

OLIGOPOLY
AND
THE NEW ECONOMIC STRUCTURE



Ottawa, Canada

September 7th, 1943

A handwritten signature in dark ink, appearing to read "M.C. Harrington". The signature is fluid and stylized, with a long horizontal stroke extending to the right.

M.C. Harrington

UMI Number: EC55372

INFORMATION TO USERS

The quality of this reproduction is dependent upon the quality of the copy submitted. Broken or indistinct print, colored or poor quality illustrations and photographs, print bleed-through, substandard margins, and improper alignment can adversely affect reproduction.

In the unlikely event that the author did not send a complete manuscript and there are missing pages, these will be noted. Also, if unauthorized copyright material had to be removed, a note will indicate the deletion.



UMI Microform EC55372

Copyright 2011 by ProQuest LLC

All rights reserved. This microform edition is protected against unauthorized copying under Title 17, United States Code.

ProQuest LLC
789 East Eisenhower Parkway
P.O. Box 1346
Ann Arbor, MI 48106-1346

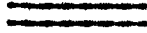
TO MY

FATHER

My appreciation goes to Reverend Father G. Sauve who suggested the reform of certain chapters and the increase of others. My sincere thanks and gratitude go to Miss Bobbie Gray, to whom I am indebted for the stoic correction of the script. Her criticism enabled me to clarify many parts of the work. Many thanks also to Miss Barbara Godfrey, who did part of the typing.

Ottawa, September 7th., 1943

C O N T E N T S



I.	INTRODUCTION	<i>p. 5</i>
II.	MONETARY REFORM	<i>p. 15</i>
III.	HISTORICAL DEVELOPMENT OF INDUSTRIAL EVOLUTION	<i>p. 42</i>
IV.	FREE COMPETITION, MONOPOLY AND OLIGOPOLY	<i>p. 57</i>
V.	MONOPOLY THOUGHT THROUGH THE AGES	<i>p. 62</i>
VI.	PATENTS, TRADEMARKS AND TRADE	<i>p. 171</i>
VII.	FUTURE ECONOMIC STRUCTURE	<i>p. 185</i>
	BIBLIOGRAPHY	<i>p. 208</i>

CHAPTER I

INTRODUCTION

The world is actually experiencing the greatest struggle mankind has ever set its eyes upon. The present economic world is the battleground of these different economic ideologies: free competition, totalitarianism, and communism, also called collectivism. We are standing at a crossroad, and the decisions reached in the post-war period will without doubt influence and determine the economic aspect of society for many decades to come. In this economic field, which one is to be the victor? For although one of the representatives of the above ideologies might be militarily vanquished, it is quite possible that its economic efficiency might permanently influence another

ideology. History will one day coldly indicate it. But to us now, it is still a matter of speculation, and as such lies in the immediate future. We know of several historical conceptions, like those of Vico, Hegel, de la Grasserie, Spengler and Sorokin. Accepting Hegel's classical Trichotomy of thesis, anti-thesis, and synthesis, we are now reaching the last stage, the one to influence our future economic structure for generations to come. Our synthesis, the synthesis of the twentieth century, will be eclectic in the sense that we will remain with the best and the most weathered conceptions of the conflicting outlooks, all fused into one, to form a totally new one, pragmatic in its essence.

Mr. Eric B. Johnston, President of the United States Chamber of Commerce, convinced of the crucial moment we are experiencing at the present, said: "Ours may be the tragic privilege of living in the greatest military crisis since Napoleon; the greatest economic crisis since Adam Smith; the greatest social crisis since the fall of the Roman Empire. But if ours is the tragic privilege, it is also the magnificent opportunity - the opportunity to mould and form and direct this society, which will lead to greater happiness, greater enjoyment of life - a society which can lead to permanent peace.

"After the war we will have the largest plant capacity in history; we will have a larger source of raw materials both natural and synthetic than we ever had; we will have the largest number of skilled mechanics and technicians ever available to any nation; we will have the largest backlog of accumulated demands for all sorts of commodities; the people will have accumulated savings with which to satisfy this backlog of deferred demands.

"To use this vast store of machine-power and manpower, we must have a new order of cooperation between government, management, labour and agriculture. A new perception by management of the problems of government will be necessary and a new understanding by government of the problems of management. We're going to have statesmen in the true sense of the word in business and in labour and in agriculture and in government." *

We thus have to tackle the problem of post-war reconstruction or, better said, improvement. Ours is a democratic world and we are fighting to conserve it. What fundamental difference exists between it and totalitarianism or communism? In our world, the democratic one, full of defects and social injustices, at least we have one great inspiration and hope that by our own effort we will

* Appeared in Raymond Clapper's column in the St. Louis STAR-TIMES, June 7, 1942

8

be able to change it and improve it. In an autocratic state, the people have no choice and thus they "convince" themselves of the infallibility and excellence of their "system".

We shall now, after our ideological framing, proceed to analyze the different forms of reform most appropriate for the post-war period. First of all we advocate a purely pluralist world as the only one able to satisfy the needs of full employment and maximum enterprise. We need for this the economic cooperation of the world. Once we have achieved this, a political one will follow as a natural consequence.

Chester W. Wright writes to that effect; "The after-war dislocation can only be overcome by thoroughly cooperative international planning, by which the overgrown structural industries of the world will be directed toward the opening up of the large undeveloped areas of the globe, where millions of new consumers can be raised by international public works - public works which, for once, can be productive and reproductive." *

There are, specifically, three forms of control possible. One is control and planning by the government, which tends to be socialistic and is not inherent to our Western way

* Chester W. Wright: Economic Problems of War and its Aftermath
Page 187

of life. Secondly, we have control and planning by industry itself, also known as "industrial self-government". It features and encourages the cartel system, the formation and growth of "oligopolies". It constitutes so to say, an autonomous body within the state. But it is not of a permanent nature, for it is a child of necessity and also purely defensive. And what we need after this war is an offensive, expanding and productive industry. Finally we come to a third form, which is some sort of cooperation between industry and government. If it is to be fruitful, it must be a genuine partnership. The relationship of government to industry is a delicate and complicated one. We must clearly realize that it is far easier and more advantageous for the government to supervise activities than it is to improve them and supervise them by direct interference. That is why "government regulation" is more appropriate than "governmental control or operation".

The danger of excessive state intervention and the role of industry have been concretized by the already-mentioned Mr. Johnston. He states: "Super-statism is not a bogey of the businessmen's imagination. It is the monster which has catapulted the world into war.... Unless

we recognize it as a real danger we shall lose by default."
"American business and industrial management has made its mistakes, but it has also demonstrated and is demonstrating in the war effort its great capacities. It must think in terms of the fifth decade of the 20th Century.... The most urgent of its responsibilities is to provide more equal opportunity for production, for employment and for economic self-improvement." *

The NRPB (National Resources Planning Board of Washington) advocates a specific program, containing four main points. The first is a program of industrial research and investigation to be undertaken by the government. But this point is incontrovertibly linked with the second one, the control or total reform of the patent system. It distinguishes between "primary" and "secondary" patents, with a very discriminating degree of control over the second ones. Consideration is also given to the problem of "patent pools" and the NRPB advocates the idea of governmental acquisition of "unused" patents, which certain corporations have not exploited. This problem of patents is more extensively treated in a later chapter.

The third point in the program refers to the problem of private enterprise and governmental control. It states

* Mr. Eric Johnston in "The Road to Realism" as quoted in TIME, April 5, 1943

that the "monopoly" problem is nowadays more acute than ever, for the war has favoured the formation of big corporations which have received the majority of contracts. Seventy percent have gone to one hundred corporations, while nine percent have gone to one single one. It is this problem which constitutes the main basic problem of this thesis: the problem of what our actual economic structure is and if we should advocate an entirely new system or if we should "clean out the attic" of our present system. Is the word "monopoly" appropriate to designate a specific form of our system?

To be able to formulate plans for our future economic society it is necessary to investigate two main points, the principal thoughts on monopoly and the different forms of economic associations. As the title of this thesis indicates, I have chosen the word "oligopoly" to explain a part of our actual economic structure. Other words similar to the one chosen are ~~plutocracy~~ and polypoly. The first makes reference only to the idea of wealth. The other is too ample, for its stem "poly" refers to quantity, which is too extended for what the majority of industrial combines are. Oligopoly, its first stem meaning "few", is the appropriate word to explain the actual economic structure of industry. The following table will illustrate the reason for the

choice of the word to elucidate our main actual economic structure:

NEW YORK TIMES, December 3, 1938:

	<u>NO. OF IMPORT/ COMPANIES</u>	<u>% OF TOTAL OUTPUT</u>
Automobiles	3	86
Beef Products	2	47
Cows	3	90
Cement	5	40
Cigarettes	3	80
Copper	4	78
Corn Binders	4	100
Corn Planters	6	91
Flour	3	29
Iron Ore	4	64
Lead	4	60
Oil Wells	4	20
Plate Glass	2	95
Safety Glass	2	60
Steel	3	60
Whiskey	4	58
Wood Pulp	4	35
Zinc	4	46

We now come to the last point of the program of the NRPB, which is the entrance of government directly into "certain" fields of economy in the form of a "mixed corporation". This is what new revitalized industry must avoid, and as long as it takes dynamic attitudes and constructive enterprise as its guiding slogan it will not be necessary. If, on the other hand, it should show itself to be indispensable, this will mean but a final step towards state-socialism and the defeat of industrialism. In our society, government is the nation's instrument for the development of its social and economic welfare in those spheres wherein individuals and private enterprise cannot achieve effective results.

One remarkable item can be observed in all post-war problems, and in this specific case it even permeates the report: that all these points are governed by an ideology of abundance or "expanding economy" and equality of distribution. This means that, even if the supply of goods exceeds effective demand, government must add to the people's capacity of spending. It is an outright responsibility of government to balance production and demand. The Dominion Bureau of Statistics of Canada, a Government organization, has proved that 83% of the wage-earners and salaried workers

in 1941, a time of almost full production shortly before the freezing of wages and farm prices, were earning incomes of \$1,500 a year or less. Figures thus prove to us that 60% of Canadian families earn less than \$1,000 a year. We clearly realize that the average income must be at least doubled in order to make all the commodities available to these people and at the same time assure full employment through full production. This entails a reform of our actual monetary system and a daring use of long-term credits. So important do I consider this matter, that I have dedicated a chapter exclusively to it.

CHAPTER II

MONETARY REFORM

The essential character of our post-war economic world, if we are to adhere to what I have expounded in the first chapter will be abundance, an abundance of economic goods. These goods must be made available to the great masses, otherwise we shall return to our pre-war standards of restrictions at the expense of higher prices. If we return to that stage, the socialists will have every right to expropriate property; and by that I mean in particular all that property which is used to produce the goods needed for the enjoyment of the masses.

Socialism, unlike communism, does not seek to expropriate

property in the strict sense of private possession. Our actual economic system is characterized by two main drawbacks: firstly, a wrong distribution of wealth and income, and secondly, an insufficient amount of production to stabilize a standard of living in accordance with the latest technological advances.

Business cycles have fluctuations, called inflation and depression or deflation periods. Of the two, the latter is oppressive, for it is exploited and exaggerated by the privately-owned banks. The masses, and in particular industry, are very apprehensive about a post-war depression, in which the banks would seek to recuperate their war-time losses. A new philosophy must animate the bank managers. The salvation of our actual system is only possible by making a clean sweep of and revivifying our economic institutions. If we fail to do so, we shall find ourselves with a totally new system on our hands, a system which is untried and therefore subject to many faux-pas. We must have full production, including full employment, after the war. Toward that end, our actual privately-controlled monetary system must change. Let us see what Milo Perkins, Director of the Board of Economic Welfare in the United States, has to say to this: "Within your life-

time and mine, men have entered an era dominated by the machine and test tube. If we take all that can be produced at the end of this war and divide it among the people who will then be alive to share it, we shall be within reach of a very good standard of living for the first time in all history. That will be the most important material thing that's happened to the human race since the discovery of fire and the invention of the wheel... The job of the future will be to build up a mass consumption great enough to use this mass production. That will require a bold and daring use of long-term credits by every enlightened government of the world." *

The problems and controversies surrounding the old monetary system are polymorphic and are generally centered in an attack on the gold standard. The small nations remember too well this typical nineteenth century system, which at the beginning was quite satisfactory, but later broke down as it was concentrated in the hands of a few international bankers. It was used as a club behind the door, as a competitive weapon in international markets. The Most Reverend William Temple, Archbishop of Canterbury, referring to our actual system, states: "In the case of money, we are dealing with something which is handled in

* FREE WORLD, P. 336, April, 1943

our generation by methods that are extremely different from those in vogue a century and a half ago. When there was a multitude of private banks, the system by which credit was issued may perhaps have been appropriate, but with the amalgamation of the banks, we have now reached the stage where something that is universally needed - namely money or credit, which does duty for money - has become in effect a monopoly." * Thus, The Most Reverend William Temple expresses himself about the actual monetary situation and demands the ending of the rule of that caste who control the livelihood of a nation. Although this chapter stands out from the main line of the thesis, of which the object is to analyze the theory of monopoly and oligopoly, as well as the future economic structure, I have included a short synthesis of the actual money problem because it directly affects industry. For industry's main fears are the consequences of a depression. Since deflations are mainly "artificial", by which I mean that they are over-accentuated by the banks for their own profit, the industrialists are the first to suffer. It is not possible to expect industrialists to engage in production when they are fearing that before their product can reach the market, prices will have fallen below the cost of

* New York HERALD, September 27, 1942, Page 34

production. The state, on the other hand, in order to pay off its debts to the banks, taxes and surtaxes industry. As the banks retire their loans, industry cannot obtain any, as it cannot sell its products at production costs. On the other hand, trade unions maintain high salaries although sales and profits fall. The so-called industrial era has been very much criticized. It is erroneous to state that there has been such an era. More justly should it be called the bank era, for how can we speak of an industrialized era when the precepts of abundance are not in vogue and those of scarcity are maintained artificially? We are still in the fight of quantitative money versus qualitative, and the latter is still winning. Any reforms and attacks against economic associations fall to pieces and are useless unless we first change the actual monetary situation. This is the first main point of this thesis. Attesting to the above, let us see what His Holiness Pope Pius XI remarks to that effect: "Immense power and despotic domination are concentrated in the hands of few. This anomaly of super government by a few world financiers must be corrected by securing the control of credit in the hands of responsible public authorities." He termed it: "The deadly damnable world empire of money control."

Furthermore, President Woodrow Wilson, referring to the contraction of financial power, stated: "The great monopoly in this country is the money monopoly. So long as that exists, our old variety and freedom and individual energy of development are out of question. A great industrial nation is controlled by its system of credit. Our system of credit is concentrated. The growth of the nation, therefore, and all our activities are in the hands of a few men; who, even if their actions be honest and intended for the public interest, are necessarily concentrated upon the great undertakings in which their own money is involved and who, necessarily, by every reason of their own limitations, chill and check and destroy genuine economic freedom." *

Kitson, Soddy, Maynard Keynes, Dr. Eisler, McGeer, and others have dedicated their entire lives to attacking the existing monetary system. The tragic fact is that the Axis Nations, our opponents, are the only ones who have understood their teachings; this is a fact and a lesson that New Democracy followers should everlastingly keep alive in their minds. The industrial boom and rapid increase of output which those countries experienced as a consequence of the adoption of this new outlook can only be too measured by the flood of conquests they have had to their credit up to

* Louis D. Brandeis, "Other People's Money", Page 1

date. Luckily the United Nations are awakening.

Professor Frederick Soddy very accurately makes a description of our actual "free enterprise": "The rest of the gainfully employed population is either engaged in bargaining as to the price and trying to sell the product to people with insufficient money to buy or actually deriving a livelihood by obstructing or hindering production. So it is in the international sphere; fiscal entanglements of every kind are erected to prevent the smooth exchange of the abundance of one nation with that of another." *

This is definitely no age of scarcity, but of abundance. Wealth is a flow and not a store. "All that is needed is a common and a loyal cooperation to make the output larger and more evenly distributed.

Mr. Arnold, former Assistant Attorney General, says to this effect: "The war is compelling us to face the realization that only production is wealth and that nothing else can give either an economic or military strength. Throughout the Thirties we thought Germany and Japan were going bankrupt because their sole economic policy was production and they cared nothing about bookkeeping values. We now see our error, and out of the realization of that error can come the economic vision of the future.

"This war is going to increase our economic capacity more than we ever dreamed of in the days of our depression. It is going to destroy the economics of scarcity and usher in the economics of abundance and opportunity....

'On the other hand, the controllers of war production, both in the United States and in Great Britain, have lately emphasized in the strongest terms that the capacity to produce goods is now so immeasurably great that every person in the world should be able to live in comfort. For example, Donald M. Nelson, chief of the U.S. War Production Board, tells us that the sum total of the world's output means more than enough for everyone; Sumner Welles, Under-Secretary of State in the United States, tells us that we can readily produce what mankind requires and that the problem is one of distribution and purchasing power; Oliver Lyttelton, British Minister of Production, tells us that all there is to worry about is whether or not we can find a market for the goods that can be produced by this modern world's immense productive machinery; Milo Perkins, Executive Director of the United States Board of Economic Warfare, tells us that the battle will be won when we have built up mass-consumption to a point where markets can absorb the output of our mass-production industries, and so on. But not one of these men

with a full knowledge of achieved results and of deep thought, has suggested definite means of securing these benefits that only await realization after the war, that is, beyond programs of public works, which form a palliative but no change of economic policy." *

The object of this thesis is to make clear the necessity of a reform of the monetary system, for the new system will place in the hands of the people the means of acquiring that abundance to be derived from industry. In the conviction that we owe our actual standard of life to our capitalist system, I believe that we need not go to the extreme of socialism in securing the benefits of industry for the people. There is a midway path, eclectic in its form, wherein industry, this time in alliance with labour, will form a compact system, based on efficiency, and will counteract the ever-increasing power of government. We can reform industry. Industry will reform itself. Not because of altruistic principles, but because it realizes that if it does not, expropriation will make it a government agency.

Let us retrace the evolution of the actual monetary system. At first the money lender lent gold, but gradually, as his reputation and seriousness increased, he issued "promises-to-pay-gold", still later cheques, which were

* The OTTAWA CITIZEN, February 23, 1943

claims on the bank for money, and it was then that the banks appropriated credit which did not belong to them, but was a precious possession of the people.

Depression, artificially created, has the immediate consequence that the demand for borrowing drops markedly, so the bankers are "forced" to and allowed to buy property with the money they issue. This is called an open market operation. The owners of securities, possessed by the panic, sell out, obtain a cheque and deposit it at the bank; thus a whole process has been evolved, only to revert again to the bank, which can show an increase in deposits. Banks never assist industry, for having by deflation suddenly withdrawn their loans, they put the industries of the nation "on the mat". In order to reinflate the monetary cycle, they finally have to "assist" themselves.

Money is the conglomeration of the real things the aggregate citizens are owed and entitled to receive on demand in exchange for money. It is no simple bookkeeping of numbers, which as the banks do it, can be negative or positive; whereas the first is really an impossibility. We have arrived at the disgusting position of having to give securities of ourselves to the banks whilst they offer no protection, a really absurd situation. Finally, when a bank sees itself in

a tight spot, the state offers a moratorium and national money as security.

How did the banks arrive at this situation? I quote again Professor Frederick Soddy: "The capacity of the banks to create money without giving up anything for it depended on their having always enough legal tender (convertible into gold) to meet the demands of their depositors, that is, of those who have deposited money on 'current accounts'. In practice it was found that 15% of the total deposits sufficed for their safety, but as the use of cheques continually increased, the percentage falls." * Banks nowadays, on every one dollar lend out nine. No wonder they further the attention of the public to politics, which is not the real issue, although it appears to be so. This privilege is a much too valuable fruit to "lose" to the people, its rightful possessors. Also, they prefer to lend to the government rather than to the industrialists. Our current saying: "what do you get for money" should read: "what do you give up for it". The more quickly the public realizes and becomes dynamic about the fact that the bank's credit is in reality its debt and is the people's credit and not the bank's, the nearer we will be to that new era of abundance.

Trade can never be free as long as the mechanism of

* Soddy, "The Role of Money"

trade is held as a private monopoly, so let us analyze the two schools of monetary reform: 1. a genuine permanent national money issued by the state after the increase of production is ready for consumption (distribution), solely according to statistical regulation to maintain price level constant; 2. issuing "ad hoc" credits for definite production purposes; the credits being destroyed and recreated again at each round of the cycle of production and consumption. The second offers the disadvantage of the possibility of inaccurate and deceitful bookkeeping. The first is far more practical. In the first case, how and when would money be issued? No new money can be issued unless there is an increase in the rate of production. The demands of the public are a constant price index. A body of high salaried men would be entrusted with the determining of the price index. They would have the integrity of a Supreme Court and an autonomous status free from the legislative power, certainly not under the financial department, whose sole job would consist of informing the legislature of the amount of money necessary. Upon this recommendation, it would have the financial department emit the money with the inscription value received, not promise to pay to bearer.

The following factors would have to be taken into account by the Commission:

- a) quantity of goods offered for sale;
- b) cost of living (of a type of family chosen as typical);
- c) amount of dollars circulating.

The value of the money unit is determined by the number of units in circulation multiplied by their velocity of circulation. Money is a denominator of values. A new emission of money cannot distribute the products without causing inflation, unless the consumer has refrained from buying. Only the gradual emission of money as the products arrive on the markets is the guarantee of a passing from an inferior to a superior stage of production and consumption, thus offering work for all! The price index shows the shortness or abundance of money in relation to products. It should be regarded by the public as issued to postpone payments they would otherwise be called on to pay by taxes and they should understand that, if there is at any time too much issued, it will be withdrawn in part by imposing the postponed taxation and destroying the requisite amount of money to prevent the value of the rest falling below par.

Actually money is distributed by private men, not in accordance with the rhythm of production and consumption, but with the whim of the banker, a private individual. Financing furthermore should be done by genuine 100% savings and not on fictitious capital rented in a proportion of one to ten or

twenty! Short term lendings ought to be prosecuted by the Criminal Code. Let us see what the Babson Statistical Organization has to say in its Bulletin of March 20, 1939. It is too long to quote here, but the contents may be summed up as follows: "In order that our monetary policy may be made to conform to the new standard and become the means of attaining a high degree of prosperity and stability... there should be constituted a 'monetary authority'... neither the President nor any U.S. agency of the government should have power to alter the volume of circulating medium in conflict with the powers of the monetary authority...

"The chief loose screw in our present American money and banking system is the requirement of only fractional reserves behind demand deposits... Therefore it is highly desirable that any bank... be required to keep on hand a dollar of reserve for every dollar of such deposits...

"The simplest method of making the transition from fractional to 100% reserves would be to authorize the monetary authority to lend, without interest, sufficient cash (Federal) Reserve notes, credit, United States notes, or other lawful money to every bank or other agency carrying demand deposits to make the reserve of each bank equal to its demand deposits on a specified date.

