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COMBINES AND CARTELS

THE ANNOUNCEMENT that proceedings are being taken by the United States Government against certain large combines in the chemical industry for violations of the anti-trust laws makes it opportune to consider the general question of monopoly.

The policy of this country was for long directed against monopoly and against agreements in restraint of trade. The attempt of the Crown to use its prerogative for the purpose of granting patents of monopoly was strongly resisted both on the grounds of objection to anything tending to increase royal power and of objection to curtailment of the right of the subject to engage freely in all kinds of trade and production. This struggle was successful, and the only patents which could lawfully be issued were in respect of new inventions. These were allowed to be issued on clearly defined principles and for strictly limited periods of time. They were intended to be a reward for the inventor, and not a source of revenue to the Crown—the fees charged being for the purpose of defraying the expense of the Patent Office.

The Courts also on principles evolved out of the common law and reflecting the spirit of the times looked askance at agreements in restraint of trade as being contrary to public policy.

Removing Restraints

This trend of opinion reached a culmination towards the middle of last century in the abolition of the restraints caused by protective tariffs. There still remained, however, in this country certain monopolies expressly sanctioned by the legislature in respect of companies formed for the purpose of building railways and docks, supplying gas and water, and later electricity. In the case of all of these, except railways, there was, however, a contrary tendency towards municipal ownership, and considerable advances were made in this direction.

In addition, and more important, there was the privileged private ownership of land against which also a continuous battle was fought, especially after the publication of *Progress and Poverty* and other works by Henry George provided the basis of constructive policy for progressively eliminating this monopoly.

The would-be monopolists were on the other hand extremely active and a contrary influence was at work. The legalization of the device of limited liability had consequences which its

authors could hardly have foreseen. It was originally intended to save co-partners who were unfortunate in business from being stripped not only of the assets which they had invested in their business, but of the whole of their possessions, and from being rendered bankrupt with all the disabilities which that entailed. It became, however, a means of carrying on business upon a very large scale. The shareholders who in theory were proprietors of the undertaking became so numerous and with so little interest individually that the control fell into the hands of a few large shareholders or of an oligarchy constituting the board of directors. Thus power was divorced from responsibility, and this process was continued still further by the device of holding companies.

Protection Revived

The revival of protectionism, under the leadership of Joseph Chamberlain, and the eventual adoption of a policy, which Disraeli had described as "dead and damned," by the Tory Party greatly strengthened the drift towards monopoly. The business community, which at one time had been strongly anti-protectionist, became more and more converted to the opposite view.

The last war interrupted the normal political development of the country. The thin end of the wedge was introduced, first in the McKenna duties and then in the safeguarding of industries tariff. All over Europe illiberal policies directed towards national self-sufficiency were adopted, and one increase in tariffs led to another. The bond of world trade, which had been fostered by the almost universal adoption of the gold standard was broken. The whole process came to a climax after the great depression which began in 1929, and the adoption by this country of protection as a general policy and the aggravation of it by the adoption of the Ottawa agreement with the British Dominions.

Other Obstructions

The grave results of all this have been soberly and authoritatively described in the publications of the League of Nations and in other works, some of which have been reviewed from time to time in these columns.

But tariffs are, perhaps, not even the most serious of the restraints upon trade and production. Tariffs, so long as they were not frequently or drastically altered, and so long as the "most favoured nation" policy was operated,

were calculable in their results. The new devices of quotas, marketing monopolies and exchange controls have been even more devastating because they prohibited competition much more completely and introduced much greater risks into business transactions.

Not only have these restrictions been imposed upon production and exchange. The movement of people has also been restricted by drastic immigration laws and the universal adoption of passports and visas, the use of which thirty years ago had almost been forgotten.

How far have we drifted from the noble ideal of Thomas Paine! The world is my country; mankind are my brothers; to do good is my religion.

Post-War Prospects

The problem is of the gravest urgency. It is of the highest priority. During the war our manufacturers have been insulated from foreign competition. Their main customer has been the various government departments. It is not unreasonable to suppose that in their bargaining with the departments they have been fairly successful even if a substantial part of their profits has afterwards been lopped off by income tax and excess profits tax. Among many of them there may well be strong reluctance to expose themselves again to the full force of competition, and powerful influences will be brought to bear upon the government. If the same disastrous policy is not to be adopted after this war as after the last, great efforts must be made. Otherwise there will arise in this country what will in effect be the very corporative state against which we are fighting.

Monopolist Pleas

The defence of monopoly is skilful and plausible. Upon the first breath of the American investigation to which we have referred Lord McGowan, the chairman of Imperial Chemical Industries, contributed to the *Sunday Times* (25th July) an article upholding the thesis that combines and cartels are necessary, inevitable and beneficial. The theme of inevitability would have rejoiced the heart of Karl Marx, except that Lord McGowan did not draw the conclusion that the eventual result would be the assumption of all the means of production by the State.

His theme was that mass production of articles which are consumed upon a large scale was essential, that increase in the scale of production necessitated

larger and still larger units of business, that if these did not combine there must be between them cut-throat competition which would result in lowered wages and bring our whole economy to stagnation and collapse. The big unit, he proclaims, at one and the same time reduces prices, ensures shareholders a fair return on their capital, improves the conditions of work and wages, and is no danger to the State because it has developed a public conscience. As for the rest of the community, the combine will not prevent them from making articles in which craftsmanship, and not mass production, is desired. Moreover, he claims that international agreement between cartels "is essential in the world market where all the ordinary problems of supply and demand, prices and raw materials, are complicated by national jealousies, currency fluctuations, political changes and tariff barriers." So we see that the mistaken policies which have strengthened the cartels are used as an argument for making them world-wide!

