

POTENTIAL COMPETITION AND THE TRUSTS.

A superficial concept of economic law is apparent in most of the current discussions of industrial affairs. Writers, having a general idea of the nature of competition, and no knowledge whatever of the essential conditions of monopoly, rush into the controversial arena with an assurance that kindles enthusiastic emulation in shallow thinkers, who, perceiving how easy it is, hasten to contribute their quota of misinformation to the general chaos that broods over the field of economic speculation.

More or less of this is to be expected as a matter of course; and it could be borne with patience, if it were not for the well-grounded suspicion that learned men, who probably know better, contrive to perpetuate it, for it is a deplorable fact that some of our foremost educators, preachers and editors give expression to views as amazingly puerile, as palpably invalid, as those of the veriest tyro, whose adequate incentive to literary endeavor is the poor hope of seeing his name in print.

Perhaps this is an uncharitable position to take; but the only alternative is to ascribe inexcusable ignorance of economic law, to men who are justly famed for their general erudition.

We have heard much of "public opinion" as a potential modifier of economic error. But, unfortunately, many of the foremost exploiters of this "remedy" discourage the evolution of public opinion beyond the point of mere impotent expression. For instance, they acknowledge the authority of existing statute laws, that make inequity possible, while protesting against any proposed attempt at amelioration by means of further enactments! They are willing to devote the trusts to the hazard of public disapproval, but not to the impediment of specific law. They would block the annulment of existing law by virtue of which alone the trust exists, and, leaving the trust based upon and buttressed by law, require the public to defend itself from exploitation by means of moral suasion! For how else can public opinion become effective, if its power of inducing legislation be denied?

Monopoly is a creature of legislation. How could a monopoly exist if its power was not confirmed and protected by law? If it were not for legislation no man could own a piece of land. Public opinion has resulted in legislation which secures private ownership of the source of raw materials—land. Is there any valid objection to such legislation? Public opinion has resulted in legislation that puts a higher tax upon some valuable lands than upon some other lands of less value—legislation based on difference in land values. Is there any valid objection to such legislation? Would there be any objection to legislative relief in a case where altered conditions worked flagrant injustice to the owners of land? Suppose, for instance, that a rich and highly taxed mineral tract becomes exhausted; would any sane man object to a reduction of the rate of taxation to square with the changed conditions? Of course not. Conversely, suppose that a rich mine be discovered on an old farm; could any man show just cause why the rate of taxation should not be advanced in this case? Of course not. If, then, the common sense of mankind agrees as to cases in general, how are we to account for the disagreement in the particular case of the trust? If we resort to legislation as a matter of course in 99 cases, why stick at the one hundredth? And the one hundredth case being that of the trust, what are we to think of the man who in precisely this case, and nowhere else, rises up to dissuade society from its customary recourse to legislation as a remedy for what he admits to be an evil?

What stronger evidence of the impotency of public opinion, *per se*, could be adduced than that in relation to the anthracite coal monopoly during the strike? Public opinion was intense, and practically all one way; but it had no effect whatever toward curbing the rapacity of the trust, which, on the contrary, insolently defied public opinion—and existing law, as well, it is alleged—and, in the face of a universal storm of indignant, righteous protest, advanced the price of coal beyond anything that had been known before. If practically unanimous public opinion, roused to the high-

est tension, short of revolution, was followed by the levy of an increased tribute against the public, would not the public, shorn of legislative relief, better keep its opinion to itself? So much for the effectiveness of public opinion, alone, as a remedy for the trust evil!

The public has two arms for defense: The one is legislation, the other, revolution. Public opinion expresses itself effectively only when it strikes with the one or the other of these; and it never strikes with the latter till the former is crippled. Is he a friend of peace who would cripple legislation?

There is another economic sophism, now much in vogue, that is far more dangerous than the one we have considered above, because it is infinitely less obvious, and, therefore, lends itself more readily to the uses of mystification and deceit.

Potential competition is heralded as an effective checkmate of monopoly by men who, in virtue of their social or professional standing, enjoy a large measure of public confidence. While it is difficult to believe in the sincerity of the exploiter of public opinion as a trust remedy—its absurdity being so manifest—it is not to be wondered at that thinkers of the first class, who, however, have not made a special and profound study of political economy, should fail to apprehend the limitations of competition.

The great majority of business men, forever struggling, as they are, against the buffetings of strenuous competition, entertain a nebulous notion that, somehow, some time, that same alert, aggressive principle of competition will find out the trusts, and reduce them, one and all, to the level of the common lot. True, there are some who see more clearly than the majority; but even these, for the most part, postulate the practically inexhaustible resources of nature as the ground of their hope.

The Chicago Record-Herald, of August 2, said, editorially, that President Schurman, of Cornell university, "sees great possibilities of evil in the power that the trusts possess to make the public pay exorbitant prices. He has little confidence in legislation as a remedy for trust evils, believing

that the cure can be safely left to public opinion, and to the influence of potential competition, which are, he says, 'the only two effective regulators.'"