"Under a 100% reserve requirement, the monetary authority would replace the banks as the manufacturer of our circulating medium...

"The 100% reserve requirement would, in effect, completely separate money from banking. The two are now disastrously interdependent...

"Lest anyone may think that the 100% reserve system would be injurious to the banks, it should be emphasized that the banks would gain, quite as truly as the government and the people in general...

"If the money problem is not solved in the near future another great depression, as disastrous as that of 1929-1933, is almost sure to overtake us within a few years.

"Reviewing the foregoing it should be obvious that most of the palliatives suggested in high places as remedies for post-war problems, which are largely based on 'work' do not remove what Babson terms 'the loose screw in the money and banking system'." *

The reintroduction of the gold standard means the slavery of industry, for the raising of the value of money means trade depression, strikes, lock-outs and riots with the new possibility of war. Inflation on the contrary always brings prosperity, even the "disastrous" inflation in

* The OTTAWA CITIZEN, February 23, 1943

Germany after the last war, which, although it pauperized the German middle class, gave Germany all the modern machinery which has enabled it to become again a nation of major importance. Deflation is the banker's instrument to redeem himself after a period of inflation.

We are here advocating for a return to the people of the right of emission of money, though practically it means that this right would go into the hands of the government, the representatives of the people. But here great caution is required unless we are heading for State Socialism. As Krapotkin stated: "If the state becomes the owner of all the land, the mines, the factories, the railways and so on, and the great organizer, and manager of agriculture and all the industries, if these powers were added to those which the state already possesses (taxes, defence and subsidized religions), we should create a new tyranny, even more terrible than the old one." *

Professor F. Soddy again tells us that: "An economic system is necessarily an equilibrium condition integrating the actions of the individuals comprising it, and the result cannot help being an average of all the efforts exerted by the individuals in providing most efficiently and least

* Krapotkin, as quoted in THE CLARION, New York, 1932

wastefully for their own personal livelihood. With a better physical understanding of the national aspects, and of the conversions underlying the economics of individuals, less and less interference from Government and more and more intelligent direction from those within the system itself, actively engaged in the work of supplying and satisfying the economic needs of the community, seem called for."

To this same effect, Jerry Voorhis, U.S. Congressman, states: "Finally, there must be avoided a vast aggregation of power in the hands of governmental agencies. As has been said the Government must take up and perform vigorously the necessary task of motivating full production. But there must be no dependence upon the Government on the part of the people in the prime of life, who must desire above all things to be truly free and self-sufficient. Neither need there be governmental monopoly such as public utilities and electric power or in such activities as slum clearance, reclamation, flood control and highway construction where private enterprise simply cannot cope with the job. This reduction of governmental power will not be easy to attain - especially in view of the tremendous powers the Government will have taken to itself during the war. But the better

the job of assuring a continuous distribution of a full volume of buying power is done, the less will be the need or excuse for governmental direction or control." *

Before coming to the second part of this thesis, I once again quote Professor Boddy to warn of the necessity of criticizing first the monetary system and secondly the actual economic associations: "However desirable and necessary it may be to overhaul the political, social and economic machinery of our modern state to allow scope and freedom for the new possibilities of life introduced by modern scientific progress to develop, the peculiar difficulties that have attended this progress are not due in any direct way to its obstruction by old habits of thought but by the new and totally false ideas concerning money. It is necessary in this respect to return to the fundamental basis of money as something no private person should be allowed to create for himself. All equally should have to give up for money the equivalent value in goods and services before they can obtain it."

Let us review here the salient facts and possible systems of monetary reform. Here follow the four main points of a monetary reform which I consider indispensable. The mechanism and the structure are not discussed. We shall

* J. Voorhis, "Economic Program", FREE WORLD, November, 1942
Page 121

observe later the different kinds of system proposed or in existence.

- 1) New money must be put into circulation according to an index of need. There is one grave danger that must be averted: monetary influences must not bring flexible prices out of line with rigid prices.
- 2) Savings and creation of new capital must be balanced to equalize price relationships.
- 3) The necessity of an executive body, like an economic supreme court, which will counteract any malicious tendency towards scarcity.
- 4) No private international banking influence (this does not exclude a world-wide centralization of currency)

The volume of money under our present economic system is a result of the business transactions of banks, which seek profit as an end. Four-fifths of our actual currency exists in the form of bank deposits, created by the banks in loans. The main deficiency of the privately-owned banks is that they make more loans when times are good, and when times are bad and we are in need of money and loans, they will not lend. I do not advocate the removal of banks, but the power of emission of money should be in the hands of an apolitical body of men, free from economic or political influences and vested with this power by the people, who really own the right of emission. To dissipate the idea of a possible nationalistic outlook in the matter of emission of currency, which is of course national in its scope, let it be clearly

understood that isolationism and its opposite, imperialism, are fatal to a world-wide reconstruction of the currency system. We imperiously need a world-wide mechanism. Let us see which systems exist to solve this most important question.

The gold standard had one great advantage, for it entailed fixation of the value of the national currency to gold units. The gold standard's stability was due to the free trade of the nineteenth century. The severe encroachments on free trade during the last forty years had as a consequence the downfall of the gold standard. In this system the internal currency was completely subordinated to the external currency. That means that if a country's balance of payments became unfavourable, it would have to ship the difference in gold to the creditor. As far as the international aspect went, everything was in the clear, but internally the country that had shipped the gold faced a deflation, which forced down prices and costs and brought on a curtailment of the domestic supply of money and credit. Thus, the country could not manage to import much more, while its exports became cheaper and easier to dispose of. Thus the equilibrium was maintained and the currency was kept stable. The preponderance of external currency over internal currency lead in time to severe criticism, of which the main

- points were:
- a) It was not self-regulating, for the deflation tended to continue after the crisis;
 - b) It created large-scale unemployment;
 - c) It threatened social stability;
 - d) Creditors gain at the expense of the debtor.

There is little wonder, then, that we see the Axis Nations, and also Russia, raising tariff walls and controlling export and import as well as currencies. They tried to subordinate the external to the internal currency, but this was just as much an impossibility. Thus all the nations were faced with a dilemma. One way out was to form government monopolies, but that was only possible when geared to a war economy. One thing was clear. The cooperation of all nations was necessary to stabilize international economic and political relations. There is a general rule for stable exchanges, absence of interference by the government in international economic relations and the maximum amount of international trade possible. Before coming to the three latest solutions to this problem, let us briefly revise the other forms in existence or on paper.

A country can either have its currency coined in gold or emit notes with a gold coverage. The second possibility is a common coinage for all the countries forming part of a world currency agreement. Thirdly, instead of each country coining money, an international clearing bank could emit the

money. Our first case has possibilities of fluctuation, the others have not. On the other hand, a deflation would be more threatening to the last two.

We now come to a second category of currency, one whose value is formed by exchange. We can stabilize a national currency, either by erecting barriers or tariffs on import trade, or by depreciating the national currency value. This second category is not advisable, since it is individualistically imperial or isolationist. Its consequences are:

1. a) Inconvenience or difficulty in accounting;
- b) Uncertainty in business;
- c) Speculation of short term capital. Into this category falls a very complicated system of exchange, worked out by Lord J. M. Keynes, called forward exchange of currencies. Basically it consists of buying or selling currencies for specific dates ahead at a fixed rate.

At the end of this chapter, I include a short review of the American, British and Canadian proposals on international currencies. All these plans entail an international cooperation and planning, including the suppression of exchange limitations and controls. The American White Plan has the "unitas" as an international unit, which would be worth \$10.00 in gold. The international fund would be controlled by its

component parts, which would fix the values of their respective countries in terms of "unitas". The voting power would be according to the contributions to the fund. The American plan favours this policy on account of the huge gold reserves America has at the present time. It favours also a return to nineteenth century free trade in opposition to the British Keynes Plan. This plan, which was published in a White Paper, stressed the necessity of other reforms besides the purely monetary one, since its ultimate object is full production and employment in the domestic economies of each Union member. Lord Keynes plan creates a new international unit called "bancor", by which all Union members would agree to determine their currencies. It would not necessarily be in terms of gold, for paper money would be accepted by Union banks. The balancing of payments, in opposition to the White Plan, would not be made by cash or gold shipments, but by drafts on an international clearing center, which would be converted into deposits at the clearing center. From these resources, the bank could make loans to those particular countries which cannot meet their obligations. This system thus avoids the inutilization of surpluses of the creditor nations by lending the money to debtor nations. The voting power in the British plan would be according to the volume of imports and exports of each

country. The other points stressed by Lord Keynes are, secondly, to adapt the framework of trade, consisting of tariffs, import regulations, subsidies, et cetera, to the above-mentioned. Thirdly, to order production, distribution and prices to prevent restriction of output and extravagant fluctuation. And last, but not least, investment aid, both medium and long-term, for countries whose economic development requires assistance from the outside.

The Canadian plan, which appeared after the two previously mentioned, has ^{five} ~~three~~ main points in its basic policy:

- 1) To stabilize exchange and to determine a regular method of exchange;
- 2) To create a convenient mechanism of compensation to balance international payments;
- 3) To facilitate for all countries the possibility of obtaining foreign currency;
- 4) To avoid short-term loans and debts;
- 5) To reestablish a multilateral system of commerce.

The Canadian plan provides for an initial international fund of twelve billion dollars, of which eight billions are to be paid at the formation of the Union, 15% in gold and the rest in national currency of the Union members. The quotas of the Union will be fixed, according to the volume of imports and exports, to the national income, and to the gold reserves and foreign currency funds of each Union member. In regard

to foreign exchange, no Union member will be allowed to depreciate his currency more than 5%, or in some special cases, up to 10%. The international monetary unit will be equivalent to 137 1/7 grams of fine gold. This gold value cannot be changed, except by a majority vote of four-fifths. Every Union member will have one hundred votes plus one for ever 100,000 units of its quota. The votes will increase or decrease according to trade balances in the proportion of one vote for every 100,000 units. The governor of the Union will be elected by the members of a council, who in turn will be appointed by the respective Union member governments. Finally, to leave the Union, the creditor nations will be required to give thirty days' notice, whereas the debtor nations will have to give a year's notice.

The equilibrium is maintained in the Union, according to the American White Plan, by a stabilization fund, by which new funds are added when necessary on a pro rata basis. The British Keynes Plan is "automatic" according to import-export balances. The Canadian plan, on the other hand, advocates an individualistic policy, to help the country which may be heavily indebted because of excessive export.

In order to make international exchanges a success and in line with our policy of abundance, certain national rights

like trade barriers and exportation must be internationally regulated. Some nations which rely too much on export must diminish it, and others which have not sufficient must stimulate it. There must be an interdependence among all nations, for this will ensure the world of a lasting peace.

Regarding the relation between money and industry, I cannot think of anything better than what that great American industrialist, Henry Ford, has said in relation to money: "We never made money our main object, we regarded it as one of the tools, one of the by-products of business, and as a result we always found that we had enough." "Money is just a part of a practical life - it saves time in exchanging goods - and is no good for anything else. People who desire to live off money, thinking that money is wealth, easily become parasites... We never believed that we could be prosperous alone. Real prosperity is prosperity for all." It is only industry, Ford stated, that can abolish poverty. "It can give the only social security human beings can know - the security of being able to produce what they need." "I know of no better way to help my fellow man than to build more and more industry, linking farms and schools and all the arts to its general purpose." He stressed the fact that his company had been able to do the things it

wanted to do because it had been "free from all stockholder and financial control." *

The object of this chapter has been to prepare the necessary mental attitude for the understanding of the following pages, which deal with thought on monopoly and forms of oligopoly. Especially toward the realization of the last chapter, the general idea of this one will have reaped its fruits.

* The OTTAWA CITIZEN, July 30, 1943

CHAPTER III

HISTORICAL DEVELOPMENT OF INDUSTRIAL EVOLUTION

With these preliminary notions well in mind, we shall now trace back the different stages of Industrial Evolution. Carl Menger's idea, a very original and a very appropriate one, points out that the primitive form of economic life was monopoly and not competition; each family produced one kind of thing which they exchanged against other necessities, barter ensuing. Soon each one realized what power he could wield in his particular trade. Abuses set in and competitors arose.

We can distinguish seven different steps in the evolution toward Industrial Integration. Into the first group fall the

clan and the family, also known as the matriarchate and patriarchate. Production is carried on exclusively among the members of the clan or family. A mild transition is the "help system", Here the independent labourer roves from house to house, offering his ability only, as the raw material is furnished by the employer, to whom it reverts as a finished product. This is an intermediate form, for its characteristic is its impermanence.

The next development we come to is the "Handicraft" system, as exemplified in the Medieval Guilds. Here the artisan is independent. As Professor E.R.A. Seligman asserts: "He no longer works in the house of the consumer. He occupies his own house, he goes to market to purchase his raw materials, he works up the raw materials in his own house with his own tools and he sells the finished product to the consumer in his own shop. We no longer have production for the family, as in the family system; we no longer have the raw material and the finished production belonging to the consumer, as in the help system. Every phase in the process down to the sale of the final commodity is in the hands of the workman himself. The workman or craftsman, moreover, finishes everything by hand, and it is for this reason that we speak of the handicraft system." *

* Edwin R.A. Seligman, "Principles of Economics", Page 91

We next turn to the fourth stage: domestic economy. Capitalist employer and workman are here for the first time differentiated. In the former stage the commodity is sold directly by the workman to the consumer. The finished product is marketed by a wholesale dealer. The workman no longer buys the raw material. Division of labour sets in. An out-of-town market has developed. The national market is slowly growing.

Then we come to the organized manufacturing system. A further division of labour sets in. Those taking part in production are distinguished as employer and employee. It entails a greater economy in cost of production. In some countries it required the intervention of the government, as in France. In England, the destruction of the guild system was due to the increasing amount of exports to foreign countries and to the colonies.

The next form that is assumed is the machine industry system. This modern turn toward production started in 1738 with Kay's flying shuttle. Other revolutionizing inventions were Hargreave's spinning jenny, 1764; Cartwright's power loom, 1785; Watt and Boulton's steam engine, 1785. In this stage, the capitalist also controls the intermediate process. The machinery is too costly for the workman to own, so the

place where it stands becomes known as the factory and is the property of the enterpriser. At the same time the stupendous increase in population is absorbed by the factory as a migratory wave sets in from country to town. "Manufacturer" no longer means the handworker, but the individual who employs others to work for him. This is what is termed the Industrial Revolution; it is necessarily coupled with other factors such as the concentration of capital; the machinery of credit and exchange is changed and acquires new life.

To bring to an end this scale of evolution, we shall consider now "integration", also known as the vertical tendency, because it absorbs the preparatory industries as well as the complementary ones. Due to freedom and technical inventions, concentration takes gigantic strides. Concentration of wealth becomes an accompanying factor. Fusions or expansions are the order of the day. Efficiency is multiplied and the productive capacity of man is increased. An economy in capital is achieved, for the capital required is less than the sum of all the small capitals needed to produce on a large scale. A further economy in work is achieved, greater salaries are paid, greater facilities are at hand for acquiring labour, capital, raw materials and buyers. By-products are also utilized. Improvements in transportation, communications, widening markets, equally add themselves to the

developments of large scale production. Horizontal integration, on the other hand, does not fall within this seventh scale, for it extends only to similar or subdititious products.

In the nineteenth century we find examples of this concentration in the manufacturing, steam, transportation, railroad, public service and metal-mining industries; in the present century in merchandising, banks, power development, commercial entertainment and insurance companies. We can distinguish three different sorts of combination. First, the simple expansion, known as the "horizontal combination", consisting in the buying up of other similar industries. Secondly, the original "integration", described also as the vertical tendency, as explained before. And last but not least, the so-called "lateral combination", where unrelated industries come under one direction. Generally, in these cases the idea is to use the man power all the year round, where there are only temporary or seasonal jobs.

Let us summarize all the advantages and disadvantages of large scale units before coming to the different kinds of economic associations:

Production advantages of large scale units -

1. Fuller development of division of labour;
2. Specialization of executives and departmental chiefs;
3. Fuller use of able men and experts and processes;
4. Advantages in buying and selling;
5. Saving of buying and selling costs;
6. Utilization of by-products;
7. Turning minor discoveries to considerable advantage;
8. Spread of fixed costs.

The main reason for the development of combines is that large scale production allows production to the greatest possible limit, as well as fullest economy in production. Other reasons are the profits of promotion, obtained by fusion or, in firmly established industries, the desire to escape "cutthroat competition".

The growth of the industrial unit goes back to the simple form of family production. In this stage there is no full use of talent possible. The next step, when division of labour is first observed, is a partnership, which is a signed agreement. But it does not constitute a legal person, thus the partners are liable with their entire private fortunes. It is limited in size. Finally we come to the limited company or corporation, which had its origin in the

sixteenth century trading companies. Its economic advantages are: a joint stock, limited liability, perpetual life, transferable shares and creation of an artificial person. At the same time the number of investors may be multiplied without limit. Legally it is a contrast between itself and the state, but on the other hand it is also a contrast between itself and the stockholders. In case of loss it is only responsible up to the amount of the invested capital. It has a better chance of working capital than the banks have. It is, or ought to be, essentially democratic, since the stockholders elect their officers once a year. Unfortunately, the board of directors does not actually direct the company. The authority lies in the hands of the first president of the corporation. Such a company possesses various forms of securities: a) common stock; and b) preferred stock (in U.S.A. has no vote, since 1935 prohibited in Canada). In other cases, stock manipulation becomes more important than efficiency of production. A reform in the actual stock market is also necessary. It should be closed to speculators and open only to people who wish to acquire values. The number of inscriptions, as well as the number of transactions, could be limited.

Ending with the preliminaries, we will now occupy ourselves with the different forms of Trade Associations or

Industrial Agreements, of which, on a general scale, we may distinguish two kinds: offensive and defensive ones.

Following is a list of characteristic forms of industrial agreements:

1. Cartel;
2. Code or convention combination;
3. Corner;
4. Gentleman's agreement;
5. Konzern;
6. Holding company;
7. Interessengemeinschaften;
8. Pool
9. Ring;
10. Syndicate;
11. Trust or merger;
12. Alliance.

We follow here with a short survey of the different forms of industrial agreements enumerated above. We can divide the whole economic field of industrial agreements into three major sections:

1. Technical or trade associations;
2. Industrial associations, which regulate activities;
3. Corporations and their different forms.

Our list contains industrial agreements which belong principally to the second and third division. The loosest form of association is the convention or combination, "wherein the parties agree to follow certain lines of conduct, which are set forth in a document". A gentleman's agreement does not require any proof of what is agreed to. It is a verbal consent. Another form is called "entente", "sometimes without any legal force, (it) ensures the cooperation of several undertakings in an enormous number of cases, quite as effectively as a full-fledged contract concluded in accordance with legal forms." * Anyone can take part in these. Now we come to the cartels, which are confined to "producers" or "entrepreneurs". Being of a defensive character, they seek to eliminate risk and thus have a tendency to change the actual economic order. As Karl Pribram says: "They are credited with paving the way for a slow but permanent remedying of the economic order and for the establishment of a more stable economic system." ** Professor Robert Liefman has various definitions in his different works. He states: "Cartels are generated by the increasing divergence between the risk involved in heavy capital investments and the ensuing profits," or: "Free associations of producers for

* Dr. Kurt Wiedenfeld, "Cartels and Combines", C.E.C.P. 57

** Dr. Karl Pribram, "Cartel Problems", Page 5

for the monopolistic control of the market." Schoenlank in 1896 defined cartels very nicely when he said that "cartels are children of necessity." The League of Nations has accepted the definition set forth by Jaccard in his book "Les Syndicats Industriels en Suisse". It is said: "Cartels are associations of independent undertakings in the same or similar branches of industry established with a view of improving conditions of production and sale." They are called "syndicates" or "comptoirs" where they have set up a common sales organization.

We can distinguish three main reasons why cartels and similar defensive associations are formed:

- a) The wish to escape from outthroat competition;
- b) To substitute certainty for uncertainty;
- c) To keep factories working at full capacity, that being the most economical way.

Alfred Plummer in his "International Combines in Modern Industry" has magnificently summed up the initial impulses which form cartels:

- 1. Severe competition arising from rapid technical progress in several countries, not accompanied by increasing, effective demand;
- 2. Fear of over-production and fierce competition;
- 3. Fluctuation of prices;

4. No production is successful without expensive research or pooling of patents;
5. Formation of production units without any economic sense;
6. Greater profits with less costs;
7. Arbitrary uneconomic division of Europe after the last war.

He then pursues his investigation and gives several favourable conditions for the formation of international combines of the cartel type:

1. Existence of small numbers of producing organizations;
2. Natural scarcity of commodity, or concentration of supplies in a limited number of regions;
3. Existence of national combines, having authority to negotiate;
4. State approval;
5. Existence of international interlacing;
6. Commodity produced is a raw material or early stage of production;
7. Ease and cheapness of transport and other means of communication over great distances. *

Let us now summarize the advantages of these cartels:

1. Economies in production;
2. Smaller common costs;
3. Economies in sales propaganda;

* Alfred Plummer, "International Combines in Modern Industry",
Page 52

4. Fairer distribution of raw materials;
5. Reduction in number of middle men;
6. Improvement in conditions of trading;
7. Standardization of products;
8. Suppression of price cutting;
9. Exchange of technical knowledge;
10. Elimination of inefficient plants;
11. Adjustment of sales quotas.

Of the looser forms of cartels, we can name the selling terms associations; these are agreements which define certain lines of conduct, like conditions of delivery, packing, shipping, insurance, standard terms of credit, ways and means of payment.

Next come the price-fixing associations, like the "associations commerciales" in France, which cannot be termed cartels, as they are only concerned with price-fixing. Uniform cost accounting associations are purely defensive enterprises that have not met with success up until now, which endeavour to rehabilitate fallen enterprises by a uniform cost accounting. In a cartel, the distinguishing factor from other loosely associated enterprises is the control it exercises over its members, which includes the power to sanction. One can have regional cartels, or finishing or bidding cartels,

~~which~~ ^{these} last are to secure government contracts while not underbidding each other. Other forms of cartels are the syndicates, which are still more closely knit, including a joint sales commission which handles all their production. The tightest form achievable is the "Interessengemeinschaft", which besides the other factors we have observed so far, also includes profit distribution. The cartel form of alliance, which originated in Birmingham, England, is a contract between a cartel and a trade union by which the cartel compromises itself to use only union members and to increase salaries when there is an increase in profits. It is a pity that this form of cartelization has not been more generally used, for at least it is on the way to parallel the interests of trade unions, which in their forms are cartels too, along with those of the industrialists or "entrepreneurs".

A code is primarily a defensive set of rules to be adopted by a group of entrepreneurs, who thusly acquire a collective monopoly or oligopoly, but with the difference from other industrial agreements in that it seeks to adjust production to cost and to keep it from falling below the latter. Every member shoulders the risks.

