively new alternatives for reform were presented for discussion, especially by New York and Chicago financial interests. Earlier plans for reform had concentrated primarily on elasticity, and bank cooperation was restricted to proposals for essentially cooperative clearing house associations backed by the federal government. By 1906, however, much more extensive proposals for banking control were put forth. In January, 1906, Jacob H. Schiff warned the New York Chamber of Commerce that unless the currency system were reformed the country would face the most serious financial crisis of its history. The warning immediately led to the formation of a special committee within the Chamber to propose legislation. In March, the committee, composed of John Claflin, Frank A. Vanderlip, Isidor Straus, and similar big banking and investment leaders, recommended the creation of a farreaching central bank "similar to the Bank of Germany," with the power to regulate currency supplies. Although the report was not supported by the New York Chamber as a whole, it is indicative of the extent to which big bankers were ready to revamp the entire banking structure in the

hope of centralizing it. The American Bankers Association, during mid-1906, also organized a commission of big bankers representing the major cities of the nation, chaired by A. Barton Hepburn. Its report, released in November, 1906, declared “that changes in the existing bank note system are imperatively required.”15 Although not endorsing a central bank, the committee urged the creation of regional clearing houses through which bond-secured currency could be issued by banks in varying amounts and guaranteed by a common fund built up by taxes on such notes. Such

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If J. P. Morgan had been, as many historians have assumed, the controller of the American financial structure, he would not have sat by during the obvious approach of the panic of 1907. Nor would he have turned to the federal government for salvation. In mid-March, 1907, after it became apparent that the financial stringency of 1906 would continue and the New York Stock Exchange experienced a sharp decline in prices, Morgan visited Roosevelt to ask about general government aid in the crisis. Roosevelt, according to the financial press, reassured Morgan that he would act responsibly not only in reference to financial matters but also in general industrial and railroad affairs upon which the ultimate health of the financial community was based. Shortly thereafter the Treasury began depositing large amounts of customs receipts in various banks and reducing its normal withdrawals of government funds. But despite this earnest gesture the shortage of money in New York continued, and Morgan sat by and watched inexorable fate move in for a reckoning with the speculators and weaker freebooters.

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Not a few businessmen tried to blame financial conditions on the negligible antitrust activities of the President and their purported influence on financial “confidence.” Historians have made much of this alleged breach of communication between Roosevelt and the financial community. Roosevelt tried to deny any responsibility for existing conditions, and it is difficult to believe that the major bankers did not accept his denials. After all, Morgan certainly knew of the convenient détentes with his interests, the railroads were pleased with the initial impact of the recent Hepburn Act, and the antitrust laws meant very

little to the general business and financial community, save for Standard Oil. More important, Roosevelt's Treasury policy was designed to merely provide greater interest-free financial resources to the bankers without in any way defining or limiting the way in which they could be used. Insofar as Roosevelt did not take steps to inhibit the growing speculative activities of the bankers, he does share responsibility for the panic of October, 1907—but in this respect he aligned himself with the financial community.

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Most bankers, in any event, were strangely indifferent to threats of impending crises, even as commercial loans in New York and Chicago became virtually unavailable at any price. Meeting at Atlantic City in September, all but 150 of the 2,000 members of the American Bankers Association present ignored the session on financial reform, preferring the beaches to discussions of means of saving themselves. Roosevelt's new Secretary of the Treasury, George Cortelyou, brought in to replace Shaw after certain of Shaw's private business dealings threatened a scandal that never materialized, took matters into his own hands. Indeed, after the Treasury began depositing five million dollars a week in national banks from early September on, it was obvious that the government would assume primary responsibility in meeting the crisis.17 During the early weeks of October the Hamburg and Amsterdam banks underwent a crisis and forced gold to be shipped from the United States. A crisis on the Montreal Stock Exchange followed, and Wall Street was shaken to its foundations. On October 16 the stock of the United Copper Company collapsed and threatened to take three important New York banks with it. The New York Clearing House Association rushed to their aid, but a run on the Knickerbocker Trust Company forced it into bankruptcy on October 22. Then came the most trying and chastening experience in the history of the banking community. The panic of 1907 was an indication of the extent to which the ability to control crises had moved out of the hands of the New York bankers. If it were merely a question of raising $50 million in a healthy European financial market, as in 1895, Morgan would have been able to handle the task. But the American economy, and the scale of its needs, had grown tremendously, and it was as much affected by conditions outside New York as in the city itself. By 1907, Morgan, Stillman, and other key leaders of finance were old men, and the strain of the situation was more than they could bear financially or psychologically. Moreover, Morgan and others were not being called upon so much to

save themselves as they were to rescue the improvidently run trust companies that had mushroomed as a part of the banking diffusion that had taken place since the turn of the century. On October 23

