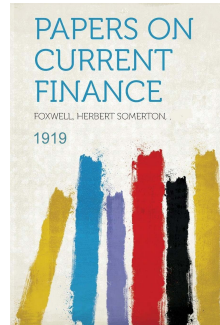


Herbert Somerton Foxwell
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APPENDIX.

I.

THE GROWTH OF MONOPOLY, AND ITS BEARING ON THE FUNCTIONS OF THE STATE.¹

AFTER a century of the keenest and most unbridled competition the industrial world has ever known, economists find some of their gravest problems in the consideration of the growth and future of monopolies.

It is difficult to picture the astonishment with which the contemporaries of Adam Smith would regard this outcome of the reforms they did so much to set on foot. They imagined that we were passing out of an age of monopoly into an age of competition, the distinguishing mark of which would be equal opportunity and equal remuneration. Abolish artificial restrictions, they urged, and natural equality will prevail. By nature, said Adam Smith, there is little difference between a philosopher and a coalheaver. Let the careers be free to all without favour, and competition will prevent inequality. Liberty granted, in short, equality was a necessary consequence.

It is easy now to see how great was the mistake they made, and how they came to make it. The obvious, conspicuous

¹ A Paper read at the British Association, Bath Meeting, September 7th, 1888. Reprinted from the *Municipal Review*, October 13th, 1888. Afterwards translated by Professor Gide, and published in the *Revue d'Économie Politique*, September, 1889.

causes of inequality and monopoly in their day were privilege, corporate and private, and governmental activity by military, fiscal, and industrial measures. These causes of monopoly, which they called artificial, were largely swept away in the first half of this century. But more permanent, and as they would have said, natural, causes remained. The reforms of that age were very destructive, but they could not destroy monopoly. What they actually did was to shift its basis, and give it freer play. The industrial advantage which formerly rested largely on privilege, and was limited to localities, now rests on abilities, opportunities, and possessions, and has the world for its sphere of action.

It is in fact a mistake to suppose that a state of competition can be a final permanent state—a state of stable equilibrium. Where one man is as good as another, competition ensures that men shall be indifferently and equally remunerated. But this is not its main office. The points in which a man is on a level with his fellows are of small importance to society in comparison with those in which he has a superiority, however small. The main function of competition is that of selection. It is an industrial war, more or less honourably carried on, leading to the more or less disguised supremacy, the commercial monopoly, of the victorious firm, whose initial advantage is strengthened by every victory. From this point of view it is competition which is transitional; and monopoly presents itself, not as something accidental, a stage through which we pass in a backward age, but as something more permanent, more fundamental, than competition itself. We begin and end with it. We start with private property, the monopoly every individual has of his abilities, opportunities, and possessions; and we end with the impregnable commercial position which is the result of a fortunate (or possibly a fraudulent) use of these advantages.

What is more, the more perfect the competition the more certain and strong is the resulting monopoly. Where competition is very keen, and the markets of the world are open

to the competitors, an initial difference of one or two per cent. in efficiency might be sufficient to give the control of the market. This control once gained, the expansion of the business rapidly increases the advantage, until a practical monopoly is secured. Though this tendency to monopolies of ability is nothing new, it is clear that it has assumed a new importance since the great advances in communication. In past times artists have furnished the most conspicuous examples of it, because great artists have always had the civilised world for their market. But such has been the advance of transport, that the heaviest manufactures now enjoy the same advantage. The products of Armstrong and Krupp command the markets of the Antipodes as easily as those of their own capitals, and the facility with which this control is exercised increases every day. In the case of articles of general consumption the tendency is greatly strengthened by the development of the parcel post, money order, and cash on delivery systems. A similar effect is produced by the system of discounts and of uniform retail prices. These devices, by placing all localities on the same footing, extend the market of the monopolist, depriving local competitors of the advantage of their geographical position. The development of banking and joint-stock enterprise has removed all difficulty in obtaining capital, once so severely felt by private employers. So abundant is the supply of capital, that it forms a temptation to monopolise instead of a check upon it. Thus the expansion of undertakings passés all previous bounds, stimulated by the well-known advantages of division of labour and large scale of production.