A pool is a combination of entrepreneurs or concerns which seeks to centralize profits, thus avoiding outthroat competition. It is also appropriate to mention here two forms,

which are very anti-social, and therefore have been severely criticized: the corner and the ring. The first is an attempt by one person to buy up all available stocks of a given commodity at current prices, depriving the market of that specific item, then to sell it at exorbitant prices. A ring is a corner attempted by a number of persons, constituting an association. There have been various attempts to "corner" in history, but they have never met with success.

We now come to combines, which belong to the third group of our initial division. These seek independence from the market, whereas cartels seek control of the market. The most famous of this group are the trusts or mergers, which occur through amalgamation or absorption. The first is the amalgamation of two similar enterprises, whereas the second is the absorption by a stronger combine of another less strong one. Two different forms are the voting trust and the holding company. In the first, a certain number of shares are deprived of their votes and are held in common by the new combine, which therefore can control a certain number of combines. A holding company, on the other hand, acquires the majority control over the shares of certain companies so that it can influence and direct its policies. A different form is the concern, which is the financial interlocking without affinity, of several combines, generally vertically. There

are also different forms of control, which we enumerate below:

1. Participation, through control of a majority of shares, (holding company);
2. Interest groups; division of profits;
3. Exchange of directors;
4. Administration of one company by another;
5. Leasing of one to another.

CHAPTER IV

FREE COMPETITION, MONOPOLY AND OLIGOPOLY

The analysis of their economic environments has led the majority of economists, right from the Physiocrats down to Mund, to deduce and formulate an extreme policy, either free or, better said, "pure" competition on the one side, and monopoly on the other. The classic school of economics was concerned with the theory of value and production. In opposition to it grew the Austrian School, more concerned with marginal utility, consumer demand and utility; it was more psychological and subjective in its nature. To prove the veracity of its new findings, it used mathematics profusely. Value was no longer considered by them as determined by

labour, but by the capacity to satisfy the consumer. Furthermore, they were more empirical, more interested in the causes of changes in market values. Thus they became interested in a theory of equilibrium. There have also been other economists who sought to combine these opposing schools, like Marshall for instance. Yet fundamentally, all these economists based their findings on one precept, scarcity. The economist of the future must be more and more conscious of his social responsibility. His deductions, if they are to be fruitful, must be teleological, and that means the study of economy in abundance, not in scarcity.

Contrary to the thesis of separating competition from monopoly, which I consider to be a totality, not opposites, we shall in this chapter see the classical assumptions linked to both extremes. First of all, we shall consider competition, in whose "infallibility" we have been brought up. It is a significant fact that, when speaking of our economic system, we always are attacking monopoly, when in reality it is older and more fundamental than competition. It is of great importance to realise this fact. The United Nations, and we must exclude the Russian concept of collectivist economy, believe in a somewhat modified version of the ideas of the great economist, Adam Smith, the father of liberal economy

and free competition. In the other camp we have the Axis nations, with their conception of totalitarianism. Essential to the actual regime of free competition is the principle of liberty, the capability or the aptitude of all to be able to take part in production at any moment and at any time. Competition assured the buyers a supply of goods at prices just above costs; it ensured an allocation of resources to different uses to satisfy demand; competition furthermore eliminated the least fit from industry. We have competition in a market when we have an indefinitely great number of producers. This led Charles Gide to say: "That the liberty to work is in practice free competition. Yet this does not preclude the idea that it is possible to have production under other circumstances and perhaps much more efficient than under our classical conception. Eloquent examples are the German, Italian and Russian systems, of which we are taking more and more practices. Free competition is the right to produce freely, it is the liberty that all men possess to produce what they want, where they want and when they want. It is the principle of liberty in production. We thus see that there are three fundamental ideas inherent to the Philosophy of free competition: 1) liberty of locomotion; 2) liberty of work; 3) liberty of contract." *

The first principle is an acquisition of the French Revolution. Prior to that date workers were not allowed to migrate and were confined to one place. The second principle is the inherent right of man to choose the class of work he desires and to be able to change positions in the course of his life. The last of the principles refers finally to the right to be able to make a contract without any restrictions other than those which are contrary to moral and good customs. These three principles laid the foundation of our capitalist system, whose salient characteristics follow. First we have the principle of self-interest, for as Adam Smith said: "The natural effort of every individual is to better his own condition." Secondly, the fundamental institution of private property is the basis of capitalism. Thirdly, under the system of free enterprise, coupled with the factor of contract freedom, we come to our system of international trading. Finally, our system is based on an equality of opportunity for all. As a last point in reference to free competition, we must remember that flexible prices, not rigid ones, balance supply and demand.

Up to now we have treated the bases, the foundations of our democratic society, on which it grew and prospered, until ~~Now~~ Now, when in view of the greatness into which our industries have developed, our system of free competition has broken down.

Some principles from the old system must be retained as a guiding torch. In practice, though, the system of competition is only found among small shopkeepers. Certain limits have always existed, for instance the exploitation of mines, for which we need the state's approval. Then we have certain space limits; into this group fall the public utilities, for we cannot imagine having several electric or gas companies in one city.

The object of this thesis is to explain the real economic formation of our actual industrial society, and toward that object we must analyze one extreme of the market, free competition. It is necessary to realize that two classical assumptions can no longer be considered indeclinable: the first that pure competition be considered the rule to which some forms of actual economic life constitute an exception, and the second, that scarcity is the rule. For it is abundance, which having first grappled with intense competition, has brought forward the desire for more orderly and more regulated production and marketing for the balance of production and demand. The actual practice of commerce of obtaining high prices when possible at the expense of low turnover, the fear of surplus and expansion, must disappear if a somewhat similar world to the one to which we are accustomed is to survive.

We shall now review briefly the inconveniences of free competition. It is said that the economic liberty is unjust, for the competitors do not compete on a basis of equality. For example, the cost of production of similar articles, which being equal in the market have the same price, is not constant and the same for all the competitors. This variable cost of production depends on certain factors: the cost of raw materials, the technical implements and elements, and the distance of the industry from its markets. Competition works out when there is a great number of producers who can produce articles of similar quality and quantity. But if we have an extraordinary variety of products, the competitive system breaks down. We shall now compare, according to classical economic teaching, the differences between free competition and monopoly, and we must always bear in mind the following points: regulation of production, quality of products and prices.

The first point, the regulation of production, is a main point in the work of Adam Smith, who stated that free competition regulates production. Thus where we have abundance, prices go down, and where we have scarcity, prices tend to go up. The same author described the economic circle. He wrote that when production is increased the price of the article falls; then the demand increases, and as the demand increases,

the price increases too. Furthermore, this "perfect" law of economics has the tendency of eliminating all unsuccessful competitors at the end of each cycle, and if we take this situation "ad infinitum", we logically arrive at monopoly. In economic reality, though, some few strong rivals remain, and this sharing of the market by few is what I call oligopoly. It has also been said, and this is the strongest point in defence of free competition, that it lowered prices and increased the quality of its articles. As regards the last point, the quality of production is over-emphasized nowadays on the seemingly competitive market, for there is no price competition. So the struggle is transferred to the selling part of production, which has acquired in the last three decades such an enormous importance. I refer to this specific problem in a chapter dedicated to patents and trademarks.

We must take for granted that free competition is based upon economics of scarcity, and the problem of our actual society is abundance, which we imperiously need and with which economists have occupied themselves the least. There has been a struggle to the death between producers and consumers from a price point of view. As for the producers among themselves, they have undercut each other to such a point as to actually sell under production costs. Then, realizing the

futility of their struggle, they have associated, and the era of fixed prices started. This phenomenon is another characteristic of oligopoly. The victor in the game of free competition has hardly ever been the intelligent, the better or honest competitor, but the sly one with greater economic capacity. The seriousness of the economic crises of the last century and of this one is due to the fact that free competition has over-emphasized the usual trade fluctuations. Free competition is also an uneconomic way of production, in which the producer puts out a quantity not in accordance with the needs of the market. This is why we have experienced such severe crises of over-production. It is planless production. It also implies a waste of energy. That is why we see systems like the Fascist and Russian ones surge; the formation of cooperative societies can also be ascribed to all these deficiencies of our actual economic system.

We next come to the other extreme of the market, monopoly. Not, as popularly represented, the antidote to free competition, but a parallel phenomenon. While I will not seek to investigate the different concepts of monopoly in this chapter, I will refer to the different causes which induce and which are favourable to the formation of monopolies, as well as the relative pros and cons of monopoly.

A monopoly can be temporary, as produced by a war, when

there is a sudden contraction in the market of an article. Then the one to have a stock left over enjoys a temporary economic privilege. At other times, monopolies are purely accidental, as the possession of a source of mineral water, or a peculiar geographical situation.

In the Middle Ages, monopolies were formed artificially. Their origin resides in legislation. To enjoy their privileges certain legal formalities are necessary. Remnants of this era still exist nowadays in the form of patents and trademarks. All these cases up to now are not subject to criticism; it is the falsely denominated monopoly arising out of concentration of capital or economic force that has been severely criticized. This abuse of economic power generally is concentrated in the hands of a few rather than in the hands of one, which has motivated me to characterize that peculiar economic situation as oligopoly and not monopoly. Into this group fall cartels and other trade agreements, either tacit or not.

A real monopoly, meaning an absolute control of the market, is an anti-social unit in a state, although before declaring it as such we should analyze its possible substitutions and dependence on other markets. These factors are very important as the monopolist has to consider them when fixing prices. This brings us to the characteristic of monopolies.

They are price fixers and, due to them, our real market situation is a mixture of fixed and flexible prices, which complicates still more our analysis of a market. If properly organized, monopolistic production is more economical for society, as a more complete and perfect knowledge of the market can adapt production to the demand and halt the frequency of crises of over-production, so very frequent and disastrous in our present economic system. A main point of a new economic system would be to balance demand and production and to seek to increase demand as far as possible. This extension of demand should not be limited exclusively to the home market, but should be made available to non-industrial nations.

Monopoly is the supreme achievement of man's egotism in a determinate economic field, as characterized by a situation at the market, the thermometer of which is prices, which it seeks to stabilize; either absolute or subject to time and to a natural geographic area; either local, national or international, while not offering a possibility of substitution or complementation.

A real monopoly can only be obtained by two methods. The first by means of political franchises, that is to say, state

grants; or secondly by the single ownership or control of a commodity. All the other situations are impure monopolies, and as such should be designated as oligopolies. For first of all monopolies may experience competition from similar monopolies or, in turn, have one or two severe competitors in the same line. These two lines are both forms of oligopoly. Oligopoly is the salient distinction of our present-day economic system, and certainly not monopoly. I do not state, however, that oligopoly is our economic system, for we are living in a pluralistic world, and our market contains three phenomena: a certain amount of free competition in small businesses, the buttress of capitalism, oligopoly, and a small minority of monopolies.

Some industries, oligopolist in their nature, have motivated economists to bring to life such concepts as "sharing the market", "stabilization of prices", "price discrimination", and "rivalry in matters other than prices". All these are different forms of control of the market, more or less obvious, with which the oligopolist hopes to escape the disasters of price fluctuations, which are characteristic of free competition.

CHAPTER **V**

On Monopoly Thought Through The Ages

We owe to the Greeks, as we owe so many other things, the first recorded use of the term monopoly. Aristotle defines the noun "monopolia" as a financial device, meaning exclusive sale, and attributes the invention of it to Thales of Miletus, regarding whom follows the story. "Thales was reproached for his poverty, which was supposed to ~~show~~ *prove* that philosophy was of no use. According to the story, he

knew by his skill in the stars, while it was winter, that there would be a great harvest of olives in the coming year; so having a little money, he gave deposits for the use of all the olive presses in Chios and Miletas, which he hired at a low price because no one bid against him. When the harvest time came and many wanted them all at once and all of a sudden, he let them out at any rate he wanted and made quite a quantity of money. Thus he showed the world that philosophers can easily be rich if they like, but that their ambition is of another kind. He is supposed to have given a striking proof of his wisdom, but as I was saying, his device for getting money is of universal application and is nothing but the creation of a monopoly." °

In the Holy Bible, in Genesis, chapter XLVII, we find an example of what the exclusive possession of a commodity can bring.

Joseph, through an exclusive stock of corn, first obtains all the money in the land, then in exchange for horses and for the flocks and for the herds of cattle, he gives the wheat, thus becoming the sole possessor, the first monopolist, although he passes it to the Pharaoh, as he does also in the third year, when the people offer themselves as slaves.

° Aristotle, Politics, Bk. I, Ch. VII

Additional examples of "corn laws" are to be found in the Old Testament, as for example when Isaac asks his brother Jacob for means of subsistence, and Jacob exchanges his birthright in exchange for wheat. Joseph, Jacob's son, could buy corn at the usual price and wait before selling it. When the supply of corn was exhausted he would then sell at higher prices.

The Greeks made a distinction between monopoly and monopolion, the latter meaning the right of exclusive sale of commodities by a private trader or by the state.⁹ The problem of paying the standing army of the early Ptolemy Kings was resolved by creating vast systems of state monopolies.

The first use of the word "monopolium" is attributed to the Emperor Tiberius, who before using it, seemed to be excused.¹⁰

~~Aristotle, Politics, Bk I, Ch. VII~~

⁹Liddell Scott, Greek English Lexicon

¹⁰Cuetonius, History of the Twelve Caesars, Vol. I, p. 26

This shows us that the problems of monopoly were not very acute in the Roman Republic. On the whole the principle of free competition was strictly followed, the only state intervention being the levying of ^{taxes} on ^{commerce}. Of course, there were certain instances of successful attempts by wealthy citizens to secure monopolies, but as Plinius wrote, there were many complaints addressed to the Senate.^o

A great change occurred, however, in the early part of the Third Century A.D. Wars, civil war and piracy had left the treasury without sufficient funds, and so the imperial treasury sought to remedy the situation by creating special laws, such as grants of private monopolies. State monopolies hardly ever occurred, as it was much more profitable for the emperor to dispose of them among his rich friends. The Romans being ^{an} eminently juristic people, had to sooner or later condense this policy to be followed towards monopoly, and thus we find the famous edict of ^{the} ^{Law} ^{of} ^{the} ¹⁴², which was later taken up by Justinian I in his *Code*, thus becoming an integral part of the law. It reads as follows:

^oPlinius, *Naturalis Historia*, bk VIII, ch p. 100 II

"We command that no one may presume to exercise a monopoly of any kind of clothing, or of fish, or of any other thing serving for food or for any use, whatever, or under a rescript of an emperor already procured, or that may hereafter be procured, or under an imperial decree, or under a rescript signed by Our Majesty; nor may any person combine or agree in unlawful meetings, that different kinds of merchandise may not be sold at a less price than they may have agreed upon among themselves.

"Workman and contractors for buildings and all who practise other professions and contractors for baths are entirely prohibited from agreeing together ~~that~~ no one may complete a work contracted for by another, or that a person may prevent one who has contracted for a work from finishing it; full liberty is given to any one to finish a work begun and abandoned by another, without apprehension of loss, and to denounce all acts of this kind without fear and without costs.

"And if any one shall presume to practise a monopoly, let his property be forfeited and himself condemned to perpetual exile. And in regard to the principals of other professions, if they shall venture in the future to

fix a price upon their merchandise and to bind themselves by agreements not to sell at a lower price, let them be condemned to pay 40 pounds of gold. Your court shall be condemned to pay 50 pounds of gold if it shall happen through advice, negligence or any other misdeed, the provisions of this salutary constitution for the prohibitions of monopolies and agreements among different bodies of merchants, shall not be carried into effect.^o

We see that even as well as the proper form of monopoly, agreements on prices, and cartel to trade, are included in this edict. Thus the only lawfully allowed forms of monopoly are those granted by the state.

In this connection we must also mention of a certain class of men in ancient Rome, who went by the name of "publicani", a name given in ancient Rome to a body of men who either hired state property or monopolies for a certain period; during which they could farm such property to their own profit.^{oo}

At certain times these men took charge of public works for their own profit, especially after the battle of Cannae; later "publicani" degenerated into the meaning of tax collectors.

^o Corpus Juris Civilis, V l. II, p. 186

^{oo} Encyclopaedia Britannica, Vol. 22, p. 626

It is not until centuries later that we find the word monopoly mentioned again. Bishop Isidorus of Spain, lists in his Glossarium a rather naive statement: "Monopolium, status ubi una res venditur."^o The condition where one thing is sold. As a matter of fact, we should not expect to find any mention of this work, as economics has suffered an eclipse as a science in the Middle Ages. Of course, certain privileges were still granted, but they were not known as monopolies like those which the Lords held within their manors. Slowly trade expanded and the era of the guild merchants came. There we see the banding together of merchants with common interests and obtaining certain grants, against financial payments. But we must not forget that the principal idea of the guilds is healthy competition (*Wettbewerb*) as we can summarize from the following work of Karl Bucher, in his book *Die Stadtwirtschaft*. "In its inner organization the city economy is determined by the idea of a living; every citizen is to find a sufficient income in his business, and is to be able to live as well as the other. The

^o Isidorus, Glossarium, in Migne, Patrologia, Vol. LXXXIII,

The principle also rules the guilds, a form of organization which unites all the members of the individual branches of industry into craft associations. The Handwerk in an office that must be administered, in the best interestsof the community. All the essential laws of the guild constitutions attempt to establish and to keep a good quality of professional work and to avoid any aggrandizement of one master over the other masters in his desire for profit. The members of the same trade are to have neighboring halls on the market place, so that a healthy competition may be possible among them. The development, moreover of exclusive laws took care that no undesirable competition for the city trades should arise in the country."^o

Sometimes, of course, attempts were made to form a monopoly. Thus in Norwich, England, some handlers were fined for coming to an agreement "that none should sell a pound of candle at less than another."^{oo} Many other instances are to be found in which attempts were made to come to an agreement on prices. Some modern writers would no doubt include this restriction of trade,

^oBücher, Volkswirtschaftliche Entwicklungstufen, p.13

^{oo}Last Jurisdiction in the City of Norwich, p.59

that the ^{olds} ~~guills~~ represented, in that one calls group monopoly (*oligopoly*) . In certain instances, certain exclusive grants went under the denomination of *privileges*, a Latin word signifying absence of privation of something. Gradually, as Aristotle was more and more read, the old word *monopolium* was brought more and more into use. It meant either the right of sale obtained from the prince for a given payment, or the sole sale of a commodity by one man or by a group of men. Those obtained with a license were the lawful monopolies, whereas the ones acquired without were considered illicit.

In the following pages we shall see the current thought on monopoly, in modern times coupled with the word trust. We have seen its primitive meaning and the further we advance the more controversies we shall see. So let us see what Richard T. Ely, has to say upon this matter: "While a precise definition of monopoly cannot be expected to produce harmony of views concerning monopolies and trusts, it paves the way for an intelligent discussion of the scientific and practical problems, which they present and for their settlement. It is also suggested that should no one take part in the discussion of these problems until he could explain to himself and others what he had in mind, when he used the word monopoly, the

volume of discussion would for some time to come be very sensibly diminished, while, on the other hand, the improved quality of utterances relative thereto might be sufficient compensation for their diminished magnitude. But it must be admitted that the confusion of thought on our subject extends beyond the general public, even to our experts in economics. By them, as by the general public, all sorts of things, differing as essential characteristics, have been frequently lumped together as monopolies....Manifestly, there are some large and vague notions to which the current discussion of monopoly may be traced. In a general way, it will doubtless be admitted by all that there is a distinction between free competition and monopoly... There is no other term to which, in general usage, monopoly is so antagonistic as it is to competition; and this fact must be our starting point."^o

For this reason, in the next pages we will analyse thought on monopoly since 1500 to our times, to see the developments, and to draw our conclusions.

Related to the problem of monopoly, we must mention and define the three words: engrossing, forestalling and regrating. The first was defined by an English statute of 1552 as "buying corn growing, or any other corn, grain,

^oR.T. Ely, Monopolies and Trusts, p. 2-3-4-

butter, cheese, fish or other dead victual, with intent to sell the same again." ° It was severely punished by a statute passed by Edward VI (1552). In forestalling, the main idea is the action of buying produce up before it reaches the market, or to pay for non-participation in a determined market. °° The first idea was to buy wholesale and to sell again in a wholesale manner; regrating falls also into this category. In Beach's book "Monopolies and Industrial Trusts," (p.5 and 6) we find the above ideas legally formulated:

"Regrating: In old English Law, the offence of buying or getting into one's hands at a fair or market any provisions, corn, or other dead victual, with the intention of selling same again in the same fair or market, or in some other within four miles thereof, at a higher price. The offender was termed a regrater- Black Law Dictionary.

^{Re}
"Forgrating: In criminal law every practise or device, by act, conspiracy, words, or news, to enhance the price of victual or other merchandise, is so denominated.

"Forstalling the market. The act of buying or contracting for any merchandise or provision on its way to the market with the intention of selling it again at a higher price; or the dissuading persons from bringing

° Encyclopedia Britannica, edition 11, Vol. LX H.646,C

°° " " " 11 " X H.644,D

their goods or provisions there; or persuade them to enhance the price when there--" Blackstone Commentaries, 158.

In the same book by C.F. Bench, we find Lord Coke's definition of monopoly: It consists in power granted "to any person or persons, bodies politic or corporate, for the sole buying, selling, making, working or suing of any-thing, whereby any person or persons, bodies politic or corporate, are sought to be restrained of any freedom or liberty that they had before, or hindered in their lawful trade."

Blackstone, in his Commentaries, on the Laws of England, says: "A Monopoly exists where all or so nearly all of an article of trade or commerce within a community or district is brought within the hands of one man or one set of men, as to practically bring the handling or production of the commodity or thing within such single control, to the exclusion of competition or free traffic therein. Anything less than this is not a monopoly."

Slowly all over Europe the craft guilds formed themselves. For, as their concerted action brought prosperity to them, it attracted many outsiders, who then started to migrate to the cities. Those already living in the city formed societies, extremely rigid in their structure. Thus in England, by an ordinance of Edward II,

every citizen was required to be a member of some trade, which formed so-called livery companies. The origin of the word livery comes from the fact that they wore a distinctive dress or livery. These trading fraternities became corporations under Edward III. Even the spiritual needs of their members were taken care of by common dinners and masses. L. Brentano in his book on Gilds, "holds that it is wrong to represent such regulations as monopolistic, inasmuch as there was no question whatever of a monopoly that time nor until the degeneration of the craft guilds into limited corporations of capitalists... The capitalists gradually assumed the lead in the various societies, the richer members, engrossed the power and the companies tended to become hereditary and exclusive."

Another sort of company was also being called into life, the chartered company, so called because it obtained privileges by means of royal charters. Those who could not obtain a mastership resorted to building, their own homes. The materials were furnished, collected and sold by those companies. International trade was starting to expand. Thus the nucleus of future industrialism formed itself. Those dedicated exclusively to foreign trade became known as regulated companies. Since the time of Edward III and his

^o E.B. Vol 16, p.810A

granting of patents or royal grants, a bitter battle started between Parliament and the executive, as to the legality of these grants. Many grants were issued and many declared illegal. In the decades of Elizabeth's reign, the granting of privileges reached a new high level, as were recompenses were given for numerous services rendered to the crown, especially as the state treasury had no funds with which it could pay its debtors.