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In the midst of the crisis, with the federal government doing everything the New York bankers could ask of it, Morgan coolly picked up Tennessee Coal and Iron. During November, by Presidential order, the Treasury issued $150,000,000 in assorted certificates and bonds at low interest rates, and allowed banks to issue currency on the bonds as collateral. The creation of emergency currency in Chicago also helped, and although the reverberations of the panic led to a substantial industrial depression throughout most of 1908, the immediate crisis was overcome. But the big bankers were thoroughly chastened, and serious financial reform could no longer be delayed. Smaller merchants as well as the New York bankers now realized the urgent need for reform. During November and December, 1907, numerous generalized resolutions calling for a more flexible currency arrived in Congress from various merchants and business groups. Roosevelt, in his Annual Message to Congress in December, again in vague terms invited Congress to make the currency more elastic, but it was evident that he was loath to become involved in the complicated problems of banking, much less to provide leadership in the matter.

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There was no shortage of proposals to suit every political and banking faction. In early January, 1908, two bills were introduced in Congress. The Fowler Bill, a departure from Fowler's earlier, bankerdrafted bill of 1906, eschewed any type of central bank, although it provided for a joint guaranty fund and concentrated heavily on allowing banks to issue notes for loans on commercial paper so long as their reserves were primarily in gold. Senator Aldrich also submitted a bill designed to allow the creation of emergency currency backed by state, municipal, and railroad bonds. The currency commission of the American Bankers Association, however, met in mid-January and condemned both the Fowler and Aldrich Bills, and presented its own measure, written by J. Laurence Laughlin and similar to the earlier Fowler Bill. Further, merchant and banking interests immediately opposed the Aldrich Bill, which was regarded as a conservative effort to shore up the value of

railroad bonds. Various clearing houses, the New York Board of Trade, the Merchants' Association of New York, and other important banking and merchant groups attacked the Aidrich BUl, while organizations such as the N.A.M. called for currency secured by commercial assets without endorsing any specific bill. The Wall Street bankers were divided on both the Fowler and Aldrich measures and neutralized one another, although George F. Baker and Perkins supported the Aldrich Bill. The two most important leaders of Chicago banking, James B. Forgan and George M. Reynolds (also president of the A.B.A.), led the fight against both bills, and Forgan convinced Roosevelt to oppose the guaranty of bank deposits.19 Roosevelt probably enjoyed the spectacle of the big bankers fighting one another, and although he opposed the Fowler Bill as inflationary, he admitted "This financial business is very puzzling." Banker divisions provided him with a convenient excuse for inactivity. "The trouble is that the minute I try to get action," Roosevelt wrote Henry Lee Higginson, an opponent of the Aldrich Bill, "all the financiers and businessmen differ so that nobody can advise me… and only Senator Aldrich has prepared a bill."20 Still, Roosevelt was really partial to Aldrich's measure. With

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There is no indication that Wickersham participated in the formulation of the Standard dissolution plan, but the scheme was eminently designed to fail. An immediate byproduct of the decision was the sharp increase in the value of Standard stock. Standard of New Jersey was left as the second largest corporation in the United States and retained 43 per cent of the net value of the pre-dissolution stock. The component companies remained near monopolies in their respective territories and did not compete with one another. The competition that eventually returned to the industry was due to factors, discussed in Chapter Two, that had nothing to do with the Court's decision. Over the next fifteen years the Standard empire was largely reintegrated.