Of course there are practical limits to the extent to which an industrial monopoly can be thus developed. There is a limit to the size of an enterprise in the difficulty the master finds either in supervising it himself or in obtaining efficient responsible assistance. Personal friendships, too, and local considerations, though weaker than formerly, still count for something in dividing custom which would otherwise be

concentrated. Then there is a constant change in the economic situation, giving new men a chance. The rapid progress of science, the incalculable caprices of fashion, the altered habits of the public, all disturb the routine of business, and help to dislodge the monopolist. The imperfection of heredity, too, places a term on the most successful enterprises. A father may leave his property to his son; it is a very different matter to leave him his business.

But in the main it is true that everything which is most characteristic of our age, from the consolidation of Empires down to the quackeries of advertisement, is favourable to the growth of these monopolies of efficiency.

Nor is there anything, as has been sometimes assumed, in the progress of education, or of political equality, to arrest this tendency. Education does not level natural advantages; it merely enables their possessors to use them with greater effect. The slow progress of co-operative production, and the gradual extinction of the small employer, force us to accept the conclusion of President Walker. "Whatever," he says, "may be true in politics, the industry of the world is not tending towards democracy, but in the opposite direction." The significant fact of modern industry is the increasing value and importance of business ability.

When, therefore, we are considering the principles that should determine the future dealings of the State with industry, I think that monopolies of efficiency deserve our closest attention. They are not, however, the first to catch the public eye; and it might be objected that, strictly speaking, they are not monopolies at all. I should, therefore, explain that by a monopoly I understand an enterprise which, no matter for what reason, is so established as to be practically unassailable by competition: and the only monopolies we need specially consider here are such as by virtue of this secured advantage become undertakings of exceptional size and power. Now, if we disregard such minor monopolies of patent and copyright as are now secured by law, and which are really

forms of property in the product of labour, the principal varieties of monopoly may be classed under three heads. These are monopolies by efficiency, monopolies by combination, and monopolies of local service. Of the first class, which I regard as the monopolies of the future, I have already spoken. It remains to say a word on the other two, and more familiar kinds.

Robert Stephenson, in his evidence before the Railway Committee of 1853, laid down that "where combination is possible competition is impossible."¹ And it would certainly seem that where competition has been unrestrained, there is a strong tendency for it to end in agreement of a more or less comprehensive kind. But the difficulties in the way of making and maintaining such agreements are so formidable that they are not likely to make much headway in general industry, until industry is much more highly organised. Most of the great trading corners have been failures. The few industrial combinations, such as the steel-rail ring, seem to have been unable to hold together long. The greatest successes are to be found in the history of railway enterprise. But this really falls more properly under the third head. It is the force of considerations of locality which accounts for the persistence of railway combinations. Otherwise we may say generally that combination, as distinguished from amalgamation of interests, is not a fruitful source of enduring monopolies.

The third class of monopolies may be said to hold an accepted and recognised position in the economic world. It has long been admitted that competition in the ordinary sense of the word is out of the question when we have to deal with certain cases of local supply and of communication or transport. The geographical facts are too strong for the theorists of free competition. Mr. Chadwick, in one of his admirable reports, gives a drawing of a section of a London street under the old

¹ Report Select Committee Railway and Canal Bills, 1853. Qns. 885-6.

régime of competing gas and water companies. No one could forget the lesson given by that simple picture. The waste, danger, and inefficiency of that preposterous maze of pipes was too obvious to be tolerated. For such purposes unity of administration is essential.

The case is similar, though not so strong, with the services of transport and communication. There is enormous waste, sometimes physical impossibility, in so multiplying these services as to admit of competition; and even then there is no means of preventing the termination of competition by agreement, which local conditions make it easy to enforce.

Mr. C. F. Adams, in his very able book, *Railroads: Their Origin and Problems* (New York, 1878), tells us that "railroad competition has been tried all over the world, and everywhere, consciously or unconsciously, but with one consent, it is slowly but surely being abandoned. In its place the principle of responsibility and regulated monopoly is asserting itself" (pp. 204, 205). His general conclusion seems to be that in this, and presumably in similar cases, the best policy is to allow amalgamation, not so much on account of its obvious economies, as because the larger the concern the more easily responsibility is fixed, and the more easily the pressure of public opinion is brought to bear upon and control it.

About these monopolies of service, indeed, the common sense of the business world seems to have at last arrived at a settled opinion. In America, sometimes supposed to be pre-eminently the land of competition, the most thoughtful writers agree with our own in accepting monopoly as inevitable and economical, and in occupying themselves with the legislation necessary to prevent that monopoly from becoming mischievous.