Let us quote here a passage from Hume's History of England giving a detailed and compact idea of the existence of monopolies in England, at the time:

"The active reign of Elizabeth had enabled many persons to distinguish themselves in civil and military employments; and the queen, who was not able from her revenue to give them any rewards proportioned to their services, had made use of an expedient which had been employed by her predecessors, but which had never been carried to such an extreme as under her administration.

She granted her servants and courtiers patents for monopolies, and these patents they sold to others, who were thereby enabled to raise commodities to what price they pleased, and who put invincible restraints upon all commerce, industry, and emulation in the arts. It is astonishing to consider the number and importance of those commodities which were thus assigned over to patentees. Currants, salt, iron, powder, cards, calf-shins, fells, puldaves, ox-shin bones, trainoil, lists of cloth, potashes, aniseseeds, vinegar, sea-coals, steel, aqua-vitae, brushes, pots, bottles, saltpetre, lead, accidents, oil, oil of blubber, glasses, paper, starch, tin, sulphur, new drapery, dried pilchards, transportation of iron ordnance, of beer, of horn, of leather, importation of Spanish wool, of Irish yarn: these are but a part of the commodities which had been appropriated to monopolists. When this list was read in the House a member cried: "Is not bread in the number?" "Bread?" said every one with astonishment. "Yes, I assure you," replied he, "if affairs go on at this rate, we shall have bread to a monopoly before next Parliament." These monopolists were so exorbitant in their demands that

in some places they raised the price of salt from fifteen pence a bushel to fourteen or fifteen shillings. Such high profits naturally begot intruders upon their commerce; and in order to secure themselves against encroachments, the patentees were armed with high and arbitrary powers from the council, by which they were enabled to oppress the people at pleasure, and to exact money from such as they thought proper to accuse of interfering with their patent. The patentees of saltpetre, having the power of entering into every house, and of committing what have they pleased, in stables, cellars, or wherever they suspected saltpetre might be gathered, commonly extorted money from those who desired to free themselves from this damage or trouble. And while all domestic intercourse was thus restrained, lest any scope should remain for industry, almost every species of foreign commerce was confined to exclusive companies, who bought and sold at any price that they themselves thought proper to offer or exact.

"These grievances, the most intolerable for the present, and the most pernicious in their consequences that ever were known in any age or under any government, had been mentioned in the last Parliament, and a petition had even been presented to the queen, complaining of the

patents; but she still persisted in defending her monopolists against her people. A bill was now introduced into the Lower House, abolishing all these monopolies; and as a former application had been unsuccessful, a law was insisted on as the only certain expedient correcting these abuses. The courtiers, on the other hand maintained that this latter regarded the prerogative and that the Commons could never hope for success, if they did not make application, in the most humble and respectful manner, to the queen's goodness and beneficence. The topics which were advanced in the House, and which came equally from the courtiers and the country gentlemen, and were admitted by both, will appear the most extraordinary to such as are prepossessed with an idea of the privileges enjoyed by the people during that age, and of the liberty possessed under the administration of Elizabeth. It was asserted that the queen inherited both an enlarging and restraining power; by her prerogative she might set at liberty what was restrained by statute or otherwise, ~~and by her prerogative she might set at liberty what was restrained by statute or otherwise~~ and by her prerogative she might restrain what was otherwise at liberty: that the royal

prerogative was not to be canvassed nor disputed, nor examined; and did not even admit of any limitation: that absolute princes such as the sovereigns of Ireland, were a species of divinity: that it was in vain to attempt tying the queen's hands by laws or statute; since, by means of her disposing power, she could loose herself at pleasure: and that even if a clause should be annexed to a statute, excluding her dispensing power, she could first dispense with that clause and then with the statute. After all this discourse, more worthy of a Turkish divan than of an English House of Commons, according to our present idea of this assembly, the queen, who perceived how odious monopolies had become and what heats were likely to arise, sent for the speaker, and desired him to acquaint the House that she would immediately cancel the most grievous and oppressive of these patents.

"The House was struck with astonishment and admiration and gratitude at this extraordinary instance of the queen's goodness and condescension. A member said, with tears in his eyes, that if a sentence of everlasting happiness had

been pronounced in his favor he could not feel more joy than that with which he was at present overwhelmed. Another observed that this message from the sacred person of the queen was a kind of gospel or glad tidings, and ought to be received as such, and be written in the tablets of their hearts." °

Many famous chartered companies are known better by their actual name, like the Hudsons Bay Co, the East India Co, and many others trading in the colonies. They soon degenerated into stock companies, thus increasing their potentialities. Their position in the respective colonies can be defined as constituting a monopoly, when not an absolute one. "Under the old regime, everything was a matter of monopoly and privilege, and to this state of things the constitution of the old companies corresponded, the sovereign rights accorded to them being also quite in accordance with the views of the time. It would have been thought impossible then that private individuals could have joined the funds and maintained the magnitude of such enterprises." °°

In far away Japan, we find instances of commercial organization, as rigid in its form as the European Gilds,

° Hume, "History of England, Vo. IX Chapter XLIV

°° E.B. Vol.V, p.951L

as far back as the 12th century. One named Tutegoto organized the fishmongers of Cedo into one giant pile, obliged them to sell their produce to the wholesaler merchant (a new innovation) who had advanced them the necessary funds for boats and nets. The wholesaler merchant had to sell in the open market at prices fixed by the confederation.

The word monopoly was introduced into England by the book written in Latin, Utopia, by Sir Thomas More, "suffer not these rich men to buy up all, to engross and forestall and with their monopoly to keep the market alone as please them."^o Thus it became to mean the result of the act of engrossing in the English language.

In 1569, the word monopoly entered English law, in the case of Davenant vs Hardis. The judges stated that the word was not in the sense of "solus vendere." They proved it to be contrary to Roman Law (Zeus Code) and to common law because it restrained liberty. In another famous case of Darcy vs Allen, the court declared the patent, granted to Darcy for the exclusive right of making and selling playing cards, void, for it constituted a monopoly.

^oT. More, Utopia, Bk.I p.18

After the introduction in Parliament of several bills, the Statute of Monopolies was passed in the reign of James I. This made all monopolies illegal, excluding those granted by Parliament or special grants as needed for inventions, known as patent rights. Sir Edward Coke, a noted commentator of the new statute, stated: "It appeareth by the preamble of this act that all grants of monopoly are against the ancient and fundamental laws of this kingdom and therefore it is necessary to define what a monopoly is. A monopoly is an institution, or allowance by the king, by his grant or otherwise to any person or persons, bodies politic, or corporate of or for the sole buying, selling, making, working, or using anything, whereby any person or persons, bodies politic or corporate, are sought to be restrained of any freedom or liberty that they had before, or hindered in their lawful trade."^o

The restrictions and regulations of trade reached their zenith during the seventeenth century. The Navigation Acts were passed in 1651 and 1660, obliging English subjects to use English ships for all goods imported or exported to Asia, Africa, America, besides restricting

^o Coke, The III part of the Institutes (Chapter LXXXV p.121)

the export of English goods to English ships to the continent. At about this time we start encountering our first economics writer, Gerard Malynes (1622). His opinion was that all these privileged companies and guilds up till now encountered could not be considered monopolies. The essence of monopoly was to be the sole sale of goods by one or more people and the exclusion of potential rivals as he says in his treatise: "The just definition of a monopoly therefore is a kind of commerce in buying, selling, changing, or bartering, usurped by a few and sometimes built by one person and forestalled from all others to his or their private gain and to the hurt and detriment of other men: whereby of course or by authority the liberty of trade is restrained from others, whereby the monopolist is enabled to set a price of, commodities at his pleasure." °

Malynes further classified the monopolies into three different forms as reasonable, unreasonable and indifferent. Although he includes a number of commodities in the three groups, one could not accept them nowadays. Another contemporary writer proposes the following definition of monopoly:

° 6. Malynes, *Lex Mercatoria*, p.214

"The parts then of a monopoly are twain. The restraint of the liberty of commerce to some or a few, and the selling of the price at the pleasure of the monopolist to his private benefit, and the prejudice of the public. Upon which two hinges every monopoly turneth." °

As time marched on, in France and England the revolt against mercantilism gradually ripened and laissez-faire'ism strode into the limelight. The statutes of apprenticeship, as well as the Navigation Acts, were attacked bitterly by the English and French schools, of which we quote a protest by A Smith: "It is a dead weight upon the action of one of the great springs which puts into motion a great part of the business of mankind. By rendering the colony produce dearer in all other countries, it lessens its consumption and thereby cramps the industry of the colonies, which both enjoy less, when they pay more for what they enjoy, and produce less when they get less for what they produce. By rendering the produce of all other countries dearer in the colonies, it cramps, in the same manner, the industry of all other countries, and both the enjoyments and the industry of the colonies." °°

° Misselden, Free Trade, p.57

°° A. Smith, The Wealth of Nations, Vo.II, p.93

The new era of free trade was being actively advocated. Josiah Tucker writes in his Essay on Trade, (page 88): "Birmingham from a place of little consequence, is now becoming one of the most flourishing and considerable in the kingdom. And there is not a town, with its exclusive charters, that can boast of so many skillful artists, as this which admits all comers. Moreover there are fewer beggars in this town, Manchester and Leeds, where all are free, than in any which has companies of trades and exclusive charters. "Thus the growth of industrial England was due to these free charter cities. A. Smith referring to the mercantile system states: "Monopoly of ~~of~~ one kind or another, indeed, seems to be the sole engine of the mercantile system." °

Among the authors of the new trend in economics we must mention Josiah Tucker's contribution to the problem of monopoly. He spent many years in keen observation and minute study, before putting down his ideas. In what he justly described as "self love", or what we call egotism, he saw the motor of all economic activity. In economics though this principle leads

° A. Smith, The Wealth of Nations, Vol. II, p. 129

inevitably to monopoly, because of the natural desire to suppress competitors. He offers a solution to the problem, not by elimination of self love, which is not possible, but by stimulation of competition, whereby self love can serve a nobler end. Public welfare goes before self-welfare. In his "The Elements of Commerce," he states: "That in a commercial sense, every exclusion from the common benefit of trade due to all men by natural right is a monopoly. And the degrees of this monopoly are either greater or less in proportion to the restraints and abridgments of such natural right."^d He was the first to discern the motive of monopoly, therein lies his merit.

We next come to the father of classical economy, Adam Smith, who distinguishes between two kinds of monopolies, one a legalistic one and the other, what he calls "enlarged." The first he does not condemn, for he sees in it an exclusive permission of sale bestowed by the government, in what would be called nowadays patents and copyrights. He even sanctions the grants in cases where it is given to joint stock companies for undertaking trade with "remote, barbarous" countries. He

condemns and classifies as "enlarged monopolies" those associations which restrain employment and which in their particular branches keep prices up.

As monopoly discussions are centered generally around price and profit, we see Adam Smith analysing the difference between monopoly and competition price, although he does not consider the important factor of elasticity of demand, or the problem of substitution. Monopoly can be produced by the limitation of supply, or control over supply. His central idea was that a "natural price" should be as near as possible to the cost of production and monopoly is far above it, although monopoly in the majority of cases cannot afford to have the "highest price." Smith thought that if restrictions and regulations were slackened by the government, these "enlarged monopolies" could turn more to free trade, although he clearly realised that the spirit of monopoly prevailed among the businessmen and artisans of his time. His free trade concept was only an ideal Utopian state, which never could be attained, but should be the guiding light of a free community.

The turn from the eighteenth century to the nineteenth saw the abolition of a great many restrictions and regulations. The idea of free trade swept the Western powers. In France though the revolution of 1789, a new era started, and mercantilism was bared. In England the laws covering these restrictions were no more strictly observed, thus giving way to a precedence of non application, first vestige of a new right in Anglo Saxon law. Coupled with this new trend came numerous inventions, which together gave such an impulse to trade in the early part of the nineteenth century; the industrial revolution had made its debut.

With this new revolution came the modern advocates of free trade and free competition and they had to come forcibly to grips with their antithesis: monopoly. Many economists have since taken up the pen. But as we shall see, not all of them concerned themselves with monopoly. Our study is limited to those who did, and so we come to David Ricardo, who centers his discussion around monopoly price. He mainly extended

Smith's concept to other items, although some things that he included in monopoly would not be considered as immoral nowadays, such as rare wines, or sources having special qualities. Thusly, he claims that the price of scarce goods is a monopoly price. His important fault consisted in not being able to discern the importance of the quantity of labor in increasing commodities, which heretofore could have been considered monopolised.

Although confused about the concept of monopoly, M.J.R. McCulloch, in his book Notes and Dissertations, Used the word as a "plug" whenever he could not explain value, if it was not proportionate to the quantity of embodied labor. He was the first to include the amount of labor, as a concept in the discussion of monopoly: "Possessing utility, commodities derive their value from two sources: first from the labor required to produce, procure or preserve them; or second from their being placed under natural or an artificial monopoly."

He makes "natural monopoly" out, as goods are naturally limited in supply, whereas he puts all goods that can be indefinitely increased but that are restrained, in the class of "artificial monopolies."

^o McCulloch: Notes and Dissertations, P.437

The importance of monopoly in value depends on its influence upon supply. Limitation in supply prevents the value from adjusting itself by means of an increase in goods and thus monopoly becomes the source of value. It may be useful at this point to consider the principles by which monopoly values are regulated: "The simplest case is when one individual possesses the whole stock and the cost of production is so small that it may be neglected. Take the case for example, of some natural well having a unique character for the mineral waters it supplies. The monopolist will, in the first place, have to discover the law of demand for his article. If he fixes a very low price, he may sell to every peasant and yet not get enough; if he fixes a very high price, he may occasionally sell a pint to a king or a millionaire. He will in fact have to work out a problem in mathematics and must so adjust his price that the quantity sold multiplied by the price per unit will be a maximum... The minimum price will be given by the expenses of production, whilst the actual price will tend to be such as to yield the maximum profit...the simplicity of the method of high prices is always attractive and often deceptive." °

° E.B. Vol.27 p.370 l&c

We come now to Nassau W. Senior, one of the ablest economists of the English classical school, who lately has been given considerable publicity, for he foresaw the problem and nature of monopoly in public life. Although what he exposed was very suggestive, he did not round out his investigations sufficiently to have been an immortal masterpiece of economics. One must consider that he only used economics as a cloak for his outlook on life. He was a man profoundly social in his ideas, and as such did not remain a pure economist. As we see from a quotation of his Political Economy, he had definite ideas and brings up the problem of monopoly:

"Now it is clear that the production in which no appropriated natural agent has concurred, is the only production, which has been made under circumstances of perfectly equal competition. And how few are the commodities of which the production has in no stage been assisted by peculiar advantages of soil, or situation, or by extraordinary talent of body or mind, or by processes generally unknown, or protected by law from imitation. When the assistance of these agents, to which we have given the general name of natural agents, has been obtained, the

the result is more valuable than the result of equal labor and abstinence unassisted by capital. A commodity thus produced is called the subject of monopoly; and the person who has appropriated it is called the monopolist."^o

"Monopoly means to Senior, production under circumstances in which competition is not perfectly equal, but, on the contrary, under circumstances in which equal efforts, either subjective or objective, or both together, yield unequal returns to producers."^{oo}

"Monopoly is associated with the idea of surplus value and thus rent is included, although what he puts under the heading of rent, would be more or less considered monopolistic profits nowadays. Senior distinguishes four sorts of monopoly:"^{ooo}

"I - Where the monopolist has not the exclusive power of producing, but only certain exclusive facilities as a producer, and can increase, with undiminished, or even increased facility, the amount of his produce.

"II - Which exists where price is checked neither by the hopes, nor by the fears of the producer when no competition is dreaded and no increased supply can be effected.

^o Nassau Senior, Political Economy p.105

^{oo} R.T. Monopolies and Trusts

^{ooo} Nassau Senior, Political Economy p.104

III - Comprises those cases in which the monopolist is the only producer, but by the application of additional labor and abstinence can indefinitely increase his production.

IV - Exists where production must be assisted by natural agents, limited in number, and varying in power, and repaying, with less and less relative assistance every increase in the amount of the labor and abstinence bestowed on them."

He made a very important analysis on the concept of monopoly price and distinguished between different situations. In one, he says, that the notion that monopoly price is always the highest price which can be squeezed out of buyers, is limited to those things whose production cannot be increased, or can be increased only by deteriorating the quality of the produce. This amount is on one side subject to a minimum, but in the second situation those goods that can be indefinitely increased are found to "sell not for the utmost price which can be extorted from the purchasers, but for that which the monopolist believes likely to give him the largest aggregate profit."^o This is as we have seen mainly a mathematical

^o Senior, Industrial Efficiency, Social Economy p.23

problem. Monopoly price depends on the whims or the desire of the public. It has a maximum and a minimum, the first depending on the supply and the second on the cost of production.

Two years later, in 1854, a distinguished Frenchman, Antoine Augustin Cournot, published his "Recherches sur les principes mathématiques de la théorie des richesses." As the title says, this was the first endeavour^a to explain economics in terms of mathematics. Cournot was a noted mathematician. To read this work one has to have a sound mathematical basis, so his ideas are clearer in his later work, called: "Principes de la théorie des richesses (1863). Leon Walras, another noted French economist, has the merit of having "described" the true merits of Cournot. Among the anglo-saxon writers who became ardent followers of this new trend is Alfred Marshall, who took up and continued Cournot's ideas.

Cournot centers his mathematical analysis on monopoly price and taxation. Vernon A. Mund says that:^o

^o Vernon A. Mund, Monopoly, a Theory and History p.58
Footnote 23

"Cournot develops the concept of a demand curve in his law of sales. Sales or demand, he says, are a function of price-increasing when price decreases and decreasing when price increases. The extent to which demand varies with price "depends" evidently on the kind of utility of the article, on the nature of the services it can render or the enjoyments it can procure, or the habits and customs of the people, on the average wealth and on the scale, which wealth is distributed. This analysis also marks the beginning of the concept of elasticity of demand. Cournot takes as an example of the simplest form of monopoly price, the case of the owner of a unique mineral spring. Such a producer will have no cost of production for his mineral water. Before introducing cost as a factor in his more complicated form, he also discerns the case of two proprietors and two springs of which the qualities are identical, and states that in all cases the resulting price will be lower than the monopoly price, and higher than the price under unlimited competition." This situation has been designated, by other economists, as monopolistic competition or as duopoly. I intend employing the term

of oligopoly, as in a modern analysis of these problems, the old term monopoly, which has been riding along since Aristotle, has changed somewhat in meaning. For instance, to the classic economists monopoly meant legal grants by the government. Smith extended the idea to mercantilist restrictions.

I find that oligopoly suits better the description of the particular situation. Actual theory on monopoly has basically not changed very much since Cournot, who sees in it that price that yields maximum profit, limited by the consumers demand schedule for the commodity and by the behaviour of costs of production. If it is clearly realized that real monopolies are limited by the time factor, one realizes that in a complete definition of monopoly, this factor must have a determinant position in it.

The last economist to occupy himself with monopoly problems in the first part of the nineteenth century was John Stuart Mill, who edited his Principles of Political Economy in 1848. His concept of

monopoly was : "a thing which is limited in quantity," even though its possessors do not act in concert, is still a monopolized article. But even when monopolized, a thing which is the gift of nature and requires no labour or outlay as the condition of its existence will, if there be competition among the holders of it command a price only if it exists in less quantity than the demand. If the whole land of a country were required for cultivation, all of it might yield a rent. But in no country of any extent do the wants of the population require that all the land, which is capable of cultivation should be cultivated. The food and other agricultural produce, which the people need, and which they are willing and able to pay for at a price, which remunerates the grower, may always be obtained without cultivating all the land; sometimes without cultivating more than a small part of it; the lands most easily cultivated being preferred in a very early stage of society, the more fertile, or those in ~~an~~ more convenient situations, in a more advanced state. There is

always, therefore, some land which cannot in existing circumstances, pay any rent: and no land ever pays rent unless in point of fertility or situation, it belongs to those superior kinds which exist in less quantity than the demand - which cannot be made to yield all the produce required for the community, unless on terms still less advantageous than the resort to less favored soils."^o

Thus limitation constitutes the "prima facie" of monopoly. Also Mill, like Senior, evolves the idea of a surplus value. He equally points out the possibility of competition among monopolists, thus bringing up the problem of duopoly, as Chamberlain would say. But the writer gives the above idea when he says that landowners do not act together as one man. He mentions that a natural monopoly is land, for if landowners exercise such a monopoly they would have absolute control over the people of the community, the wealth of society. The exclusive possessor of land can only be a despot, and the same effect would result if the land belonged to a few people who could act together as one man ~~and~~

^o John S. Mill, Political Economy bbe.II chapter XVII

and fix the rent thereof. As Ely says "there is something over and above mere monopoly and distinct from monopoly - that is the acting together as one man"^o - ~~concerned~~^t action nowadays.

Mill incurred a fault in applying the word monopoly to limitation of supply, for this is an indispensable part of the factor value. Yet he was the first to point ^{to} what we call in modern language concerted action.

Meanwhile, as the nineteenth century continued to advance, the disasters of the Industrial Revolution came more and more to the fore and attracted the minds of notable economists, the new era of capitalism was approaching and with it the actual problems of monopoly. Among those economists we must mention Pierre Joseph Proudhon, who was a radical in his views on property, which he denominated as a robbery. He advocated free credit, he felt the injustice of private control of money, although he did not realize the essence of the problem.

^o R.T. Ely, Monopolies and Trusts, p.9

Monopoly was for him: the exclusive commerce, exploitation or enjoyment of a thing. Or what we understand to be exclusive ownership. Yet a few pages later we come to the following statement; the condition of monopoly "is the expression of victorious liberty, prize of struggle, the glorification of genius." Monopoly gives man the right to use his "facilities as he pleases," to enjoy "alone the fruits of his discovery and the profits of his venture. This right belongs so thoroughly to the essence of liberty that to deny it is to mutilate man in his body, in his soul, and in the exercise of his facilities; and society, which progresses only by the free initiative of individuals, soon lacking explorers, finds itself arrested in its onward march." Without monopoly, progress would come to a standstill. He considers it a necessary part of society, in spite of the fact that it contains certain abuses, but to remove them is to remove a principle of society, therefore all repression of monopoly is considered wrong and unjust.

To consider monopoly to be private ownership is somewhat reminiscent of communistic theory.