The Record-Herald, after pointing out the ludicrousness of the public opinion "remedy," unsupported by legislation, also reads President Schurman a lesson that he ought to have learned in the A, B, C class in economics, namely, that "competition cannot be effective except where industrial conditions give it free play, and these conditions must often be established by legislation."

Intelligent readers generally will agree to this position of the Record-Herald. But what are the industrial conditions necessary to the free play of competition? Manifestly they are conditions under which the natural opportunity to compete is the same to all men. If the laws are such that one man, or some men can secure to themselves natural opportunity from which the rest of society is excluded, we have not potential competition, but potential monopoly. For inequality of natural opportunity is the basic principle of monopoly. It makes competition impossible.

Potential competition means, of course, possible competition. Is competition possible with, for instance, the anthracite coal trust? There are people who will answer yes to this question. They will say, for instance, that though the trust owns all the anthracite coal there is, yet, the price of anthracite cannot rise too high without inducing competition from the soft coal fields. No doubt if the price of anthracite be advanced too far, soft coal and other fuels will take its place. But is that competition? Suppose, for the purpose of illustration, that anthracite coal could be produced as cheaply as bituminous, and that its recognized utility value were twice that of the latter; since the monopoly owns all there is of anthracite, "potential competition" could by no means prevent the monopoly from realizing a profit equal to that on bituminous coal — plus the total selling price of the latter! If that would not constitute a case of monopoly, it is certainly so nearly like it as to preclude the need of any other term by which to designate it.

Competition and monopoly cannot coexist in relation to one thing. Effective competition is the negative of monopoly, and vice versa. But monopoly rests upon a very much narrower basis than is commonly supposed, even by students of political economy. A further quotation from the Record-Herald editorial above referred to will serve to illustrate this fact; I quote: "Any trust which monopolizes natural materials — as the steel trust some time conceivably may — would not be open to such (competitive) regulation."

The idea here seems to be that the steel trust must own practically all of the natural materials in order to forestall potential competition. But that is an error. Of course, the steel trust, so called, could not be the sole beneficiary of the steel monopoly, unless it owned all of the economically accessible sources of supply. But the effect of monopoly upon all but its beneficiaries is the same, whether the monopoly is owned by one man, or a thousand, whether by one corporation, or a half dozen. The United States Steel corporation is composed of a large number of individuals. Suppose that it come into possession of all the sources of steel supply, either by purchase, or by merging with other owners; what addition would that make to the necessary conditions of monopoly? None whatever. The consumer could be made to pay a monopoly price in either case.

But for the present, confining our consideration to the "steel trust," for the sake of simplicity, I assert that its power of monopoly will be ample if it own merely such sources of raw materials as are for the time being economically accessible. The fact that there are inexhaustible stores of iron ore at present uneconomically situated, either as to location or quality, has no bearing on the question. If the trust can supply the iron needed by the country at a lower price than it can be supplied for from remoter mines, then the trust can exact a monopoly price for its product. The existence of millions of acres of remoter mineral lands would not make competition possible.

The trust can exact a price equal to cost — plus what would be the additional cost of producing from

remoter mines, thus realizing a profit, while the operators of the latter mines would make no profit at all. The fact, therefore, that the trust can sell at a price below what it would cost to produce from mines less favorably situated, will enable it to exact a price indefinitely higher than it would cost to produce from such mines. Its power to undersell would enable it to ruin any corporation that should invest its millions with the purpose of competing. It is the consciousness of this fact that prevents capitalists from operating the unused mines.

The price that the trust actually charges is not the question. The real question is: How low a price can it accept without incurring loss? If it is within its power to supply the demand at a lower price than anybody else could accept, then, manifestly, it can defeat all attempts at competition. Whether college presidents know this or not, capitalists know it, and therefore they seldom attempt to compete so long as conditions continue as described.

Again, it is not necessary that the steel trust own even a majority of the economically accessible sources of supply in order to the maintenance of monopoly prices. It is only necessary that they that own these sources of supply, whether many or few in number of individuals or corporations, shall agree upon the plan of charging all that the traffic will bear, as the rule, and of selling at, or below cost, when necessary to destroy a would-be competitor. In a word, harmony of action among the owners (few or many, as the case may be) of the operating mines, and of such new mines as shall be from time to time put into operation — harmony is all that is necessary in order to monopoly, with all that the word implies.

The fact that monopolies do not at all times exact exorbitant prices is apt to mislead the unwary. Monopolies overdo the thing sometimes, even from the monopoly point of view, to such an extent as to seriously impair the market for their own products. Under such circumstances they may drop prices to the normal level, or even below it, for a time. They will do, in fact, and as a matter of course, whatever they shall be able to agree is for their own

best interests. If they have plundered the public so ravenously as to bring on a panic and business depression, they will, in some cases, if not in all, voluntarily curtail prices until the general condition of trade shall indicate the possibility of another successful raid.