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Nelson Aldrich still remained the key figure in politics concerned with banking reform. His close relationship with Taft on other issues was a crucial asset, but his reputation among Insurgents and Democrats was that of a blackguard conservative, and it seemed unlikely that Aldrich alone could have any measure passed. Moreover, Aldrich had strong

feelings on banking reform that were not, according to such sympathetic associates as Paul Warburg, based on even a technically sound knowledge of banking principles. Aldrich's deficiencies were more than compensated for, however, by the many able and sophisticated individuals around him, and after he took his National Monetary Commission to Europe to study banking systems there, Aldrich quickly educated himself in the field. More important, Aldrich was soon to realize that his prominent association with the banking reform cause was a political liability, and he was anxious to play a somewhat less conspicuous role, at least so far as the public's view of the movement was concerned. Aldrich's associates, aware of the entire issue of public relations, also reiterated the need to avoid associating banking reform with Wall Street, even though Wall Street was the heart of the movement, if legislation was ever to be attained. Aldrich's European tour convinced him of the virtues of central banking and the desirability of a broader-based asset currency utilizing sound commercial paper as well as gold, bonds, and other extremely restricted reserves. This change made it possible for Aldrich, whose 1907 and 1908 schemes had been roundly opposed by the American Bankers Association, to appeal to a much wider audience in the banking community. Indeed, Aldrich ceased being a sectarian on banking reform and was able from 1909 on, especially after a tour of Western banking centers that year, to count on greater sympathy for his views. For the better part of 1909 and 1910, however, the topic of banking reform was restricted primarily to a small segment of the banking community. Aldrich himself was increasingly occupied with other legislative matters, especially the tariff, and the return of prosperity after 1908 relaxed the pressure for change. Bankers, in the meantime, began searching for unifying plans that could solidify the banking community behind a single proposal. The compromise plans were not hard to predict, and by the end of 1909 they were all to emerge at about the same time. There were certain inevitable ingredients. Regional banking centers were implicit in the clearing house movement that the A.B.A. had endorsed in 1906. Central banking of the German and English type was widely appreciated, and every banking reformer realized that to be successful any central banking plan would have to avoid the appearance of being dominated by Wall Street, and they generally understood the need to use sound commercial notes to create an elastic currency.

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Taft was no more decisive than Roosevelt on the issue of banking reform during 1909 and 1910. Despite occasional pressure on him to act, he had no concrete proposals before him and personally understood very little about banking problems. Throughout most of 1910 the issue was a dormant one, even within the banking community, and only Paul Warburg persisted in presenting a comprehensive plan of reform. Rehashing his central bank-clearing house proposal of 1907 several times, in November, 1910, he announced his "United Reserve Bank Plan" to the Academy of Political Science in New York, with Aldrich present in the audience. The proposal would create twenty regional banking associations under a central bank board in Washington elected, save for one-fifth of the directors appointed by the government, by the regional banking associations and the shareholders of the central bank's $100 million capital. The central board would fix discount rates and define procedures for the regions, issuing circulating notes on commercial paper which it purchased from the regions. Shortly after hearing his plan, Aldrich called upon Warburg to participate with Frank A. Vanderlip of National City Bank, Henry P. Davison of the House of Morgan, and Charles Norton of the Fu-St National Bank in a week-long secret conference on his estate on isolated Jekyl Island, Georgia. Aldrich was now ready to devote his major attention to banking reform, and the representatives of the most important Wall Street houses were to help him draft a bill. The confidential nature of the session was demanded if the bankers were to do their work without attaching obvious political liabilities to the final product. The plan which emerged from the conference was very much like Warburg's in principle, and Warburg claimed authorship for it even though Vanderlip actually drafted the final plan. A National Reserve Association would be created in Washington to preside over fifteen major regions. The regional banking centers, controlled by private banks, would elect the forty-five board members in Washington, but not more than four could come from any region—thereby eliminating the possibility of Wall Street control. The National Reserve Association could issue notes against bonds and commercial paper transferred to its vaults by member banks, and member banks could draw on the resources of the central bank by rediscounting commercial paper. The scheme seemed democratic enough, avoided Wall Street control, and was highly elastic. All that was necessary was to make it politically attractive. Aldrich and his associates were fully conscious of their liabilities, not merely in the eyes of the public but with other bankers as well. President Taft, on the other hand, seemed to be most amenable to the new Aldrich Plan. Indeed, Taft had relied more on Aldrich for advice on banking and monetary affairs than

on any other individual. But the President's seeming support for the Aldrich Plan was ultimately based on…