It must be remembered that Proudhon was the first to employ the expression "anarchy," but meant by it the suppression of our current form of government, which he considered oppressive. He was a man of simple origin, thus his ideas were somewhat simple and radical. We should not consider him from a purely logical point of view, but from an intuitive one. He sensed the forms of economic enterprise and realized they could not be superseded.^o

We next come to Karl Marx, the father of socialism and communism; his contribution to the discussion of monopoly is very slight. ^l Although he was prophetic when he discerned in monopoly the concentration of capital into the hands of few, on the otherhand, he used monopoly as a "plug" whenever the labour theory was inadequate. Thus it stands as a synonym for all value that is not acquired by labour. He distinguishes three sorts of monopolies: artificial, accidental, and natural. The last one is the only one for which he furnishes an example: land.

^o J. Proudhon, System of Political Contradictions (1546) Vol.I p.273

The frequent use of land as an example of monopoly, seems to us somewhat strange, for no one nowadays would place it in that category. If he did he would be liable to be labelled a communist. Thus the men whose theories we are about to discuss ^{made} one fundamental error. They made monopoly the synonym of private ownership, and as there is no concerted action among the possessors of land, we cannot speak of a monopoly of land. A situation which, if it existed, would mean securing sole ownership of all the land with certain geographic limits, and the moment this land were parcelled and sold the monopoly would disappear, but private ownership still continues. The question of the pros and cons of private ownership falls into another discussion which has nothing to do with the problem of monopoly.

Yet, since such brilliant and well known authors as Thomas Spence, Thomas Paine, Alfred Wallace, Henry George, and William Ogilvie and H.M. Hydman, occupied themselves with the problem of

monopoly and saw in it private ownership of the land, we shall try to picture to ourselves the times they lived in. The industrial revolution, the increasing reproduction of society and the new wealth, skyrocketed the prosperity of the landowners. The common worker, who here-to-fore had had his plot on which he cultivated the bare necessities, now migrated to urban areas, where he had to work in a factory and pay rent for his home, which previously he had owned. Misery among the working class increased to tremendous proportions, and thus on account of this situation the above authors and others thought that the source of all evil lay in monopoly, in the special form of private ownership.

They attacked the divisions into which society was falling, on one side the wealthy and on the other the poor. They sustained the right of the poor to have a decent place under the sun.

In the preceding pages we have already seen some references to land as a monopoly, among them

Marx, Tucker and Mill. Although Tucker did not commit the fault of all the others mentioned, he stated that he saw in some large English estates a form of monopoly, but he did not believe that private ownership was one. The same distortions which the former group developed were made by that famous group of socialists, the Fabian Socialists. Most of its leading members referred always to the "three monopolies," land, capital and superior ability. Thus their "monopoly" refers to private ownership of productive equipment. Sidney Webb, one of its foremost exponents, says some very true words, but he should have put "oligopoly" instead, for it is not a monopoly: "But the monopoly of which the democracy is here impatient is not that of any single individual, but that of the class itself. What the workers are objecting to is not the rise of any industrial Bonaparte financially dominating the whole earth... but... a hierarchy of property owners, who compete, it is true, among themselves, but who are nevertheless able, as a class, to preserve a very real

control over the lives of those who depend upon their own daily labour."^o

416 It is remarkable that some of the Fabians classified superior ability as monopoly, for they claimed that the children of the rich were the only ones able to afford a higher education, which in England up to quite recently was very difficult to obtain.

The Fabian Socialists wanted equal opportunities for all, and instead of oligopoly they wanted individual private property in the means of production. Henry W. Macrosty, another distinguished Fabian, termed as monopoly what one commonly hears of as monopoly in the commercial field. Thus he makes some very true remarks about the de facto situation of competition: "The history of competition, so far as we have traced it, has disclosed a persistent movement towards reduction of prices and profits. With each fall the struggle has become more keen, manufacturers striving to make up for lower rate by a larger turnover...The straining after a larger output, the demand for more productive machinery, the search for labour-saving devices and processes, all require larger capital, and there is

...steal

^o Webb, Problems of Modern Industry, p.248

a steady growth in the size of the business unit."^o Macrosty sees the destruction of profits consequence of cutthroat competition, which finally forces rivals to unite and thus the outcome of it all is monopoly. He cleverly cites all the advantages such concentration entails: "Trusts, combinations, and all other forms of monopoly. They save capital and labour by running only the best establishments, and the manipulation of a large mass of capital enables them to procure the best machinery and to perfect the division of labour."^{oo} Research can be perfected, by products utilized, patents pooled. All these technical advances are used by the monopolist to oppress and abuse. But Macrosty realizes or senses the fundamental part of the whole monopoly problem, when he states: "Private monopoly is a public, danger, and yet it cannot be undone by law; nor if it could, would any economist recommend that the community should abandon the most efficient method of production for a worse. The problem is, how to secure the benefits of combination without its

^o Macrosty, Trusts and the State, p.147

^{oo} Macrosty op.cit p.204

disadvantages, and to this there is only one solution, the public ownership of monopolies... When a monopoly becomes collective property its character is entirely changed."^o

Macrosty is one of the few writers who sum up both sides of monopoly and offer a solution, which one may or may not be inclined to accept. We pass now to recent developments on theory of monopoly. They include theories of authors of the latter part of the XIX century, who visualized more or less monopoly as we see it today.

In 1871, Carl Menger, in his book "Grundsätze der Volkswirtschaftslehre", gives his original thesis on the origin of monopoly, which I am inclined to accept so as to round out my total concept of monopoly. His idea is that originally, the first form, the primitive form of economics was monopoly and not competition, for this is the simpler kind of exchange. Usually at this stage, there was only one artisan of a kind, who concentrated ^{entirely the force} on producing only one thing, which he exchanged for

^o Macrosty op. cit. p.283

other objects that he needed. In this respect, we must not forget, that money came to life as a means of exchange and not as what it has degenerated into nowadays. Soon these particular artisans realized what power they could wield, prices soared and discrimination was the order of the day. The logical consequence was that competitors arose and thus the era of competition was born.^o

Even But Menger did not occupy himself with the problem of the concept of monopoly, but with the problem of prices. He considered that no distinction should be made between monopoly price and competition price, since all prices are determined by subjective valuation.

Eight years later, Alfred Marshall published his first book on monopolistic practices, but he continued his investigations for 40 years. In his first book "The Economics of Industry," he gives us some aspects of economic associations, which are more of the cartel *mentions the fact that it is sometimes necessary to impose* type, for he fines on those who overstep their quota. He further finds that combinations are more likely to be found, where industries have large fixed expenses,

^o Carl Menger, Volkswirtschaftslehre p.202-203

such as railroads, shipping trade and mining. He mentions three requisites for a successful combination: (a) inclusion of all in the same market; (b) coercive force to be able to impose fines; (c) that the commodity be one of urgent demand.

It is thus remarkable that Marshall sensed the existence of trade combinations.

For trade combinations before the boom of the seventies had no public importance, but henceforth as industry bloomed out, so did the trade combinations.

Marshall makes a further distinction between an "absolute" and "conditional" monopoly. The first is one whose products cannot be duplicated and the second depends on the fact that it does not put its prices very much above the normal profit level. In his book "Principles of Economics" he refers to monopoly values, and in his "Industry and Trade" he analyses the Protean shapes of modern trade combinations. Marshall's monopoly principles are principally a clarified English version of Cournot's principles, which are mathematical and where he has found it necessary he has completed the latter. As for instance, when Cournot

laid down the rule of how a monopolist, having expenses to consider, will set his price at a level which will give him "maximum net receipts:"

Marshall then complements this idea by saying that a monopolist may lower his price with a view to the future development of his business. Also he expresses the hope for the future from the statistical study of demand and consumers surplus.

ing "It is perhaps not unreasonable to hope, that as time goes on, the statistics of consumption will be so organized as to afford demand schedule sufficiently trustworthy, to show in diagrams, that will appeal to the eye, the quantities of consumers surplus, that will result from different courses of public and private action. By the study of these pictures the mind may be gradually trained to get juster notions of the relative magnitudes of the interests which the community has in various schemes of public and private enterprises; and sounder doctrines may replace those traditions of an earlier generation, which had perhaps a wholesome influence in their time, but which damped social enthusiasm by throwing suspicion on all projects for undertakings by the public on its own behalf, which could not show a ballance of direct pecuniary profit."

^o A. Marshall, Principles of Economics, p.493

to be We can mention next Professor Henry Sidgwick, who in his "Principles of Political Economy" defines monopoly as: "the control exercised by an individual seller or combination of sellers over a commodity that no one else can bring to market." But realizing that his definition does not explain the variety of monopoly, he seeks to broaden its horizon, although he thinks that a partial monopoly constitutes something new. He further explains that we must discern different degrees of completeness. To this effect he states, a monopoly can be indestructible. In the second place monopoly may be due "to prospective unprofitableness of the outlay of wealth or labor or both, that would be required to provide the commodity from other sources." Finally he extends the idea of monopoly to the buyer group. This is a typical case of unfruitful thought on monopoly.

J.A. Hobson, in his Economics of Distribution, makes a new departure. He analyses bargaining, and tells us there is always a surplus left over; this surplus was called by him originally monopoly gain,

but he later on substituted "forced gain" for it. Thus we have a new idea on monopolists, as those who receive "excessive" profits for their pains and sacrifices.

Up till now we have been dealing with the concept of monopoly and we have seen the more general conclusions to be drawn from. We now see a trend to catch the essence of it. In that respect the German Professor ^{Liam} Wilhelm Lessis defines monopoly as "unified tactics with respect to price." Again Walras in his Pure Econometrics destroys the generalized idea about monopoly: "Walras dwells upon the absurdity of that enlarged idea of monopoly in earlier economic writings, which makes it cover the entire industrial field. He says that Mill and others claimed that it means scarcity, whereas if it did, then of course, we could not have value without monopoly, as value implies scarcity."

But let us turn back and analyse the classification of Professor Lessis

He distinguishes five different sorts:

- I $\left. \begin{array}{l} a \\ b \end{array} \right\} \begin{array}{l} \text{Sale monopolies: (1) natural, (2) artificial,} \\ \text{Purchase monopolies: (3) public artificial} \end{array}$
- II General and local monopolies;
- III Temporary and permanent monopolies;
- IV Productive and commercial monopolies;
- V Absolute and relative monopolies.

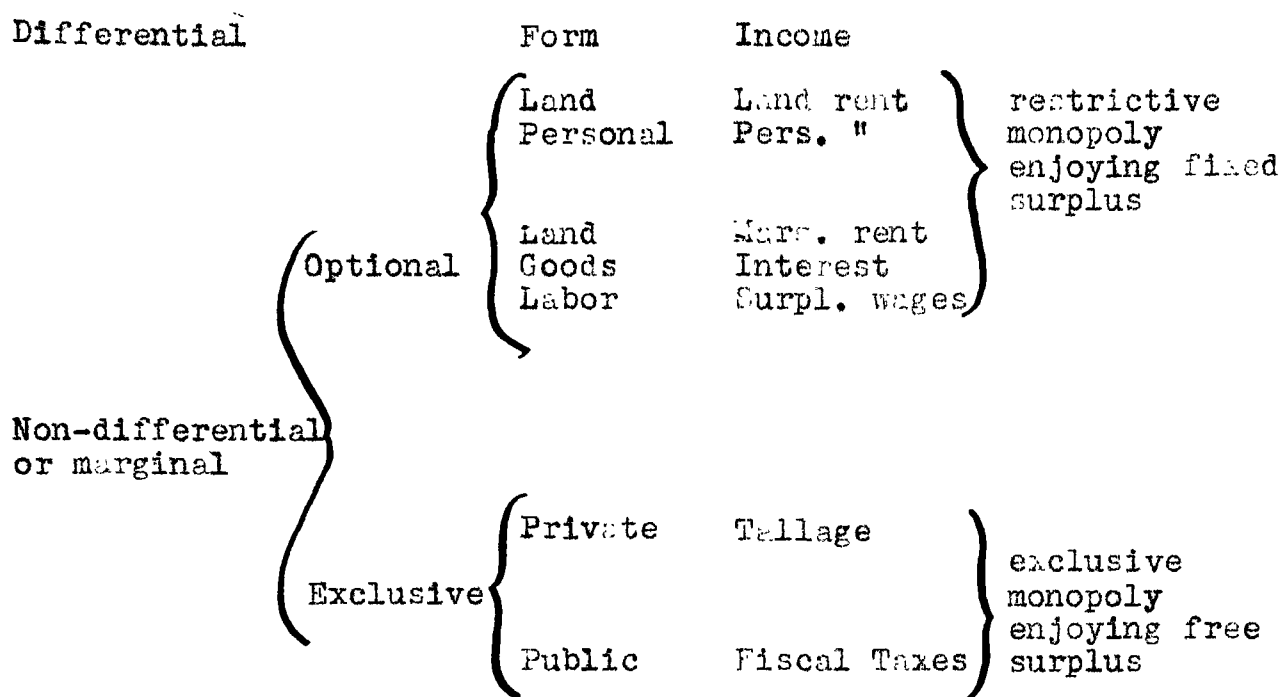
Natural monopolies rest upon scarcity, artificial ones on a continuation or secrecy of technical aids and secondly on state support.

comp. Combination on its own cannot establish monopoly. The coincidence of another factor is indispensable, like a special market condition, or favoritism. Under public artificial monopolies; the writer also mentions patents and trade licences. General monopolies mean those monopolies which have world wide connections. Professor Lessis distinguishes productive monopolies from commercial monopolies, in that the former concern themselves with manufacturing and raw materials, whereas the latter lie more in the commercial field. Finally in the last distinction we should substitute the word partial for the

word relative as that is the accepted designation of present day monopoly analysers. The problem of monopoly in relation to its environment is clearly set forward here, for is a monopoly as such, a monopoly if it's only local? For instance, it would not be when we speak in national terms. The solution lies in the analysis of the market situation and there in turn it depends on the raw material, manufacture of finished product, and its transport.

Each one of these different items of a complete cycle can offer different aspects in each individual phase.

We next come to Professors Johnson and Patten, who have their own classification of monopolies, of which I offer the following diagram:



As we see from the diagram, this constitutes a classification which covers the whole field of economics, /
 wherever a surplus exists. Usually when there is economic/
 life, there is a monopoly. "Differential monopolies,"
 according to the theory of the present work, are really not
 monopolies at all, but businesses in which certain persons
 have an advantage over others. Non-differential monopolies
 are those businesses, which afford a surplus at the point of
 marginal production. Professor Johnson says, for himself
 and Professor Patten, that every pursuit affords such a

surplus. He calls some monopolies optional monopolies, because in those cases the monopolists can put their resources to one use or another, and that gives ^{them} ~~him~~ a marginal surplus. Professor Johnson also includes exclusive monopolies, which are, according to one definition, the only ones which are real monopolies. He says that private exclusive monopolies have a gain which he calls "tallage" and that public exclusive monopolies may have a gain through fiscal taxation. All those monopolies which are not exclusive are termed restrictive monopolies, because the "monopoly forces do not here prevent competition, but merely restrict it within certain limits."

This extended idea of monopoly and its subsequent classification is a logical consequence of Professor Johnson definition of monopoly: "By a monopoly is meant any productive

agent possessing monopoly force. A monopoly force is that which gives to a productive agent the disposal of a definite portion of the surplus resulting from production." The whole idea of competitive monopoly as we find in Mill, is here further extended and elaborated.

We next turn our attention to Dr. Charles J. Bullock, who in his text book "Introduction to the study of Economics", gives us the following monopoly classification:

a) Personal abilities

b) Private monopolies such as patents and copyrights

Public monopolies such as postal bus of most countries

c) Natural monopolies: 1. Monopolies of location; 2.

monopolies for consumption of products, in connection with the plants such as gas and electric lights;

d) Capitalistic monopolies, agreements, pools, trusts and corporations.

This classification as one of many offers the advantage of being compact and not too extended.

A poor example of classification of monopoly is to be found in an article of Sidney Bull, of St. Johns College, Oxford, entitled "Mr. Herbert Spencer or Industrial Institutions". He cites three different sorts of monopolies: monopoly of efficiency which cannot exist as this falls into the category of land; monopolies of local services and monopolies of combination, which as Professor Lexis states cannot constitute

the exclusive factor for a monopoly.

We come now to the last of the minor authors who have written on monopoly, Professor J.W. Jenks, whose classification somewhat resembles that of Dr. Bullock's. Thus he distinguishes legal, natural and capitalistic monopolies. His capitalistic monopoly is centered on the idea that a great concentration of capital can obtain monopoly, but this falls into the same argument put forward by Professor Lexis, when discussing the acceptance of the idea that combination gives monopoly.

J.B. Clark, a distinguished American author, is of the opinion that, although "old type" competition is rapidly being replaced by larger and fewer combinations, they will bring many economies and that much can be said in their favor. Prices are kept down by potential competition, for if they are excessively high, new producers will enter the field and competition rules again indeed. When this potential competition starts working imperfectly, then we see the monopoly problem arise: "A monopoly grows up when a company keeps such perfect guard over its

economic field that new rivals cannot enter without exposing themselves to peril. As we have seen, it is not always necessary that the rival company should be formed. It is enough that it should be able to be formed, and to enter the field with safety. In that case it will actually appear as an inducement is offered."° He then makes an enumeration of the "unfair practices": local discrimination of prices; reducing price in one thing and increasing it in other, "factory agreement," whereby it refuses to sell to merchants who stock rival goods. Besides, those, railroad rebates and bogus corporations help to consolidate the position of the monopolist.

Clark furthermore distinguishes three kinds of monopolies: complete monopoly, formal and partial. In the first of the latter cases, monopoly is complete as to this in reference to government corporation, Clark states: °° "Not an ideal monopolistic corporation or a trust. It is the only corporation for which an article can be procured? If so, that is not exactly any such monopoly now in existence. In any every industry, there is a fringe of independent life remaining. The trusts take the center of the field and let a few rivals operate on

° Clark, Essentials of Economic Theory p.373

°° " Control of Trusts p.70-71

the outskirts. If these are in the trusts power and are compelled to do its biddings, the monopoly is essentially complete. If then, new and strong competitors are precluded from appearing, the position of monopoly is secure, for it has nothing to fear on the economic side. Just here, therefore, its danger on the legal side ought to begin, for it is the banishing, not merely of the actual, out of the potential, competitor that makes it a monopoly.

Unfair discrimination, dominating the weak and suppressing the strong, is the way a monopoly is formed. Whether the corporation is to be considered a monopoly depends whether or not it is open for competition.

Formal monopoly is a business that has the form of monopoly, but not its genuine power. Under such a condition, the public would get the benefit of the economy, which large scale production offers. Finally we come then to "partial" monopoly, a situation where monopoly is neither the complete monopoly, nor the merely formal one, but one that

68

regarded as one of the most mature. He has influenced such distinguished successors in the matter of monopoly as Fetter and Mund, and on the whole modern thought on the discussed subject.

In his books "Monopolies and Trusts," he points out the pathetic confusion which is reigning in the matter. He shows us how a discussion of monopoly must not be centered on what one understands by it, on the discussion of the word, but of the idea. J. Locke said once to that effect: "that is no shame to ask men the meaning of their words, as it is no discredit not to know what precise idea any sound stands for in another man's mind without he declare it to me by some other way than barely using that sound." This confusion on the subject of monopoly extends even to experts in economics.

Professor Ely sees monopoly as the radical opposite of free competition, thus he ranges himself as a successor to the liberal school. But, taking Carl Menger's conception of monopoly as a base for my total conception of monopoly, I am not inclined to consider

monopoly as the antithesis of free competition. For as John M. Clark in an article in the Encyclopedia of Social Sciences, vol. X, writes: "The more important phases of these matters are seen in their relations to class stratification of incomes, to efficiency in production and quality of goods and especially to industrial stabilization and to the full use of existing productive powers. In relation to efficiency the development of applied science and organized research has reduced the importance of the competitive stimulus (free competition) as a spur to the discovery and adoption of the most economical methods."

For monopoly discussions heretofore have been held more or less as arguments for free competition, whereas the problems of the future will be centered more around the problem of adjusting output to demand, of arriving at a balance of both. This implies some form of control of supply, a situation which free competition cannot cope with. We must change our mental attitude into terms of quantity and not scarcity. This would imply some sort of state control, but never

Must it become a form of state-socialism, going away with private enterprise, or its unique thriving force which one can choose to call individualism or egotism.

Professor Ely tried to find the essence of monopoly. As he says: "it represents some form of unity in management of some kind of business in some essential particular." But this really does not give the basic idea of monopoly, for "unity in management," although it signifies a concentration, does not necessarily mean monopoly. I find that Professor Ely commits the fault he criticized in Mr. Bell and Professor Jenks in their dealing with combination.

Since monopoly discussion is centered nowadays around prices or profits, we see this element in the complete definition of Professor Ely. "Monopoly means that-substantial units of action on the part of one or more persons engaged in some kind of business which gives exclusive control, more particularly, although not solely, with respect to prices." ^o

But the "unity of action" to which Ely refers is in reality a device, not the essence of monopoly, the same fault Fetter is to commit 30 years later.

^o R.T. Ely, Monopolies and Trusts, p.13

Also he states that price is the essential factor in monopoly discussions, but the fundamental factor in monopoly is not so much the price as the market, for that is where the economic process develops. Professor Ely's claim that 80 p.c. control of a business gives a monopoly is not quite clear, for if it is local, it would not be national or universal. So we see that location is important in determining monopoly. Ely also gives a definition for a partial monopoly, where there is a unified control over a considerable portion of the industrial field, but not over a sufficient portion of it to give complete domination of the whole field.

Finally let us see Professor Ely's classification of monopolies:

- I - Public and private monopolies;
- II - Social monopoly - 1/ general welfare
 - 1 patents;
 - 2 copyrights;
 - 3 public consumption;
 - 4 trademarks;
 - 5 fiscal monopolies.

b/ special privilege monopoly

1 public favoritism;

2 private favoritism.

Natural monopoly -

a/ arising from limited supply of
raw materials;

b/ properties inherent in business;

c/ from secrecy.

III - Absolute, complete and partial monopolies;

IV - Monopoly without increase of supply;

with increase of supply;

a/ plus increasing difficulty;

b/ " constant "

c/ " decreasing "

-V - Local, national and International monopolies.

VI - Sellers and buyers monopolies.

VII - Monopoly of material goods;

Monopoly of services;

a/ services incorporated in material
goods;

b/ personal services.

Ely gives us definitions for his classification I: *

"Public monopolies are those businesses which are owned and operated by some political unit, and this political unit is the direct and immediate beneficiary, whereas private monopolies on the other hand, are the monopolies owned and operated by a private person. Situations including both possibilities exist in practice, we may call them mixed monopolies."

In number II, Ely substitutes social for the word artificial as it is called by other authors and under it by its "A social monopoly is a monopoly which arises out of social arrangements and is an expression of the will of society as a whole, through government, or of a section of society strong enough to impose its will on society. natural monopoly, on the other hand is a monopoly which rests back on natural arrangements as distinguished from social one."^o We shall now analyze the different subsections, for as Ely says this second classification is the most elaborate and scientific. In the first section under general welfare monopolies, we find the monopolies which society gives to the individual to be an incentive to general welfare. I shall devote a chapter to the problem

^o Ely, Monopoly and Trusts p.42

of patents, copyrights and trademarks. The controversy about patent right is based upon a difference in opinion as to whether a patent is given by private law or public law. The present argument is that the evils of monopoly exist in the exclusive grant of a patent, but that the bad effects are offset by the benefits reaped by society.