It must be added that monopolies, once established, have a tendency to beget other monopolies. It is convenient for a railway company that its traffic should be in the hands of the smallest possible number of shippers. By giving special rates, it creates big traders, economises its yards and sidings,

and simplifies its book-keeping. At its heart, it creates huge works for the construction of its plant ; along its arteries, news and refreshment monopolies ; at its extremities, great delivery systems and monster hotels. The same thing goes on, less obviously, over the whole face of industry, greatly stimulated by the growth of municipal and joint-stock enterprise.

It must be apparent, then, that really effective competition is a much rarer phenomenon in the greater forms of enterprise than people sometimes suppose. It is very commonly assumed that competition exists wherever the State does not interfere. This is a very loose and misleading abuse of words. The mere absence of State interference has never given us competition in any real sense of the term. On the contrary, nothing has been more favourable to the growth of practical monopolies than the *régime* of *laissez faire*. A century's experience of even a partial application of this *régime* finds us everywhere confronted with growing monopoly. Monopoly, in short, seems to be nearly as significant a feature of our time as competition was of the time of Adam Smith. It is possible, therefore, that the political economy and industrial legislation which suited the earlier period may require some adjustment or development in view of the new force. At any rate, the new force deserves our careful and unprejudiced study.

What is the reasonable position to adopt towards industrial monopoly ? The very name monopoly is, by long usage, dyslogistic ; it seems to carry censure with it. Lord Coke said that " Monopolies were ever without law, but never without friends." Certainly it is only of late they have had any friends in the camp of the economists. The old monopolies of which he spoke were granted by favour, at the public expense, and against the common law presumption of free dealing. Those who sold them, and the individuals or corporations who fattened on them, were their friends ; but they had no others. They were execrated by the public whom they plundered, and the jealousy aroused by their privileges

blinded the people to the real services they sometimes rendered. The cry was for competition, for competition presented itself as the abolition of privilege.

The monopoly we have to deal with is of a different origin, and the temper of the public towards monopoly is sensibly changing. Modern monopoly does not spring from privilege or legislation, but from competition itself. It is competition which now comes in for popular odium ; even monopoly, with its order and permanence, seems a welcome relief from the iron rule and terrible uncertainties of so-called free competition. Besides, monopoly is gaining ground, and Darwin has taught us to be respectful in presence of success. Perhaps most of us feel towards monopoly much as we do towards popular government. Its evils are obvious enough, but we have to reckon with it. Our wise course is to make the most of its possibilities for good, and to exert ourselves to minimise its powers of mischief.

It cannot be denied that whatever evils may be attendant on monopoly, it has enormous advantages ; advantages which suffice to explain its success, and to induce us to view that success with a certain degree of sympathy. There are the enormous economies in administration and division of labour, the concentration of knowledge and skill, the unbroken tradition of trade mysteries and crafts, the *esprit de corps*, which go with great firms. The monopolist, says Proudhon, centralises, capitalises, and consolidates the victories of industry. We save, too, the wasteful rivalries of competitive firms, the costly litigation of rival schemes, the utterly useless expenditure on advertisement. The consumer profits by the guarantee of quality, by the uniform, easily ascertainable price, by the absence of temptations to adulteration, by the greater variety of choice. Within limits, too, monopoly gives low prices. This is the American experience in the matter of railway freights. . The amalgamations of 1869 to 1882 resulted in a reduction of freightage charge of 60 per cent., according to Mr. Ed. Atkinson. "Modern industry," says Mr. Seligman,

another American authority, "is a period of industrial anarchy. Combinations are designed to put an end to this anarchy. They do away with the excessive fluctuations of prices, performing much the same functions as legitimate speculation."

Probably no class gains more by the rise of these huge firms than the *employés*. The larger the firm, the more effective is the public opinion of the employed. Their loyalty is of greater consequence to the employer. The administration is on regular and generally better principles. The master lives in face of the public. He pays the penalty of greatness in his exposure to criticism. The name of his firm is a household word, and its reputation must be above suspicion. It is hardly necessary to point out the very important bearing of this upon the problem of State control. It is in the smaller, fiercely competing workshops that State control is most required, and by common consent it is almost an entire failure. In the larger concerns inspection is extremely easy, and nearly superfluous. It is replaced by the public opinion of the employed, and the honour of the employer.

It is, of course, equally true that monopolies have their special dangers, and are peculiarly open to abuse in certain directions. In some cases the monopolists may take advantage of their monopoly to enforce excessive rates or prices. But a due regard to their own interest will generally check this to a greater extent than is always supposed. There is more probability that though charges may be reasonable enough, the net profits may be indefensibly large, and the public may ask that in some way or other they should share in a gain partly due to an exceptional position.