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it, and by the end of 1911 he was trying to stop bankers from using bank funds to lobby for it. Thinking the President was firmly with them, the architects of the Aldrich Plan turned their efforts to winning important banker and business support for it. A special monetary conference of all business organizations, convened by the National Board of Trade in January, 1911, passed a resolution, written by Warburg, endorsing the Aldrich Plan. At the beginning of February twenty-two key bankers from twelve cities met in Atlantic City to consider the Aldrich Plan. Sessions were closed, and all the conference publicly declared at the end of three days' discussion was that it endorsed the plan and would actively support it. In fact, the confidential minutes of the meeting—carefully edited by Aldrich to eliminate embarrassing passages showing his total control of the conference—reveal the innermost feelings of the nation's big bankers. James B. Forgan, the leading Chicago banker, made it explicit that everyone present accepted the Aldrich Plan in advance and that only "some little matters of detail" could be discussed. Indeed, the plan was endorsed at the outset. The real purpose of the conference was to discuss winning the banking community over to government control directed by the bankers for their own ends. It was made clear by the chairman of the meeting, Congressman E. B. Vreeland, that if legislation were not passed soon, the radicals would eventually try to do so. The participants were fully aware of the menace of the growing state banking movement, and referred to it many times. Although they agreed with Paul Warburg's statement that "it would be a blessing to get these small banks out of the way and have the branches" for national banks, it was realized that this would lead to terrific opposition from smaller banks.37 It was generally appreciated that the plan would increase the power of the big national banks to compete with the rapidly growing state banks, help bring the state banks under control, and strengthen the position of the national banks in foreign banking activities. Concretely, the group discussed the problems of converting other businessmen and bankers to the plan, with special interest in the possibility of exploiting the recent Board of Trade conference on the Aldrich Plan.

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To administer the league the bankers turned to Professor J. Laurence Laughlin of the University of Chicago. Laughlin, nominally very orthodox in his commitment to laissez faire theory, was nevertheless a leading academic advocate of banking regulation. He had drafted the Indianapolis Plan of 1897, and was sensitive to the needs of banking as well as the realities of politics. Thoroughly conservative, Laughlin was no sycophant, no mere tool of the bankers behind the league. Created in April by the Chicago Association of Commerce, nominally acting on behalf of the National Board of Trade, the league's leadership and board was Chicago based, composed of businessmen, and was dependent on New York mainly for money. Its stated purpose was "to carry on an active campaign for monetary reform on the general principles of the Aldrich Plan without endorsing every detail of the National Reserve Association." Its principles included "Cooperation, with dominant centralization, of all banks by an evolution out of our clearing-house experience," financial liquidity based on commercial assets, uniform discounts to all banks, and, naturally, opposition to the domination of the banking system by any interest or area.38 So long as the Aldrich Plan remained a framework

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Croly reflected the dominant political attitudes of Theodore Roosevelt, and this dependence made him incapable of viewing the operational realities of the society he lived in with sufficient perspective to truly understand it. When he finally broke with Roosevelt he passed through various phases of disillusion, having lost his source of ideas and inspiration, and ultimately ended his career writing editorials in praise of Mussolini's corporate state.

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The number of district associations was left indeterminate, and the principle of a central board in Washington to replace the Comptroller as supervisor was suggested by the President's urgings that such a "capstone" be placed on the structure. By the end of December, as Colonel House assured Paul Warburg, "the President-elect thought straight concerning the issue."14 But everyone else was thinking straight as well. Wilson's

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> The rise of the National Association of Manufacturers in the Progressive Era is due to its antilabor position, and not to its opposition to federal regulation, which it voiced only after the First World War. In fact, crucial big business support could be found for every major federal regulatory movement, and frequent small business support could be found for any variety of proposals to their benefit, such as price-fixing and legalized trade associations. Progressivism was not the triumph of small business over the trusts, as has often been suggested, but the victory of big businesses in achieving the rationalization of the economy that only the federal government could provide. Still, the rise of the N.A.M. among businessmen

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> The business and political elites knew each other, went to the same schools, belonged to the same clubs, married into the same families, shared the same values—in reality, formed that phenomenon which has lately been dubbed The Establishment. Garfield and Stetson met at Williams alumni functions. Rockefeller, Jr. married Aldrich's daughter, the Harvard clubmen always found the White House door open to them when Roosevelt was there, and so on. Indeed, no one who reads Jonathan Daniels' remarkable autobiography, The End of Innocence, can fail to realize the significance of an interlocking social, economic, and political elite in American history in this century.