As to copyrights, they are not so important to the public eye, as they do not interfere with individual liberty, but as a question of principle the problem is different. No two persons can produce quite the same book, with patents it is different. The Russians, Americans and Germans all claim to be the inventors of the telephone. The intellectual side of man is always individual, a fact new tendencies seem to overlook. It shall be a problem for New Democracy to find the balance and ratio of individualism to polyism. Either one or the other in its pure form is harmful to society. Our actual time is an eloquent example. The actual purpose of copyright is to reward and to encourage service, and not to allow remote descendants from enjoying the fruits of their forbears and to live in idle luxury.

Public consumption monopolies are formed with the object of regulating consumption, like the sale of alcohol in Switzerland, Canada and other countries.

Trademarks also offer a monopoly problem, for as Ely says: "The ordinary consumer is a poor judge of the quality of most commodities and is extremely timid in purchases, consequently he attributes values to a trademark which in his experience has stood for honesty. Moreover, custom is still a powerful force, and we adhere to old practises in our purchases." So a trademark gives a virtual monopoly in a certain line, for the manufacturer when aware of the superiority of his article can raise the price.

Fiscal monopolies are those established for the public treasury, like tobacco monopolies in old Austria and France.

Under special privilege monopolies, we have first those based on public favoritism, like the old time grants in England. Those based on private favoritism are those which endanger society most, like the favoritism of the railways, which has contributed immensely to the forming of trusts and corporations.

^a R.T. Ely, op. cit. p.43

The second section of the second kind of monopolies is dedicated to natural monopolies, which differ from the former, in that they are outside of the social will. In section "a" we have raw materials and particularly those which are geographically limited. Well-known examples are the rubber of Malaya and the saltpeter of Chile.

Then we have the monopolies arising from properties inherent in the business. This is the chief class of natural monopolies, like telephone, gas and electrical works, transport services, etc. etc.; some of them are national, local or municipal. "Thus we have monopolies arising from the inherent characteristics of the business, whenever there is a decided gain resulting from the combination of all those engaged in it."

Secrecy is another way to monopoly. This stands against the argument in favor of patents. A patent makes the secret process known at once, whereas the other does not. That is the reason great industries are so reluctant to show their plants to visitors, like Dupont, Philips in Holland, Krupp and many others.

Classification no. III affords us a division into absolute, complete and partial. The first is exemplified in the gas works, the second by the control of an industry to an extent of 85 pcc. My objections to this are found at the beginning of this chapter, and partial monopolies have already been explained. Class IV needs no further explanation, and neither does class V. In class VI, a buyers' monopoly is much more difficult to obtain than a sellers' monopoly. I think that here should be classified all forms of cooperative marketing organizations, for they serve the purpose when free competition is on hand, but in the absence of it, we find that they tend to abuse their position and fall into the category of monopolists. Also in a new system we should place trade unions in a general classification of monopolies. Their power has not yet reached its zenith and there are many examples of abuse by the trade-unions. A too strong concentration can lead us back to the Medieval mills.

Of the German school of thought we must mention Friedrich von Wieser. In his book "Social Economics"

he makes a detailed analysis of monopoly; "A monopoly is the exclusive control of supply of of demand by a single subject, as well as by a single will. This subject may be a single, physical or juridical person or a plurality of such persons, who as in a cartel, a trust, ring, syndicate or coalition are united by contract. As regards its origin, a monopoly may be a natural monopoly, taking its rise in some unique natural occurrence, say a spring of mineral waters. It may be an accidental monopoly, like a factory producing certain manufactures, which have not attracted competitive-enterprise. The monopoly may also be created by law, as a patent a copyright, or franchise of any kind whatever. There are also actual monopolies, created by agreements not recognized by law." ^o Besides these, Wieser mentions the so-called monopoloid institutions, like monopolies controlled by the state, or certain types of trusts and cartels; and in general all situations which are "monopoloid" and yet do not fit into the concept of monopoly. He makes a distinction between supply monopoly and demand monopolies. There are three ways of

^o F. von Wieser, Social Economics p.173-174

139

influencing the market: (a) restricting quantities of the supply and receive^{ing} higher price; (b) deciding on a price; and let^{the} the market determine the supply; (c) splitting up the market, or classifying demand.

The demand monopoly is in practice always accompanied by a monopoly of supply.

One of the latest writers on the subject of monopoly is Frank A. Fetter, who offers us a very interesting solution to the enigma of the essence of monopoly. In his accurately titled book "The Masquerade of Monopoly," he pierced for the first time the masquerade cloak of monopoly, and thanks to him we have now, what we call place discrimination, besides price discrimination. Place discrimination is featured by the basing point plan of delivered prices. He also made the very neat distinction between public and private monopolies.

The private monopoly has its force in local monopoly and discrimination. Whenever the cost of freight becomes with distance an important fraction of the factory price, the natural territory for a factory is a limited zone. A new market will spring up when nearer factories cut down total prices. The tributary

market area for each market is divided by a hyperbolic curve where the difference in freight costs from the two markets exactly equals the difference in the factory base prices. Those on the fringe pay the highest prices. Those living in the market would buy from the local factories, thus encouraging monopoly. Monopoly is relative to place and limited by distance. Feller goes on and enumerates other factors. Feller's theory assumes that the only real competition is that in which every producer has rivals at the precise point of shipment. Monopoly is always a limited and relative power, shading off in various directions, according to freight costs, as well as to other conditions, such as styles, patterns, service, financial resources, etc.

He further points out that wherever discrimination thrives, some sort of monopoly exists. The solution to the monopoly problem lies in a "posted price," uniform to all at the announced place of sale and shipments off the goods."

In distinguishing the two kinds of monopoly, Feller says that he means by absolute monopoly the maximum scope of power, extended to an entire national territory,

146
unlimited in time, including sale of all varieties and patterns of goods, etc. No one else may engage in that trade, whereas in private monopoly, monopoly always stands for a person, business or corporation which through discrimination has attained a certain degree of monopoly.

Private monopoly is obtained: (a) by growth and extension of a single enterprise without recurring to the destruction or the acquisition of competitors; (b) by cutthroat competition; (c) collusion with competitors; (d) by consolidating separate concerns either by merger or acquisition - patents, public favors may however be contributing causes.

Whereas up till now we have seen monopoly considered as a governmental grant, as concerted action, as cutthroat competition, Dr. Vernon A Mund, considers that monopoly's fundamental factor is the market. He states to that effect: "In an economic sense monopoly may be conceived of as a situation at the market place in which true competition is lacking on one side of the exchange process. This concept implies the idea of a sole sale not necessarily in the sense of a single person, but in a

sense *antithetical* to competition. Monopoly as the *antithesis* of competition; therefore exists, first when there is restraint on competition in trading; secondly (2) when there is only one person capable of producing the market good; thirdly (3) when producers are not willing to compete; and fourthly (4) when the market demand warrants only one producer. One may apply this concept of monopoly to the commercial world by considering various ways in which private enterprisers are able to attain monopoly and monopoly power.^o We see that Dr. Mund continues the tradition of ^{Professor Ely} ~~Pills~~ in considering competition and monopoly as unapproachable opposites. While he does depart from the latter in stating that "writers in the past have usually defined monopoly by the prevailing way in which it was secured - as, monopoly is an *exclusive* privilege or monopoly is concerted action among producers. In the present study, however monopoly is defined as a distinct situation, which may be secured in any one of many ways."^{oo} This is the main contribution of Mund to the series of investigations in this particular field of economics.

^o Dr. Vernon A. Mund Monopoly p.100
^{oo} " " " " " p101

As regards the indication of an existence of monopoly, Mund has failed to make a distinction between monopoly and oligopoly. His second and fourth points are the only real monopoly situations, the remaining two indicate only an oligopoly. For he utterly disregards the distinct economic situation of oligopoly, which he considers as forming part of free competition. It is this confused thinking, which has made the control of a market effective, for hardly any investigation has been made of the actual market situation, which is oligopoly

The author goes on to give us eight distinct situations under which monopoly may be secured:

- I Monopoly may be secured by collusion open or tacit;
- II Single ownership or control of market good;
- III Cutthroat competition;
- IV Economic efficiency;
- V Control by the producer over the source of supply, so that he can secure a net gain by withholding a portion;
- VI political franchises;
- VII private favours such as railroads;
- VIII Public favours as, tariffs, subsidies, bounties, patents, copyrights and trade-marks.

Mund claims in I that monopoly can be secured by collusion open or tacit. Collusion means a common action to deceive, but can one consider the European cartels as such? Do they in turn constitute a monopoly? No, they do not. One can consider them as partial monopolies, or the whole what I called an oligopoly.

In number IV, Mund committed a fault which Lexis and Ely pointed out that the sole factor of efficiency cannot lead to monopoly. At the most it can lead to a partial monopoly.

Dr. V.A. Mund goes on to show us the Habitat of Monopoly:

- I Latent body of consumers dispersed;
- II Few producers;
- III Large fixed investment;
- IV New form of revenue, government grants;
- V Patents, copyrights, trademarks favour monopoly;
- VI Goods not easily duplicated;
- VII Market supplied by one unit;
- VIII Organization of same trade and joint action.

After referring to the problem of monopoly price, Mund analyses monopoly in human nature, in natural resources, public utilities. He also points out the flaws of one actual patent system. He finishes his interesting work with a reaffirmed faith in free competition, although we must bear in mind that his concept of it, includes oligopoly. Let us see: "The principle of competition we have seen, can be as effectual among a few large producers as among a myriad of small ones. Mergers and consolidations may be in accord with competition as long as they result from economic efficiency. Indeed, there is much to be said in favour of the passing of small-scale industry with its inefficient methods and lack of coordinated production. However, how can it be known whether the most efficient productive organization is a large or small one? The only way is to give true competition an opportunity to operate, and then the productive organization which is the most efficient will automatically reveal itself. If the market situation proved to be one which could be supplied most cheaply by a single large producer the buyers could well accept formal monopoly as the ideal way of satisfying their desires. *Survival* of the fittest is hard for the inefficient, but works wonders for society."

Dr. Mund's thesis on monopoly, has contributed I consider, a new vision to the monopoly controversy, although certain objections can be raised, which constitute the ground-work of this present thesis. But before coming to it, I should like to quote from the Encyclopedia of Social Sciences their definition of monopoly, which when we analyze it, we find contains Mill's and Ely's monopoly theory as a basis: "The principle of monopoly may be defined as unified or concerted discretionary control of the price at which purchasers in general can obtain a commodity or service and of the supply which they can secure or the control of price through supply, as distinct from the lack of such control, which marks the ideal situation of perfect competition."

The majority of authors, from the classical economic school to the present day, always point out to the ideal perfect free competition, which constitutes a Utopia never to be achieved. We must arrive at a new departure, while not breaking radically with the past. For every sort of radicalism while necessary to bring in new eras, never survive, neither one extreme nor the

147

other. So let us find a midway eclectic solution.

Up till now in this monopoly thought analysis we have found it at most times opposed to competition, also we have seen it referred to as an evil. Though if we carefully analyze any market nowadays we realize that both go side by side. Hardly any one has considered the intermediate. Cournot and Edgeworth considered the the "duopoly" situation. The first saw prices either on one extreme of the balance or the other. The second came to the conclusion that prices oscillated between the two extremes, (pendular theory). Dr. Zeuthen states that "Neither monopoly nor competition are ever absolute, and the theories about them deal only with the outer margins of reality, which is always to be sought between them. A treatment of reality as if it were identical with one of the marginal instances is one-sided and mistaken, whilst the correct indication of the margins alone is insufficient; consequently we sought to study this sphere of reality instead of the purely marginal instances." °

This has lead a score of modern monopoly investigators to take a middle path. As I pointed out some pages back I also am inclined to take that middle road, and that is where I depart from Munn. But let us first see what this score of personalities in the economic field have to say for themselves. Professor J.M. Clark offers a case of pure competition and let us see the amazing results: "if all the competitors followed suit instantly the moment any cut was made, each would gain his quota of the resulting increase in output, and no one could gain any larger proportion of his previous business than a monopoly would gain by a similar cut in prices. Thus the competitive cutting of prices would naturally stop ^o exactly, where it would if there were no competition." Perfect competition then, according to the above seems to give the same price as perfect monopoly. A most amazing fact. Dr. Zeuthen also maintains that the study of marginal instances is not important, but the essential one is the study of the intermediate.

^o
T.M. Clark, The Economics of Overhead Costs, p.417

Professor Hoething, in an article entitled "Stability in Competition," published in the Economic Journal, vol. 41, 1929, states that a group of buyers will go to one who has higher prices, in spite of the existence of lower prices. Such customers make an "entrepreneur" a monopolist within a limited class and region. The difference between a grocery store around the corner and the Standard Oil Company is purely quantitative and not qualitative. The actual cases lie between the two extremes. In this modern age we forget to lay stress on quality and forget that this demand is very strong when buying goods. Low prices arouse our suspicions as to the quality of the goods. Now we understand better when Professor Sraffa in his article, the "Laws of Returns under Competitive Conditions" (Economic Journal, Vol. 36, 1926) states, "to abandon the path of free competition and turn in the opposite direction, namely towards monopoly" (p. 542).

Finally let us hear what Professor Knight has to say on the matter: "There seems to be a certain Hegelian self contradiction in the idea of

theoretically perfect competition after all." He continues on the same page to state: "In view of the fact that practically every business is a partial monopoly, it is remarkable that the theoretical treatment of economics has related so exclusively to complete monopoly and perfect competition."

So we then understand how Professor Howard Chamberlin of Harvard University writes his: "The Theory of Monopolistic Competition." The title alone is apt to arouse a storm of protest from the majority of economists, of those who see monopoly and competition as incompatible. It is thus a "hybrid theory", or as I would call it an eclectical solution. We must get accustomed to the idea that monopoly means neither the exclusion of free trade nor vice-versa. In great lines Chamberlin follows the traditions of Cournot and Edgeworth. That is to say, he occupies himself nearly exclusively with prices and tries to arrive to new conclusions through the use of mathematics, whereas this thesis is more concerned with economics of welfare from a political economical point of view.

He gives voice to the rough idea of modern monopoly problem, which should be called mere oligopoly problems. To him the market is a composite of markets in competition, in which purely monopolistic and competitive influences are variously commingled. When referring to pure competition, he justly states that it only refers to a portion of economic activity. Under monopolistic competition, the market, which is only independant to a certain degree, sales are circumscribed by the following three factors: the price of the monopolist, nature of the product and advertising outlays more broadly, or selling costs.

In actual economic life, the volume of sales depends on differentiation. This factor, as is well known, is of no importance in pure competition, just as advertising is without purpose under pure competition, because free competition is evaded by turning the buyer's attention towards a trade-mark. All this shows us that in spite of the advances of the last century, we still stand on the threshold of Adam Smith's economics, where market situations as exist today were then inconceivable.

This same trade-mark gives a virtual monopoly in its line, but there is a "group equilibrium." that is to say that group which we just described, the interwoven pattern of monopolistic elements and competitive ones. He then analyzes the demand curves; first the fewness of sellers, then the differentiation of products and finally both together, which as we can readily see will be very complex and ample, swinging from pure competition to absolute monopoly.

One of the arguments used against monopolies is the expensiveness of their products. But it is an interesting fact to note, that in an interview held with W.A. Baker, Sales Manager of a Cleveland Department store, which appeared in Printer's Ink, September 21, 1916, as quoted by Chamberlin on page 107 of his "Theory of Monopolistic Competition." This store was selling two brands of electric irons, "one at \$3.75 and one at \$5.00" The cheaper iron was guaranteed and recommended by the store, its lower price was emphasized, and every attempt was made to sell it rather than the \$5.00 one. Sales of the latter, however were 50% above those of the cheaper product." Mr. Baker's conclusion was: "The

public is not held as anxious for cut prices as the average dealer thinks it is... It is more than an equal chance that the customer does not know what a good article should cost and that the average customer will pay nearly any price which is quoted to him as reasonable."

Professor E. Chamberlin,—

First of all he analyses value under pure competition, which he describes as a composite of purely competitive markets, of purely monopolistic markets and of *intertwined* markets. Next he analyses that intermediate zone, between competition and monopoly, and points out that the fundamental factor of what he calls monopolistic competition is the differentiation of product. This is formed by trade-marks, patents, peculiarities of container, and specific conditions inherent to the sale of the product, like the location of the store, its general appearance and courtesy of its employees and employer. Subsequently he directs attention to the controversy surrounding patents and trade-marks. He asserts that patents and copyrights are generally considered monopolies by law, whereas a trade-mark is considered as a stimulus to competition. In the latest edition of Ely's Outlines of Economics, we see the change, when he declares that through a trademark a businessman is able to

obtain a quasi-monopoly." Since Ely has no name for this peculiar situation he classifies a quasi-monopoly under free competition, when in reality it is an "oligopolium." Patents and trademarks are pure monopoly elements of goods, whereas their similarity with other goods constitute the competitive elements. Chamberlin contends that the sales under monopolistic competition are influenced by these fundamental factors: (1) price, (2) product differentiation, (3) advertising outlays. Since, according to the theory of monopolistic competition there is a partial monopoly in each line of sale, all the similar and substitutable goods are in competition, a group equilibrium ensues.

The bases of pure production : 1 - Large numbers of buyers and sellers so that their mutual influence is negligible; 2 - Production of exactly the same product, a slight difference gives a partial monopoly to the producer. But also a slight disbalance under the base 1 gives a partial monopoly, only I distinguish it by calling it oligopoly. So we see with differentiation, partial monopoly or oligopoly appears. In the last part of the book of Edward Chamberlin, makes a distinction between

production costs and selling costs, which under free or pure competition are equal one to another. Production costs are costs that are made to adapt the product to the demand; selling costs are costs that are made to adapt the demand to the product. Selling costs are taken for granted, but the demand does not always exist. Under the concept of selling costs we understand, advertising of all kinds, salesmen's salaries, window displays, and margins granted to retail and wholesale dealers. Production costs, on the other hand are all the expenses incurred in obtaining the finished product and the transport of it. Our author has summed up the problem of selling costs, when he writes:

"The explanation lies partly in the failure to synthesize monopolistic and competitive theory. Selling costs are very naturally passed over in competitive theory, since they are at odds, with the assumption of pure competition; they seem, likewise, to have no place in monopolistic theory, since there is apparently no one upon whom the monopolist, in possession of the entire market, ^{could} encroach. The explanation lies also in the fact that economic theory has not yet adapted itself to changes which have taken place in recent years. The tremendous possibilities of

166

of making profits by demand creation have been more and more appreciated, technical methods of explaining them have been perfected, and selling has come to the fore as a business actively coordinate with production. Indeed, the typical businessman of today is probably more concerned with the former than with the latter. Meanwhile theoretical economics continues to regard him as a producer only, and as enjoying a demand which is already there and which has cost nothing. The theory of pure competition tacitly assumes that all costs are incurred in order to increase the supply of goods and that these goods are sold with neither effort nor expense. It is by neglecting selling costs that it most obviously falls short of explaining the facts of economic life.* We then finally come to a distinguished author Professor A.R. Burns who has sought to explain more effectively this new economic order. His book is not solely a theoretical document. It is full of cases taken from reality. Like Chamberlin and Robinson, he has rightly perceived the market as a composite of monopolies of products, whose substitutes are in competition with each other, although in reduced number.

* E.C. The Theory of Monopolistic Competition, p.126-7

He analyses the different causes, which have reduced the number of sellers, like technological ones, for economy is only achieved if large quantities are produced by a large organization. The favourable corporation laws of different countries, which induce the absorption or amalgamation of smaller units into one which is greater; not to be forgotten are merger profits for the promoters. Patents also fall into the same category of palliatives for "bigness."

He continues to analyse at length the different forms of control of a market such as trade associations, price leadership, sharing the market, stabilization of individual prices, price discrimination, non-price competition, integration of industrial operations and closes his complete analysis with a chapter on the problem of social control.

Trade associations, while not necessarily anti-competitive, are however potential instruments in the formation of price policies. Their principal function is to provide its members with statistics about production, sales, shipments, costs and prices. It has also sought the standardization of methods of calculating costs.

The statistics about production combined with those of costs and prices tend to stabilize the area within the orbit of the association, especially if there is a strong form of cooperation. This form of control, if there is any, is the lightest but on the other hand it cannot be considered as forming part of free competition. In a scale it would stand somewhere between free competition and oligopoly. Burns, referring to the informative side of trade associations says to that effect: "Information concerning the best bookkeeping forms for calculating costs passed once into suggestions concerning policy in the matter of distributing costs over production at different times and over different types of product. Suggestions concerning amounts to be added for contingencies and profits developed this policy into one of suggested prices. The use of average instead of individual costs suggested a uniform price for the whole industry. Statistics of production were used as a tentative basis for the sharing of the market. Statistics of inventories and unfilled orders supplemented these efforts. Direct statistics of prices developed the desire to induce uniformity of prices and

thus restrict price competition; price cutters were sought out and cajoled or threatened. Occasionally these aims found their final expression in direct attempts to control output and, therefore, reduce the pressure to cut prices." *

We next come to one of the main instruments in securing control of the market: price leadership. Burns says that: "Price leadership exists when the price at which most of the units in an industry offer to sell is determined by adopting the price announced by one of their number". This form of control is one step further, but it still closely resembles the trade association. It is based upon either fear or coercion, for it is a submission to the most powerful unit in the field, who can at any moment use his power, which is latent. Referring to the policy of the price leader, our author contends that it "depends of the reaction of his rivals and potential rivals to each possible line of policy; these are limits of policy within which rivals are likely to be loyal and potential competition discouraged." *** That is to say, that the producer must

* A.R. Burns, The Decline of Competition p.74

** " " " " " " p.76

*** " " " " " " p.141

hold in mind the possibility of new rivals in his particular field if the profits that are obtainable become too high. Also the entry of a new rival tends to diminish the profits in that particular field, as it entails the sharing of the existing volume of business.

The next point handled is the concept of "sharing the market," which is the control of output according to a quota, fixed at the moment of abandoning price cutting. It removes the incentive to augment the volume of production, except when a general collective increase in sales is desired. Fundamentally it attempts to improve costs of production to obtain higher profits. In our business world it takes on the wellknown forms of convention, pool, or cartel. The co-operative selling organization also resorts to the system of quotas.

Continuing our summary of the principal contents of the book "The Deline of Competition," we come to the stabilization of individual prices. Many different situations have been described as forming part of this classification. It implies a price stability over a certain period of time, as an opposing force to cut-throat competition. The influences causing reductions in the amplitude of price changes differ from those

who reduce their frequency. For to keep a price completely stable is an impossibility. The object of price stabilization is to have periodical "waves" of prices and not spasmodic downfalls which unbalance the market.