I do not wish to be understood as saying that monopolists always exercise their power to the limit of possibility. They do that which they deem expedient for themselves. The point is, that under the existing regime, ownership of the economically accessible sources of raw materials carries with it the power of monopoly, and that this economic law is persistent. That is to say, the same will be true when ore mines that are now undeveloped shall come within the range of economical accessibility.

Legislation is the father of this evil, and nothing but counteracting legislation will suffice to cure it.

The owners are lawfully possessed of the sources of raw materials, and nothing but adequate taxation can prevent them from securing the monopoly value that is involved in such ownership.

That equitable taxation is the true potential corrective may be easily demonstrated thus: Suppose that the natural conditions in relation to the steel trust's sources of supply are such that it can produce at a dollar a ton less than it would cost to produce from any other source. Increase the rate of its land value tax to the equivalent of a dollar a ton of its product, and you thus correct the inequality of natural conditions. Its producing cost, plus the increased land tax, would exactly equal the producing cost, plus the lesser land tax of the previously undeveloped mines, thus placing the trust and its would-be competitor upon an equal footing. From this time onward the steel trust, instead of enjoying the field alone, and therefore charging all that the traffic would bear, would be compelled to court trade by means of accepting as low a price as its competitor should fix. You see, its competitor would not permit it to add the amount of its increased land value tax to the selling price of the product. The competitor is after business, and he will "make

a price" that the trust will have to meet; a price that will not only prevent the trust from adding the tax to selling price, but that will compel it to drop from the monopoly price altitude to a competitive price level.

Inequitable taxation of land values is manifestly, then, the basic condition of potential monopoly. Potential monopoly inheres in private ownership, where taxation is not adjusted to varying values. Under such conditions, the benefits of monopoly potentially accrue to the owners, lawfully and inevitably, whether the number of the owners be ten or ten thousand.

If all the economically accessible mineral lands be owned by 100,000 people, in a population of 80,000,000, then it is possible to compel the 79,900,000 to pay a monopoly price for the mineral products of the country, unless taxation appropriate the monopoly value of the mineral lands.

The law of monopoly price is to "charge all that the traffic will bear"; all that the public can stand without becoming so badly crippled as to involve the monopolist also in loss. But, possessing this arbitrary power, the monopolist sometimes inadvertently overreaches so far as to cause industrial reverse, at which point panic, or at least, apprehension, will cause the people to "retrench," which means general curtailment of demand for industrial product, business stagnation, consequent waste of capital, disemployment of labor, intensified destructive competition, widespread bankruptcy, hard times.

What then? Is the destiny of human society to be forever at the mercy of monopoly? God forbid! The essential difference between monopoly and competitive industry is that the former is rooted in the earth (to borrow a simile from the "Ethics of Democracy"), while the latter is entirely above ground. Land value is the potential root of monopoly. Increase the tax upon this "root," and you strike monopoly without touching competitive industry. Increase the tax upon this "root" just far enough, and you utterly destroy monopoly, thus permitting the beneficent natural law of competition to distribute its benefits to each individual according to his

deserts, and metamorphosing the common struggle for existence into a joyous rivalry in the pursuit of excellence of service and product, in a universal industrial field where poverty is unknown, and wherein material condition indicates the social value of the individual; an industrial field wherein hopeful, happy men and women will perform the world's work, each in his or her self-chosen sphere, and wherein the tender little children, freed from the rack of pitiless toil, will romp and laugh in the ecstasy of normal being.

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EDITORIAL CORRESPONDENCE.

CANADA.

Toronto, Dec. 26.—Toronto is now in the throes of the annual municipal election, and in addition to the usual batch of aldermen and other municipal officers to be voted for, the following question is to be submitted to the people:

"Are you in favor of the City obtaining power from the Legislature to exempt dwelling houses from taxation to the extent of seven hundred dollars of the assessed value; said exemption to include all buildings used as dwellings but not to apply to the land, and not in any way to affect the right to vote on said property?"

This is the result of nearly two years' work. It began with the Federation for Majority Rule, which was organized largely by the efforts of Mr. Robert Tyson, and Mr. James Simpson of the Trades and Labor Council. This organization succeeded in pledging 21 out of the 22 members of the City Council for this year, to submit any question to the voters, within the powers of the City Council, when requested to do so by a petition representing eight per cent. of the voters.

In September the Single Tax Association, taking advantage of the pressure of the house famine which is very keenly felt just now, circulated a petition. After reciting the facts about the scarcity of house accommodation, and that our present system of taxation discriminates against the building of small houses, and that an exemption such as proposed would discourage the holding of land idle and would encourage the building of that class of houses of which Toronto is in the greatest need, thereby increasing the number of houses and lowering rents, this petition asked that the question above stated be submitted to the electors at the next January elections. It is estimated that there are about 40,000 names of voters on the voting lists. The number of petitioners is 3,750.

When the matter came up before the Council it was referred to a committee which unanimously recommended it.