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> Marx and Engels applied inconsistent definitions of the state. They usually referred to it as the instrument of the ruling class, but the interpretation of the state as an independent, classless entity was used in certain crucial spots, and at times they mixed both definitions. The political element in Marxist economic theory, as opposed to commentaries on current events, is much more clearly defined. Marxian economics is a theory of circulation, accumulation, crises, and, ultimately, social relations. It is political only in the implicit sense that Marx believed economic developments would ultimately have social and political repercussions. But his theory of economic development, save in one particular, is primarily nonpolitical in its dynamic elements. Marx' political writings were intended for practical agitational purposes; his economic theory was self-sufficient and the state was not regarded as a

means of preserving or enlarging economic power. Historically, prior to the development of the modern economy in which capital was taken primarily from surplus value created by labor, Marx regarded the earliest capital accumulation—the stage of "primitive accumulation"—as dependent on political and essentially noneconomic factors of force and power. In the breakup of feudal society the land of the agricultural producer was expropriated, and this "is the basis of the whole process" of accumulation. Naked force was used first of all, but the Enclosure Acts in the eighteenth century were the political legitimization of robbery. The result was a free proletariat for nascent capitalists to exploit, and with which to initiate a process of accumulation based on surplus value. The political basis of primitive accumulation was also apparent in colonialism, as well as the public debt and mercantilist system. And although Marx cited numerous examples that should have caused him to modify this point—the English Banking Act of 1844, for example—he nevertheless maintained that "In Western Europe, the home of political economy, the process of primitive accumulation is more or less accomplished."4 Although Marxist theory relied on purely economic categories of explanation, Marx was confronted with any number of political incidents during his lifetime—the creation of maximum hour laws, child labor laws, and similar measures in England and France—that forced him to try to reconcile these events with his theory, and in the process of doing so he formulated several inconsistent theories of the state. When discussing the English Factory Acts "made by a state that is ruled by capitalist and landlord," Marx was hard pressed to understand why the hours of labor should be limited. Rather than show that the interests of various capitalist blocs could be very diverse, or that the state was independent of the capitalists, he tried to argue that these laws were to their self-interest insofar as they prevented the exhaustion of workers. Moreover, the possible loss to the…

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an explanation of state intervention. Child labor laws were "here and there … effected by the State to prevent the coining of children's blood into capital." When Louis Bonaparte tried to extend the legal work day in 1852, Marx wrote, "the French people cried out with one voice 'the law that limits the working day to twelve hours is the one good that has remained to us of the legislation of the Republic.'" The concept of "one voice" or "society" was a classless one, and a reflection on the nature of the state. Marx showed how courts were utilized to circumvent the

proper application of the laws, or how factory owners pressured Parliament to obtain concessions, and he pointed to the various loopholes in the existing laws. But Marx greatly respected “The thoroughly conscientious investigations of the Children’s Employment Commission …,” and he exploited them to show the horrors capitalism was creating in the English manufacturing centers. Moreover, he extended this admiration to the Factory Act inspectors themselves, who applied the law ruthlessly and treated the objections of business “as a mere sham.”5

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Engels, in a polemic that virtually threw out Marx’ theory of primitive accumulation as well, took the opposite view. Force and politics could not alter inexorable economic developments, and politics either conformed to economics or was replaced by a political system capable of succumbing. “… the progressive evolution of production and exchange brings us of necessity to the present capitalist mode of production…. The whole process can be explained by purely economic causes; at no point whatever are robbery, force, the state or political interference of any kind necessary.”7 Indeed, in Engels’ case the state and politics became so passive that he, much more than Marx, adopted an interpretation which made the state a classless, abstract entity—the state of bourgeois political theory. His discussion of the transition to socialism represents a hopelessly naive mix of both definitions of the state: the state as the tool of the capitalists and the state as the nonclass, independent agent.

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By effectively ignoring the role of the state in modern capitalism, Marxism lost sight of the possible resilience in capitalism, a resilience made possible by political rather than economic power. But if the state could determine the direction of the economy, an entirely new situation might be created, and in fact was.

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