Forms of the method are conventions concerning price policy, long term contracts and special guarantees against price decline.

We next come to price discrimination, which occurs when one commodity is sold to different purchasers at different prices. The price will be the *lowest* in the market with most elastic demand. Discrimination can be of three kinds; first according to the use of the product, this occurs frequently in public utilities. Secondly according to the trade status of the purchaser, be he either a wholesaler or retailer or consumer. Finally we have geographical discrimination where a price is given at the plant the purchaser either may arrange for transport or he is obliged to pay a delivered price, which exceeds the cost of transport. We can, besides the former three distinctions observe two additional systems, the zone price and the basing point system. Our author says in respect to the former: "A one system of price occurs where sellers charged delivered prices (prices including the cost of production) uniform for all points in a territory which may be that of the whole country or of some lesser area. This practice involves discrimination wherever transportation costs from the place of production to all points of

equal delivered price are not uniform. The not realization at the mill is smallest *upon* sales for delivery at points to which cost of transportation is greatest". ^(Op. cit., p. 202) We have on the other hand a basing point system of selling "whenever goods are sold at delivered prices, calculated by adding together the price at a basing point and the cost of transportation from that point to the point of delivery. In the country there may be one or a number of basing points." ^(Op. cit., p. 290) Basing points system establish fewer basing points than there are points of production. This means that the non-basing point producer must include in his basic price the transportation from the basing point to his own factory. As a consequence there is a uniformity in the prices of all sellers.

Next we come to the most salient of all *the discrimination* and the most widely diffused: non price competition. All the former policies we have summerized, all invariably lead to a new kind of competition, of rivalry. Price leadership, price stablization, and geographical price discrimination generally lead to it. Sharing the market, contrary to the others, leaves no opportunity to an individual increase in the market. Let us see what tnis new competition is based on; in the words of our author: "non-price competition has however been stimulated by other influences. The knowledge of buyers is imperfest; frequently they are fully informed concerning neither the offers of sellers, other than those with whom they have customarily dealt, nor the full range of *varieties* of products available. Sellers in consequence are induced to incur expenditure in order to make this information available. Sellers have also come in possession of knowledge of methods of influencing the attitudes of buyers to each product, of changing

their estimates of the utility of a product. Sellers no longer accept the total demand for their product (at each price) as beyond their control. Realizing that they can influence the allocation of expenditure by individuals without reductions in price and thus increase the total demand for their product, and that efforts in this direction may be very profitable, they have, in some industries, so emphasized selling activities that the cost of selling exceeds the cost of manufacturing¹⁰⁰. Subsequently we come to the integration of industrial operations. As we had already seen there are two kinds of integration, one horizontal and one vertical, the author also refers to especially the vertical one, for here the finished product of one process is the subsequent raw material of the ~~next~~^{next} one. Also here the author makes reference to the relation between the capital and industry, stating that the integration favours the obtainment of capitals at better conditions. To this must be added the very lucrative promotion profits, as well as stock market manipulations, which have become primordial in the running of a business, in stead of production. Integration permits also a more effectual utilization of research knowledge. It checks on the other hand the efficiency all along the line. It tends to synchronise production and induce a rational planning of industry. Burns sums up the advent of integration, when he asserts that, "The increasing importance of non-price competition may stimulate vertical integration to reduce the number of times a commodity passes through the market, or the integration of the production of goods requiring similar selling organizations or territorial integration in order to minimize the unit cost of

¹⁰⁰ *op. cit.*, p. 373

164

sales promotion. The imperfection of the market, which cannot be relied upon to supply the products suited to the needs of the buyers or to supply them precisely when they are needed stimulates vertical integration"⁹

In the last part of his book the author analyses the problem of social control, which is preceded by an acute investigation of President Roosevelt's N.I.R.A., which as we know has been declared unconstitutional by the Supreme Court of the United States. Adam Smith's "unseen hand" of self government in industry, is a fact to remain in our actual economic system it is up to the state to show the "visible Hand" the voice of the consumer. "In both the political and economic sphere the greatest of all contemporary ^{problems} is that of deciding how great a concentration of power shall be permitted. The choice is not simply between complete individualism and complete collectivism, neither of which terms has any precise practical application. The dangers of drifting towards either extreme are now too obvious to be ignored. Rather the problem is one of designing patterns for the distribution of power that will minimize the evils of either extreme"¹⁰

The problem of a pattern for the distribution of power over economic resources is the main problem of our post-war world. Burns sums up the different powers, which need some form of supervision. He writes that the fundamental power is the one concerned with output, this one implies through a series of other ones, like for instance, the power to determine prices, efficiency of operation and the ultimate social objective, the proper distribution of well-being overtime. If we advocate for some form of state control¹¹, he poses the question

o p. 48, L. 460
" " " " L. 565

165

Within which administrative machinery should power be vested? In a state there are legislative bodies, and judicial ones. The author says that the broad lines of policy should be laid down by the legislative body, but they cannot take a direct part in the running of industry, they have a too wide a range of activities, all their practical power would be circumscribed to criticism of policies or to induce inquiries. The judicial bodies their would intervene to interpret the vague line of broad policy as advocated by the legislative body. A control by the judicial policy involves a great risk, for it only interprets the law and applies fixed rules. Its judges are jurists and not economists. Yet there is a need for men who are versed in the matter. We then come to a control by administrative bodies they have the advantage of being able to specialize and can avoid the incompetence of both the judicial and legislative bodies. But whereas the administrative bodies have a definite rope of freedom, their decisions in democratic countries are not laws since these are passed by the legislative bodies. In our future economic society, a fourth power should become a reality to ensure the cooperation of government and industry. Also the problem of the selection of officers is of the utmost importance since their integrity and responsibility would equal those of the Supreme Court. Burns mentions to this effect: "There is no single type of training which alone can be regarded as a prerequisite to appointment. Regard for all the probable reactions of a decision can best be secured by securing the advice of lawyers, economists and persons trained in the technical aspects of the more important industries. For making decisions concerning the

relative importance of efficiency and other social aspects of production, the most desirable distribution of income, and, more ~~particularly~~ ^{particularly}, of the benefits and burdens of unforecastable disturbances of economic conditions, neither training in law nor one in economics will suffice.

A high degree of impartiality and general competence can be secured only if attractive conditions are offered, not only in terms of salary, but also in terms of prestige and power. An administrative body hampered as the Federal Trade Commission has been by the judiciary cannot attract able men. If its power is limited by political pressure, only those whose interests are narrowly political can be attracted. If, on the other hand, its members operate in a setting of reasonable security of tenure, real power and public anticipation of disinterested pursuit of the general social welfare, an entirely different policy will result. Such a policy involves dangers in the short run, but is the only means of insuring capacity and vigor in the long run."

Last of all, we shall shortly review the different forms of sanctions which the government can recur to. It can be either a conciliator, an administrator of a power of veto or a regulatory and controlling authority.

The first has no power of compulsion, it endeavours to establish a policy acceptable to the different classes interested in production. Here the sincere wish of the government not to use its coercive power is clearly apparent. It has one grave set back in that the group which does not approve the proposed policy, finally dominates it by obstructing all decisions. Furthermore it assumes that the government only need to bring together the

" *op. cit.*, p. 574

161

dissenting groups and that reason then will triumph in the formulation of the final decision. Secondly it implies that all groups concurring are equally organized, which is not always the case. Thirdly, the decisions reached must contain a social policy relative to all major economic interests. Arbitration is a step further, when the state enforces the decision; this then practically amounts to state control. The power of veto can equally be employed by the government; in this particular phase it leaves the dissenting parties to solve their own problems and uses the veto power to intervene and sanction different stages of development to assure the interest of the consumers. The most drastic form of intervention by the government is to apply coercion, this can take the extreme form of expropriation, or a milder form would be to boycott the transgressing industry, but the use of these depends in our democratic state upon the factor "public opinion" which is very difficult to define, since multiple factors influence it. These in broad terms are the contents of the book written by Professor Arthur R. Burns, entitled "The Decline of Competition" in which he has summarized and subsequently analysed the different methods in use to attain control of a market.

Thus having now analyzed the multiple aspects of monopoly, I can formulate my classification and definition of the phenomenon:

MONOPOLIES:

I a) public, b) private, c) intermixed

II Public grants 1.) patents

2.) copyrights

3.) trademarks

4.) fiscal

5.) public consumption

III Natural a) limited supply of raw material

b) properties inherent in business

c) secrecy

IV Local, national, international.

Monopoly is the supreme achievement of man's egotism in a determinate economic field, characterized by a situation at the market, the thermometer of which are prices; either absolute or subject to time and to a natural geographic area; either local, national or international, whilst not offering a possibility of substitution or complementation.

Let us analyze the different sections of the monopoly classification. Public monopolies are those which depend and are operated by the state. Private monopolies are those operated by a private person in a juridical sense of the word. In-termixed monopolies are such that

although they have state supervision in a juridical sense of the word, they are run by private persons, or have mixed boards of governors.

(a) In part II, we have public grants and natural monopolies. The first can also be called protective privileges and constitutes the object of a chapter in the present thesis, as especially nowadays it constitutes a public issue, it is the fight of a new social era versus old individual rights; the struggle of public law versus private law. Natural monopolies as the word implies, ^{are} is based upon favourable local conditions not influenced by man. Its subsections expound its forms of acquisition.

Finally we have local, national and international monopolies, which speak for themselves.

An Oligopoly is a section of the market dominated with or without intent, by a small group of producers. "Oligopolium", a neologism, is the name for ~~one who has~~ an effective partial monopoly.

Here follow the characteristics of oligopoly. We first have collusion, as the form of control of a limited amount of industries. Then we have price leadership, sharing the market and price discrimination, with its two subdivisions, zone price system and basing point system. Interlocking directorates and intercorporate holdings, are a further characteristic of our actual oligopoly system and

we can place in this last class non price competition, as this new sort of competition, has no reason for existing under free competition. This really constitutes the fundamental aspect of the present day industrial nation and can be looked upon as the outcome of the struggles of monopoly versus free competition, it has the advantages of both, liberty and industrial efficiency with sufficient competition to stimulate progress.

CHAPTER VI

PATENTS, TRADE-MARKS AND TRADE

As we have seen, in oligopoly the market being separate to a degree, sales are limited by three factors: price, nature of the product and advertising outlays. As we remember, the volume of sales depends on the differentiation of the production. Although this is unimportant in pure competition, it is one of the salient characteristics of the market in its actual form. Advertising is without purpose under pure competition.

The factors which enter into this differentiation are the following: patented features; trade-marks; peculiarities of the package; singularity in quality, design, colour and style.

A repetition of the above factors plunges us into the middle of the problem of Patents and Trade-marks. Of what nature are they? Copyrights fall into the same category as the above-mentioned. It has justly been said that they must meet the competition of others. Also trade-marks have never been considered to be monopolies. We find Vaughn stating: "In the competition of patented and non-patented goods, a patent does not give a monopoly in any branch of the trade."

Going back to 1602, Sir E. Coke stated that by ancient common law, the King could grant to an inventor or to the importer of an invention from abroad, a temporary monopoly on his invention, but that grants in restraint of trade were illegal. Twenty-two years later, the famous Statute of Monopolies came to life, by name of "An Act Concerning Monopolies and Dispensations with Penal Laws and Forfeiture Thereof". "All monopolies and all commissions, grants, licenses, charters and letters patent heretofore made and granted, or hereafter to be made and granted to any person or persons, bodies politic or corporate whatsoever, of or for the sole buying, selling, making, working or using anything, within the realm or the Dominion of Wales; or if any other monopolies, are altogether contrary to the Laws of this realm and so all are and shall be utterly void and none effect and in no wise to be put

into use or execution." Exceptions were made for patents for new industries or inventions, which might be granted for twenty-one years and patents for new processes for fourteen years. Also it did not touch companies engaged in exclusive foreign trade. *

This famous Statute was the basis to the famous North American Patent Act and gave birth to the United States Patent Offices, which depend on the Department of the Interior.

In a book on this matter by James Edward LeRossignol, we find the following wording of the Act: "Any person, native or foreign, who has invented or discovered any new and useful art, machine, manufacture or composition of matter or any new and useful improvement thereof, not known or used in this country and not patented or described in any publication in this or any foreign country, before his invention or discovery thereof, and not in public use or on sale for more than two years prior to his application unless the same is proved to be abandoned, may upon payment of the fees required by law and other due proceedings had, obtain a patent thereof." **

The British theory on the granting of a patent is based on the principle that it is a reward for making the invention known to the public! The American theory is that it is made

* J. E. LeRossignol, Page 93

** J. E. LeRossignol, Page 95

with a view to encouraging invention.

Validity depends upon these main points:

I. - The invention must possess a certain amount of utility; must display some degree of novelty; and must have been obtained by the exercise of some measure of ingenuity.

II. - The patentee must be the true and first inventor; that is, he must not have obtained the invention from another person, unless imported from abroad, nor from a printed book, nor from a patent specification published in this country or introduced from abroad.

III. - The specification must be accurate, intelligible and sufficient; it must point out distinctly what the patentee claims as his own and must not claim anything that is not his own.

The aforesaid gives us a picture of the patents in general, which are necessary to have clear in mind, before entering into a discussion about the validity and lawfulness of the patent system. In general terms, the discussions on the question nowadays can be confined to a struggle of Public versus Private Law; it is a typical feature of the last forty years, of an ever increasing collective era. Unless individual rights manage to ascertain themselves, we are headed straight for collectivism, state socialism or some other extreme form of government. Before coming to the contro-

versy itself, may it be stated that a radical change in the patent legislation of a country nowadays has international consequences. For on March 20, 1883, a convention was signed and called "Union for the Protection of Industrial Property" and article II of the said convention states: "true subjects or citizens of each state enjoy in all the other states, the same advantages as regards patents of every kind that their respective laws grant to their own subjects or citizens."

A patent can be assigned and bequeathed like any property. Trade-marks may also be registered. A patent in relation to industry has been compared to a protective tariff, as both can give the necessary impulse and protection needed by an industry in expanding itself.

The objections to the present system of patents are the following three: a) no material reward is necessary, for it is just natural genius; b) only rarely inventors become rich. A distinction should be made between an invention and its marketing; and c) patents are "scaffolding", for although they are not eternal, when removed they give the pioneer company a certain power (basis for oligopoly!)

This patent discussion had been until recently a purely academic one, but events in the last years have brought it strongly to the foreground. They have been put in line with

the famous "trust busting" attempts by which Mr. Thurman Arnold, former Assistant Attorney General of the United States, made himself so popular. He states that the oligopoly of different United States corporations is maintained by the pooling of patents, that the patent laws are incapable of handling the actual situation, and that a new set of patent laws are absolutely necessary. His further argument is that German industrialists completely duped their American partners, getting all the information for their own exclusive use, but giving nothing in exchange. This would imply that the American businessman is a naive, simple, ^{and} goodhearted man; do we forget the enormous influence and capital that is invested in Europe and Latin America? As in all commercial deals, you can either take it or leave it, and the American businessman is famous for driving a hard bargain.

Thus, Mr. Arnold says in an article published in "The Atlantic": When a patent owner uses his patent to build a domestic or international cartel or to stifle enterprise or production in any commodity, the patent should be annulled by the courts in order to make the industry free again. Monopoly power can be destroyed only by taking away the instruments by which that power was built up and maintained." *

127

Mr. Lawrence Langner, Dean of the Patent Bar, has justly answered the above, when he states; "to prohibit restrictions in licenses would simply have the ~~effect~~ of preventing the patent holder from sharing the benefits of his patent with other manufacturers, and would thus restrict production to the factory of the patentee - an absurd result for a law, the alleged main purpose of which is to increase production." *

The effect of the possible reform of Mr. Arnold is clearly visualized when we see the case of the Standard Oil Company, for just in the technical field, through the cross-licensing of patents, the oil industry has made great strides in the refining of crude oil. ~~A~~greater exchange of patents is necessary to the prosecution of the war, but the companies are reluctant to take such steps, as they fear future legal proceedings against them and their officers by the Department of Justice. Simple remedies are much more effective than reforms of a whole system in this particular case.

Professor Ely has offered us four solutions:

I. - For the government to reserve the right to purchase any patent at an appraised valuation;

II. - Patents granted only on condition that the use of the patent shall be free to any one on payment of royalty;

III. - Increasing taxes on patents, thus alleging usage;

IV. - Forfeiture for the non-usage of patents.

* "The Atlantic", July, 1942, Page 30

In reply to the question of allowing everyone, especially those engaged in small business, to be able to share a new patent, Mr. Lawrence Langner replies: "If you permit the unprogressive manufacturer, who has not invested in research, to benefit from the research of the progressive manufacturer (who usually pays for nine failures before he achieves one success), you put a premium on laziness and a penalty on progress." *

Thus, the first to protest against the suggestion of a compulsory license are the small businessmen. For the sole effect of this measure is, as Judge Frank stated: "to throw the baby out with the water." Why? "For the simple reason that the great industrial concerns would have complete and ready access to the work of all small organizations and for the pittance of royalty would have the benefit of research from wherever it stemmed." ** It finally would destroy all incentive to invent. Patents are the only protection of the small businessman.

Solutions are varied in their forms. The cold fact remains that there actually exists an opportunity to misuse the patent. Mr. Arnold has offered many solutions, but has retired many of them. He is really the advocate of a total reform of the patent law. Certain restrictive measures can be easily applied,

* "The Atlantic", Page 29

** "The Atlantic", October, 1942, Page 51

without necessarily going to extremes. The danger of the scope of Mr. Arnold's measures can be deduced from the fact that the President of the United States has deferred the actions against the accused corporations because they were actually hindering the war effort. The Assistant Attorney General's idea is centered, as we have seen, on compulsory licensing. Is this idea original? We have just seen Professor Ely's solution to the problem, which also meant a total reform. The second one is the one which Mr. Arnold uses. The real solution lies in the two last points of Ely's reform. An increasing tax per year on patents will oblige the use of a patent, and to avoid the great capital of a corporation from keeping the patent from being used, total forfeiture can be applied after a specified period, in accordance with a commission of inquiry especially selected for the case. This is nothing new, since the franchise of corporations can be abolished, and why should it not be applied to patents?

"I have come to the belief that a simple law permitting the defendant in a patent suit to escape the penalties of infringement if the patentee is using his patent to break the anti-trust laws would cure this entire situation. To save the defendant in such a suit the expense of this new defense, the law might well provide that the Anti-trust Division of the Department of Justice shall intervene on behalf of the defendant.

This proposal would help the 'little man' instead of injuring him unlike a compulsory license law; but more important still, it would deter monopolistically inclined large corporations from using their patents to break the anti-trust laws. In addition, all patent licenses should be registered at the Patent Office as private documents, but should be scrutinized by the Department of Justice, at the time they are made, for possible breaches of the anti-trust laws." This is said by Lawrence Langner in the July, 1942 edition of the "Atlantic".

To close the list of protective measures of the patent law, a law providing the inscription of instruments relating to patents to be registered in the United States Patent Office as a public record, would give that measure of public control as is desired nowadays.

As a case of inaccuracy, be it again stated, as we have already seen, that a cartel is principally an instrument for defense formed by industrialists after a period of deflation. To pile all the faults of our actual economic era on cartels is just looking for a scapegoat. Since it is democratic in its foundation we cannot attack it. To do away with these evils, one must realize that the fundamental evil lies in the private control of currency, which makes a market fluctuate when it should be stable and ever-increasing. Once these

solid foundations have been laid, industry can adapt itself and clean up its attic, and then such things as manipulation of securities and other detrimental factors will disappear. Once the age of plenty sets in, those factors which integrate cartels will naturally disappear and stability will follow. A word of warning should be sounded in respect to this age of plenty: production will benefit each family in a nation, and on the other hand, a sane and healthy exchange of international goods is indispensable, for if every country is going to become quasi-autonomous, disaster will appear on the horizon. Big business is no danger as long as it concentrates on production and distribution.

An indispensable requisite for a fructiferous international trade is a stable internal economic condition. This entails prevention of depressions and a program of abundance as a guiding principle. Economic activity is the fundamental and preponderant one, even politics are subjugated to it, for its reaches go beyond the national boundaries. Nations which have tried to prove the primacy of politics necessarily have to become autocratic, and inevitably this eventually leads to their downfall and ruin. Those are the severe lessons we must learn from this war. International trade is essential for an era of abundance. For the majority of countries, export represents 50 to 15 percent of their national income; a total disappearance

of their foreign trade would mean a severe reduction in their standard of living. International trade represents a stabilizing force in international relations. It creates an interdependence among nations, basis of a lasting peace if carried out by all, and not to the exclusiveness of one or more.

Even the United States of America, whose foreign trade only amounts to a fraction of its internal trade, derives 45 percent of ~~their~~ ^{its} export from key industries, where a reduction in their output would severely affect the internal economic situation. But international trade not only has a significance as a part of total trade; its importance goes beyond that. I. B. Condliff assumes that: "The value of international trade cannot be measured, any more than the value of territorial division of labour within a national community, by the aggregate value of goods which cross local boundaries. It brings within the purchasing power of consumers in every country the specialized products of every region. The whole world is given access to the fruits of tropical agriculture and northern sea fisheries, of large scale agricultural and pastoral production in the thinly populated countries of the New World and the elaborated manufactures of highly industrialized areas in the Old. By its efficient organization the luxuries of the rich have become the conventional necessities of the poor and there are still great possibilities of raising standards of living by its

improvement There is, therefore, good ground for the conclusion to which M. van Zeeland came in the course of his investigations, that although the quantitative importance of the international market may have been exaggerated in certain cases, its relative importance appears today to be as great as ever, and its marginal influence is real and powerful." *

As we have seen in modern oligopoly thought new ideas have developed around the market and we are arriving at a midway solution between pure competition and monopoly. We have just reviewed a controversy about Patents. In this group are also included copyrights and trade-marks. The former has not been the object of criticism, but the latter obtains a different view through the analysis of oligopoly. As we remember, the market is a composite of competition markets, purely monopolistic ones, and others which are oligopolistic. Only a portion of economic activity is described when we speak of "free competition". In this new situation, advertising, which is without purpose in pure competition, acquires a predominant value, as well as trade-marks, which establish a "partial monopoly" for a product. For the volume of sales depends on differentiation now, and the object of the oligopolist is to divert attention toward a trade-mark, thus creating a "partial monopoly" or "oligopolium". It works on

* I.B. Condliffe, "The Reconstruction of World Trade", P.61-62

the discrimination of the customer, for if the goods were completely equal, one producer could not secure a larger volume of sales than another. It is the dissimilarity of products which the producers advertise.

Referring to the purchase of a certain product, Professor Edward Chamberlin says that the consumer is not even interested in the producer, for, as he states: "If the identical product were made by another company, put up in the same box and given the same name so as to guard against being foolishly deluded, he would be equally ready to take it. The name stands for a certain quality, a certain product, not a certain producer, and to permit only one producer to use the name is to grant him a monopoly of this product. The law does vastly more than to identify." *

A trade-mark thus gives a producer a partial monopoly or oligopolium in his line, which is characteristic of oligopoly, for it differentiates the product from other similar ones, which under free competition would be superfluous.