Dangerous Ideas

It is a plausible thesis, and politically a dangerous one, for it seeks to enlist labour upon the side of monopoly by postulating that monopoly will raise wages.

Even if it were true that wages and conditions of labour were better among people employed by monopolists, it certainly would not follow that monopoly is better for all labour. On the contrary, if the employees of such undertakings do receive higher wages they must receive them at the expense of the workers in other industries. The whole object of monopoly is to restrict production in order to raise prices. If production is restricted, more men will be unemployed. Those who are employed must keep those who are not. So even if workpeople employed by monopolists get higher wages, they will also have to pay higher taxes and higher unemployment insurance.

Wages and Production

The source of wages is after all what labour produces. As a whole, the workers consume what they produce, or what is obtained from abroad in exchange for part of what they produce. If the whole productive power of the country became monopolised, clearly the total wealth produced would decline. Even Lord McGowan is not clever enough to persuade us that in such circumstances the other classes in society would sacrifice their interests in order that workers should have higher wages.

It is equally untrue that large scale production necessitates monopoly, because it is not true that the productive efficiency of an undertaking becomes greater as its size increases. On the contrary, a limit is reached at which further growth leads to less efficiency. Neither is it true that smaller firms cannot live beside large producers of similar articles. Long experience has shown that smaller

firms frequently compete successfully with larger ones.

In short, there is no inevitable trend towards monopoly. A successful monopoly has to have some kind of exclusive and special privilege to maintain it in that condition.

Backgrounds of Privilege

Privilege may take many forms. Patents for inventions give a monopoly which is limited in point of time. Their ostensible purpose is to reward inventors. It is open to question whether it is the inventor that always reaps the reward. It may also be doubted whether the abolition of patents would materially diminish the urge to invent new processes.

Tariffs by preventing world-wide competition make it easier to establish a monopoly within any national area. Quotas and marketing schemes act far more powerfully in this direction because their very purpose is to restrict production. The hop quota, for example, prevented anyone from growing hops in this country except upon plots of land which had been used for that purpose at a certain date. Coupled with restriction of imports of hops, it soon resulted in those privileged plots fetching prices many times higher than ever before.

The Basic Monopoly

The most effective kind of monopoly is based upon the ownership of land which produces a certain raw material. To be completely effective such a monopoly should extend to all such land throughout the world, and we have seen attempts of that nature in the case of tin, copper and other raw materials. If, however, tariffs or quotas are in operation, the monopoly need only extend to the ownership of land in the national area concerned.

In addition to all this, land is a monopoly in another way. Land is not one uniform article. There are infinite gradations in its usefulness, and these depend in a large part upon its situation in relation to population, industry and trade. Thus we all know that in a metropolis like London the value of land varies from millions of pounds an acre in the centre to hundreds of pounds an acre in the suburbs. The natural scarcity of the more productive land results in its bearing a high rent or price. This rent, like monopoly profit, is not the reward of doing but of not doing.

Moreover, in a community progressing economically the value of land increases. The expectation of future increase leads to speculation and the holding of land out of use for higher prices. Thus to natural scarcity is added man-made scarcity, and the opportunities of production and useful work are curtailed.

The natural, simple and easily applicable remedy for land monopoly is Land Value Taxation. This takes for the community the value which the community has given to the land, and renders it unprofitable to hold valuable land out of use.

It fits in with the other elements in the problem of monopoly. It provides alternative revenue to enable the State to dispense with protective tariffs.

A country which abolishes tariffs and land monopoly is hardly likely to maintain quotas and other restrictions.

In the absence of all these aids to monopoly it may be that the problem of incorporation with limited liability will be found to be relatively small. So also of patents.

Generally the conclusion is: monopoly is not inevitable; it is the result of institutions created and fostered by the State, and the State can alter those institutions in such a way as to secure a fair field and no favour for those who desire to take part in any productive undertaking.

MANCHESTER CITY COUNCIL

At the meeting of the Manchester City Council on 5th January the first interim report of the Post-War Reconstruction Committee was adopted. Councillor W. Johnston, the chairman, said their first duty was to decide what sort of a city they wanted Manchester to be; he hoped that at the present stage the Council would disregard the financial side of the question: where the money was to come from could be considered later. Councillor Needoff made emphatic protest. Finance could not be considered a secondary matter; it was of paramount importance. The plans for post-war reconstruction, though noble and visionful, were nevertheless only a superstructure; a magnificent superstructure, no doubt, but worthless and a waste of time and energy if the financial basis was unsound. The root of the problem is the price of land, which can only be rendered reasonable by reforming the existing rating system and giving effect to the rating of all site values. That would break down the monopoly price, and they could then look forward to seeing these noble schemes of reconstruction advancing rapidly and irresistibly to fruition, whereas if the land monopoly was not tackled, but was in fact to be further endowed, they would only lead again to disillusionment and enhanced misery. It had given him the greatest dismay that the Council had received without demur the account, in the report of the General and Parliamentary Committee, of the deputation of the Association of Municipal Corporations led by Alderman Sir Miles Mitchell, which toyed with the notion that land should be purchased at prices related to pre-war values; that is to say, related to the 1939 "ceiling," a price already so inflated that it forbade all chance of housing expansion except at ruinous cost.

Twopence Each. LAND VALUATION AND LAND VALUE TAXATION IN DENMARK, by K. J. Kristensen, Chief of the Danish Land Valuation Department; THE CRIME OF POVERTY, by Henry George; UNEMPLOYMENT AND THE LAND, by W. R. Lester, M.A.; MOSES, by Henry George; THE NEW POLITICAL ECONOMY, by John B. Sharpe. Also (by Henry George): SCOTLAND AND SCOTSMEN, THOU SHALT NOT STEAL, and THY KINGDOM COME.