* Prof. E. Chamberlin, "The Theory of Monopolistic Competition",
Page 207

CHAPTER VII

FUTURE ECONOMIC STRUCTURE

The previously mentioned investigation into the monetary problem, as well as the analysis of our actual economic world in all its different forms, leads me to offer a panorama of the co-existing economic forms of our future society. Roughly, all the reforms envisaged can be classified under one of the following groups: a new regenerated capitalism, socialism or state ownership, or a midway eclectic solution, pragmatic in its essence.

The first is a revival of a system which existed in the Weimar Republic. Its slogan was: "A government of businessmen, by businessmen, for businessmen." This movement clamoured for the complete independence of industry from government. Production, distribution, and price-fixing were to be determined by

196

trade associations, which included representatives of labour. These associations chose members, who were to represent them at a national economic council. This council was then charged with formulating the national economic policy. This tendency met and will meet with doom, as it does not include any representation of or consideration for the consumer.

The second possibility, socialism or state ownership, is increasingly becoming a reality in many countries. It has one great disadvantage, for its total introduction would cause a severe disrapture of our actual economic structure of society, without having the experience of how the system would work. It represents a tendency to expropriate all private property engaged in production. A more radical form is communism as it exists in Russia. There, private property does not exist at all, every person being a government employee. It is well to remember here that the considerations of our last chapter are only applicable to a highly capitalistic-industrial nation, and this circumscribes our reform to the following nations: United States of America, Canada, Great Britain, Italy, France, Belgium, Netherlands, Switzerland and Germany. Germany offers a singular case, for it will most probably revert to communism after this war. As we see, many a country has been left out. They stand much closer to socialism including state ownership than the other above-mentioned nations.

109

We must realize that the vast majority of the people of the United Nations live still in pre-capitalist societies: 500 millions in China, 360 millions in India, not to forget the Russians. The gains of socialism will be in all these other countries, not so much in the above-mentioned countries, for several factors co-exist which are not found elsewhere. First of all, the mass of workers, enjoying a higher standard of living than those in the other pre-capitalist nations, are apt to be "bourgeois" in their outlook. The upper middle class, as well as the farmer group, has the same outlook, leaving only a disgruntled lower middle class in favour of socialism, which is directed by a group of unsuccessful "social reformers" or "intellectuals", who hope to be the "leaders" of the new order. The essence of all "planning" is coercion and not foresight. In reality, it is the imposition of the framework of a military society on civilian foundations.

Fascism, including nazism, has been considered by many as the final stage of our capitalist world, fighting communism. Yet the mainstay of the National Socialist party in Germany was neither the capitalist nor the worker. Much more, they were the small shopkeepers, artisans, farmers (thus nazism is a reactionary movement) and the white-collar employees, who envied the better paid skilled workers. The Axis nations, excluding

Japan which is completely militaristic and feudal, advocate and practice a militaristic socialism. Its essential feature, direction of all economic activity by the state, is also the characteristic of communism, and its partial triumph after this war is a factor we have to consider. It is utopian to think that reform in Russia is possible, especially a reform that would bring it nearer to the Western World. On the other hand in Germany, as already mentioned, in Poland, Hungary and Roumania (practically all the Balkans), conditions will be very favourable for the sovietization of those countries. In the Far East, including Japan, a turn towards communism is highly probable. China and India stand at crossroads, for they are experiencing now an industrial revolution and a general awakening from their centuries-old lethargy. If their leaders, manufacturers or industrialists, and landowners are sufficiently public spirited, they will introduce reforms of some kind to the millions of their compatriots who live in the most abject misery. The transition from pre-capitalism to communism is far easier than that from capitalism to communism. This also applies on the whole to Latin America, only here the influence of capitalistic industrial nations is so great that most probably it will some day develop into a conglomeration of capitalistic-industrial nations in the near future, especially Argentine and Brazil.

We now come finally to the third group, that of capitalistic-industrial nations. Here reform is still feasible without having to turn to the extreme of state ownership. I believe, as Thurman Arnold states: "That the practical reformer gains his ends with the least possible dislocation of existing institutions and the least possible shock to existing ideals." * To build a Utopia on paper is not the object of this chapter. Let us realize the conditions in which we are living and let us reform them by practical housecleaning. The capitalistic structure has given us wealth and the highest standard of living that has ever been attained. Why change to radically new and untried systems when we can change the policy or philosophy of those who direct our industrial empire?

A reform of our present society will come after this war, perhaps it will be regimented, but it need not be structural. The control of the functions of society is sufficient without having to recur to a complete modification of our economic structure. Different forms of industrial policies have already been in operation in certain industries. I do not propose the application of one to all, since we are living in a pluralistic world. The problem will be to find the appropriate policy for the particular industry. Here follow some industrial policies that have been extensively used: anti-trust policy; government ownership; transfer of control without

* Thurman Arnold, "Bottlenecks of Business", Page 92

ownership; public utility regulation; acquisition of a policy by paying for it, and finally a body making key decisions.

I advocate a virtually nonexistent policy, but one which runs on the same lines. In it the consumers have a voice through the intervention and cooperation of the government (its only role), the workers or labour in general, and finally the managers. Summing up the conclusions of my thesis, I come to the following four points, as the basic and guiding ones in a program for post-war necessities:

- I. A continuous flow of money with two functions: to make production available to those who normally cannot enjoy it, and secondly to keep the economy in balance, so that it will not be destroyed by having monetary influences unbalance flexible prices in relation to rigid ones. Avoid influences of international finance on internal market.
- II. Formulation of policies for industry, to ensure abundance and to counteract any tendency towards scarcity.
- III. A system of public employment to counteract periodic and inevitable trade fluctuations, occasioning a reduction of private employment.
- IV. Assure a world-wide economic interchange, even at the expense of certain national industries.

The basic social unit of our industrial society is the factory or industrial plant. In it two forces have stood opposing each other for many a decade, but a fundamental change has become apparent in these last years: "Actually, union leaders and corporation management today resemble each other very closely. They have very much the same approach to economic

and social problems and the same managerial philosophy. They are like the white and red figures in a chess set, working for identical purposes, under identical rules, though always on opposite sides." * We all depend on the goods produced by industry. Prosperity depends on the ratio of available goods in relation to population. The era of abundance has been ushered in by the war. The problem to be tackled is the transition to a peace-time economy. This is a problem industry must solve or else, after this war, the executives of the great industrial nations will have to offer a way out by a vast program of public construction. The consumer must have the means of acquiring and sharing that great output of goods, and if the output exceeds the demand we must remedy the situation by emitting money in the necessary ratio. This monetary reform cannot be solved by our actual financial position. I have exposed the indispensable reforms to be made in the second chapter of this thesis. To reduce the supply, and to revert to high profits on a low turnover, can only have disastrous results, which might even lead to some worse form of control. It is only the economics of abundance which will enable future generations to breathe freely and deliver them from the enormous pressure of war debts. The privilege on which is based the inverted pyramid of financial oligopoly, that of creating the medium of exchange of a nation, must

* P.F. Drucker, Harper's Magazine, November 1942, Page 649

undeniably revert to the people, to whom it belongs.

We now come back to the relations of labour and industry, having to consider their interdependence. We must avoid at all costs having to depend on the State for a solution of our industrial problems and relations, for jointly industry and labour can usher in a new era, not stereotyped by government machinery. Industry has an objective principle, a teleological function. Up till now all the controversies surrounding the two have been basically limited to the claiming of basic subjective rights. Industry has a social function to fulfill with respect to society: those performing a necessary function have the approbation of society and those enjoying the privileges of class or inheritance have not.

There is a definite practical solution in this problem, which is neither a parasitic dependence or a neurotic insistence on independence from government. A vast amount of power aggregated in the hands of government must be averted, yet it has the indisputable right to interfere in industry at any time. But this should be left in suspense wherever there are neither moral nor economic reasons for its exercise. "Government must take up and perform vigourously the necessary task of motivating full production. But there must not be dependence upon the government on the part of people in the prime of life,

who must desire above all things to be truly free and self-sufficient. Neither need there be governmental direction of economic activity except in fields of natural monopoly such as public utilities and electric power or in such activities as slum clearance, reclamation, flood control, and highway construction, where private enterprise simply cannot cope with the job. This reduction of governmental power will not be easy to attain - especially in view of the tremendous powers the Government will have taken to itself during the war. But the better the job of assuring a continuous distribution of a full volume of buying power is done, the less will be the need or excuse for governmental direction or control." *

Trade unions and managers have their lives centered around the industrial plant, and in formulating an industrial policy it is necessary to explain and understand these three basic factors of industrial life. We must, from now on, look upon the industrial plant as a basic social power in our society. Peter F. Drucker summarizes concisely the importance of the plant: "The industrial plant, especially the large scale automatic mass-production plant, has become the basic social unit of our industrial society. The fight for the control and organization of this central institution is at the core of the

* Free World, November, 1942, Page 121

194

social crisis of our generation. For an ever-increasing number of our citizens, the industrial plant furnishes both the livelihood and the social environment in which they spend most of their waking hours. All of us are dependent upon the goods which industry produces - in war even more than in peace. And the decisions of the managers of industry on prices and wages, production and purchasing, affect the lives of more people - and affect them more directly - than the decisions of most of the political authorities proper, such as State or city governments. Whoever controls the industrial plant holds the decisive power in our society." *

We must realize that the industrial plant or corporation is a social unit. The sooner we become impregnated with this idea the better. There are no more business or economic "spheres" or even "political" ones. There is nowadays a growing interdependence in all factors political, economic, and social. Many of the labour unions which exist today are strong units within our society, yet they too have forgotten their social role. Their fighting tactics banded them together and gave them their force and public recognition of the right of collective bargaining. But they have become "pressure groups" and not a social force. They seek to

* P. F. Drucker, Harper's Magazine, November 1942, Page 644

establish a labour monopoly, to obtain as large a share of the national income as possible. Their leaders have the same outlook for profits as the manufacturers have, and receive some of the highest salaries paid. Many unions, like their inseparable twin the managers, seek to restrict output by diverse methods which are akin to them; others have not had free elections in years; still others have closed their doors to apprentices. All these "unsocial" practices must cease. Not pettyness, but service must be the goal of unions. For years we have heard the managers and now we hear labour clamouring for rights, all of which are "subjective". It is now time that we started to realize that there is an "objective" principle behind those clamourings and that both have a moral obligation toward society. It is the service to society that counts and in particular every job must have a reason for being, from the president to the errand boy, and these positions must be based on merit and not privilege.

Out of all these conflicts, there is only one salvation for industry: unite management and labour and then a new economic organization or form will arise in which the conflicts of class will be replaced by a functional partnership in the interests of society.

This war has created a new relationship between labour and industry in the new labour management committees, and we must see to it that it does not end with the end of the war. It is well here to recollect the organization of industry, in its legal cloak of corporation, as well as the reality of the structure and policies of labour unions.

Peter F. Drucker has summarized concisely the problem of our actual corporation. He informs us: "that managerial control and legal ownership have become separated in the modern corporation has been a commonplace ever since the pioneering study of Berle and Means more than ten years ago. We all know that in legal fiction the corporation is nothing but the representative of the individual property rights of the individual stockholders. Legally management is only the employee, the agent of the stockholders, appointed by them, and responsible to them. But we know also that in reality the corporation has become autonomous. The stockholders are only one special group of outsiders with a claim to profits. They neither control nor run the property of the corporation; they know nothing about it in most cases. Management is autonomous too. It appoints its own successors without even consulting the stockholders.... Management is thus neither controlled by the legal owners of the properties nor responsible to them....

~~187~~

Altogether, our economic system has split into two parts during the past fifty years; a "real" economy of mills and plants, and a "symbol" economy of negotiable securities like stocks and bonds. Practically all our industry is organized under this dualism. The symbols carry the legal property rights, but the physical control lies with the managers of the "real" economy. The symbols are volatile and impersonal, the controls permanent and personal. The symbols give wealth but no power. Control of the "real" economy may not give more than a good income, but it gives socially decisive power. And outside of legal fiction there is very little connection between these two economies; they have largely become independent of each other.... As far as economic efficiency is concerned, the divorce of the symbols of property from the power of control in modern corporation may have been all to the good. There has never been a more capable, more honest, and better trained group of business executives than the professional managers of the American corporation to-day.... However justifiable the separation of ownership and control may be from the economic point of view, politically it has deprived corporate management of its title to the social power which it exercised. Capability and honesty are sufficient qualifications for purely technical decisions. But the managerial

decisions are social and political decisions. And a social power needs a political justification; otherwise it is illegitimate power. It needs political limitations lest it become absolute power. It must be politically controlled and responsible or it is tyrannical power. The justification of managerial power used to lie in the individual property rights of the shareholders. It was limited by its responsibility to the legal owners by whom it was controlled. With the abdication of the stockholder, corporation management lost therefore its original justification, its original limitations and its original responsibility." *

On the other hand, the same autonomy which the managers of industry enjoy applies to the leaders of labour unions. A labour union to be successful, must be nation-wide, not local, thus the individual rights of the worker also are not directly considered. The same reasons which led the managers of industry to become autonomous are equally applicable to labour union leadership. A change from the managership of industry to the managerial rule of the leaders of labour unions would not replace illegitimate social power by legitimate rule. Our last mentioned author states in this respect: "Unionism, is not a force of the future but of the past. It

* P. Drucker, Harper's Magazine, November 1942, Page 647

is not the successor to corporation management but its shadow. It was never meant to be anything but a critique of and a protection against the power of the managers. Unions are a perpetual opposition, and it is in opposition alone for which they are fit. In an industrial system in which the corporation managers have the final decisions, trade unions fulfill important, necessary and beneficial functions. It was one of the great mistakes of corporation executives not to realize that the unions are a natural complement to management, which should have been used for the benefit of the business. But outside of protection, criticism and opposition, trade unions have nothing to do. Should management power disappear, union power would disappear with it. Certainly a centralized government in command of industry would not allow trade unions except perhaps as administrative organs of the government." *

Thus there is only one way open to industry and labour: UNITE. The industrial plant itself then becomes a self-sufficing and self-governing community, and what was before the responsibility of industry to the worker now changes to the responsibility of the worker. Besides obligations to its shareholders and consumers, the future corporation will also

* Harper's Magazine, November 1942, Page 650

be increasingly responsible to its workers, who in turn are responsible for the internal organization of the factory. As Drucker mentions: "But if we are to have an independent management - indeed, if we are to have an independent corporation - the corporation executives must be the instrument of the responsible self-government of the social institution of the plant by the workers, just as these executives used to be the instrument of the self-government of the economic institution of the corporation by the shareholders. The workers will have to be responsible for the internal organization of the mill: its working conditions, its labour efficiency, its hiring and firing policies, its social life."

What is the factor that makes this new form work? It is the concern and goal of achieving maximum production and efficiency, and as we have seen up till now, that is also the only remedy for a post-war reconstruction; maximum production and the welfare of the community are synonyms.

For the definite success of our new industrial policy, the following points must be fulfilled by labour and management alike: First, we must assure the status of the union; that is to say, it is highly desirable for the success of this new policy that there exist a so-called union shop, which

may or may not be affiliated to one of the major labour unions. Secondly, the cooperation of management and labour must be "bona fide" and enjoy their total support. To assure this we come to our third point, which is no infringement on the rights of foremen or labourers. Also, the policies worked out by these joint boards must be long-view policies, not short-term ones, for they have united a new moral obligation, society, and they must ensure a policy of plenty, of abundance.

The representatives of labour must be imbued with a strong sense of social responsibility in their dealings and must realize that their decisions reach beyond the confines of the plant or factory. They must realize that getting out the production is just as much their business as that of the managers, and furthermore, that the keeping down of costs is even more their responsibility than ever before. But just as there is a necessity for a reform in the mental attitude of labour, it is also necessary in that of management. The latter has preoccupied itself up to now only with the problems of production and management, in which it has become the most efficient generation of managers. Our new industrial leaders must be topnotch labour relations men, or, as they are also called, public relations men. This last term is by far more appropriate, for the role of the manager will include dealing

and bargaining with government officials, who represent the consumers' view-point.

There are some considerations to be kept in mind with respect to the committees containing labour representation. The committee should either be advisory or executive. If advisory, it should contain an equal number of management and labour representatives; the labour representatives should be below the rank of foreman. Its recommendations, which are not executive, should be carefully and conscientiously analyzed, and if not accepted, a reasonable explanation should be given and presented for discussion. If the committee is to be executive, the management group should have at least one more man than the labourers.

The next problem is the choice of the labour representatives. Since we are living in a democracy, balloting is the fair way of choosing the representatives to the committee. There is one grave danger that a labour man might be elected on account of popularity who might lack all the qualities required for the fulfillment of his position. To avert this, I suggest the formation of cells in the factory, not according to numbers, but according to production units, or natural divisions of the plant.

Besides dealing with specifically technical problems,

such as conservation of materials, improvements of designs and production methods, and introduction of new methods, to name but a few, it will also be the social obligation of the committee to promote fuller understanding of the system, pointing out the common interests and objectives of labour and management. This work might come under a labour relations department, attached to the personnel department. Other work must also include the promotion of educational and recreational activities. Since the question of wages is a matter beyond the scope of the factory or plant, no reforms can be introduced by the management, but there are the alternative forms of bonuses at hand, which should be distributed not only according to capacity of work, which is economic, but also in relation to the status of the worker, for the necessities of a man with a large family are not the same as those of a single man.

I hope herewith to have given a reasonable working idea of the organization of a plant, factory or corporation as I advocate it for a capito-social world. While clearly realizing our pluralistic economic environment, I am sure that by the adoption of the aforementioned system, which, if considered practicable, will without doubt undergo some minor reforms, we will have taken a definite step ahead toward a world of abundance and plenty for the masses, assuring them

a higher standard of living and assuring society as a whole an economic stability as never heretofore seen.

On the other hand, it is the only solution left, except the government ownership of factories and corporations, and the fatal consequences this entails are but too clear to our present business world, for it would mean the substitution of initiative by an octopus-like bureaucracy and the danger of the disappearance of private property. As a final word, I wish to state that this work is more concerned with policy and attitude than specific or technical investigation or analysis.

CHIEF FEATURES OF EXISTING OR IMPENDING LEGISLATION:

I. - To an increasing extent regulation, supervision and repression, supplemented and facilitated by publicity, take the place of the old inoperative system of prohibition, the cause of infinite difficulties of interpretation, interminable law suits, secrecy, and abuses.

II. - An agreement which is considered dangerous is defined much more by its importance and activities than by its legal form or ostensible aims, for nothing is easier than skilful dissimulation, especially from one state to another. At the most when a commodity, owing to its importance or scarcity, or to the actual monopoly enjoyed by the producer or holder, is a particularly suitable subject for an agreement which would endanger the interests of the public, then any understanding with respect to such a commodity is considered injurious and therefore prohibited or subjected to more restrictive supervision.

III. - In the absence of a criterion which can be derived solely from the importance, form or nature of the commodity,

and in view of the difficulty of precisely defining the many types of agreement, the tendency everywhere is to consider that those agreements pursue lawful ends which make public their constitution and working, established in the form of a declaration, registration, and periodical reports. Publicity makes for a presumption in favour of lawfulness and sometimes to the advantage of agreements and monopolies, reverses the presumption of unlawfulness based on their mere constitution or on their secret activities.

IV. - Failing a precise legal definition and owing to the need of determining with authority the importance and nature of separate or associated undertakings which can play a predominant part in the national or international market, and of reconciling legal principles and economic conditions in such determination, the present tendency is to entrust to special administration, technical or judicial institutions, the duty of supervising or tracking down injurious combinations and compelling them to supply all necessary information on their working, and to empower these institutions to order or instigate their regularization, prosecution, repression, or prohibition. The widest publicity is given to their decisions with a view to the deterrent, disciplinary, and moral effect on the economic education of the public.

V. - The staff of these institutions is usually very small, but as competent and independent as possible, and it may obtain the assistance of a few technical experts and a large administrative and executive staff.

VI. - Because of their functions and the intentional vagueness of the law, they are given large powers of discretion to decide on the facts and the law, the criterion they employ being that of the public interest, which is an idea wide enough to cover the interests of producers, consumers, the public, and the workers alike. Certain Laws, like that of Canada, even specify this explicitly. *

* William Oualid: The Social Effects of International Industrial Agreements (C.E.C.P. 94)

B I B L I O G R A P H Y

-
- AristotlePolitics
- BarnesAn Economic History of the
Western World
- Beard, C.M.America in Mid-Passage
- BladenAn Introduction to Political
Economy
- Brandeis, L.D.Other People's Money
- BucherVolkswirtschaftliche Entwicklungstufen
- Burns, A.R.The Decline of Competition
- Chamberlin, E.Theory of Monopolistic Competition
- Clark, J.B.Essentials of Economic Theory;
Control of Trusts
- Coke, S.R.Institutes, Part III
- Condliffe, J.B.The Reconstruction of World Trade
- Edgeworth, F.Y.Papers relating to Political Economy
- Edie, L.B.Principles of New Economics
- Ely, R.T.Monopolies and Trusts
- Encyclopaedia Britannica

- Fetter, F.A.The Masquerade of Monopoly
- Gide, CharlesPrinciples of Political Economy
- Haekley, R.C. Jr.Invention is Vital (Atlantic, Oct/42)
- Hobson, I.A.Economics of Distribution
- Hume, D.History of England
- IsidorusGlossarium in Migne
- JustinianusCorpus Iuris Civilis
- Kako, N.The Monopoly Investigation
- Kitson, A.Scientific Solution of Money Questio
The Bankers' Conspirac
- Lamarche, T.M.Comment rendre l'argent au peuple?
- Le RossignolMonopolies, Past and Present
- Lidell, ScottGreek English Lexikon (1845)
- Liefmann, R.Cartels, Concerns and Trusts
- Logan, InmanA Social Approach to Economics
- MacGregor, D.H.International Cartels (C.E.C.P. 93)
- MacRostyTrusts and the State

Seligman, E.R.A.Principles of Economics

Senior, N.W.Industrial Efficiency and Social
Economy

Smith, A.The Wealth of Nations

Smith, S.Economic Control

Soddy, F.Role of Money

Sombart, W.Der Moderne Kapitalismus

Spahr, W.E.The Economic Foundation of Business

SuetoniusHistory of 12 Caesars

Thomson, Ch. M.Principles and Practices of Economics

Tucker, I.Elements of Commerce

Tugwell, M.American Economic Life

University of Minnesota ..International Economic Relations

Webb, S. and B.Problems of Modern Industry

Wiedenfeld, Dr. K.(C.E.C.P. 94, '26) Cartels & Combines

Wieser, T. vonSocial Economics

WillcoxCan Industry Govern Itself