There are worse evils too than high rates, flowing from the enormous power wielded by a great industrial organisation. The Americans have found discrimination or personal preferences, whether or not for value received, to be a more formidable evil than high rates. Great corporations boast that they can make or ruin not only individuals but whole towns. They

may tyrannise over their *employés*, socially and politically. There is an English Railway Company [the West Lancashire] which will not allow alcoholic liquors to be sold on its premises, and will employ no one who has not been for some years a total abstainer. Only teetotallers will be allowed to travel next.

Nor is it to be supposed that such powers will always be used in the interest of the Corporation itself. Corruption is rife throughout the length and breadth of modern business. Privileges are sold by subordinates. Commissions are freely given: double tenders submitted. In fact, corruption is emphatically the curse of the age. Measured by every one of Bentham's tests, it is the most serious of modern offences. The temptations are strong; the direct public injury very grave; the indirect effects are all-pervading; the whole tone of business life is lowered, and the respect for success and for property, as in general the reward of merit, is palpably weakened.

These defects are brought out strongly in proportion as an undertaking approaches the character of a monopoly; but it is a mistake to suppose that competition is any remedy for them. The competition of brewers does not prevent their control over the licensed houses, with all its mischievous restriction of the consumer's choice, and attendant abuses. Mr. Seligman tells us that on American railways "personal discriminations are most glaring where competition is most active—during the railway wars." He adds that "the surest method of preventing them is—universal combination or monopoly, in other words State ownership." "This," he says, "was one great reason why the railways were bought up by the Prussian Government."

Time will not permit me to make a special reference to monopolies of raw material and to trading corners, which have often been worked so as to inflict grave injury on the public. It is unnecessary to dwell on the evil thus caused; but it is only fair to notice that it is not solely due to the fact of mono-

poly. It is largely due to the speculative mania which infests all forms of modern business. Moreover, the power of such monopolies to injure the public is very limited, if the monopolists study their own interest, and have no indirect means of profiting by their operations.

What, then, should be the policy of the State in view of this new tendency of industry to assume more or less completely the character of monopoly? I have tried to show that monopoly is inevitable, and in many respects of public advantage. It is a natural outgrowth of industrial freedom. It would be idle, therefore, for the State to attempt to repress it. For some time it was thought, especially in the typical case of the railways, that the State could keep it in check by promoting competition. The best authorities on State railway policy have everywhere abandoned this idea. It is recognised that competition will be both ineffective and wasteful; and the tendency everywhere is towards what I may call the English policy of regulation. In fact, as soon as it is clearly seen that effective competition is impossible, the only alternatives are State control or State administration. The experience of Anglo-Saxon countries is, in my opinion, strongly against the policy of extending State administration. Industry can never be efficiently organised by popular suffrage. But the Anglo-Saxon race would tolerate no other principle, if the organisation is to be governmental. The greatest danger of modern industry is corruption. State administration is no remedy for this. It may itself become a new source of corruption in politics. I believe that the economical efficiency of State administration has been greatly overrated. We have not always clearly distinguished between the advantages due to monopoly, and those due to State direction. I see no reason to believe that the Post Office would be less efficient, if it were farmed by a private corporation, and merely controlled by the State. It is almost certain that this system could be applied with great profit to the work of the dockyards. Nor does the position of labour seem to be better in State

than in private service, except, perhaps, in the one important matter of regularity of employment. The State is sometimes urged to acquire the railways. Jevons, in my opinion, has shown that there are very few economies to be secured by further railway concentration. And whatever the grievances of railway servants, their position will compare favourably with that of the men in the dockyards or the Post Office. The possible gains in the change to State enterprise are small; the indirect injuries by the stifling of private enterprise are enormous.

If, then, the State is not to administer industry directly, what are to be its relations towards the individuals or corporations who do administer it? If competition is to land us in monopolies, *laissez faire* is out of the question. A few writers have been found, of whom only Bastiat and Mr. Herbert Spencer deserve mention, to pretend that, by some preordained magic, competition will give us universal harmony of interests and greatest possible happiness to the body politic. No one has ever yet viewed the action of monopoly with this happy-go-lucky complacency. Though it may be granted that the monopolist and the public have some common interests, it is absurd to pretend that monopoly is self-regulating, whatever may be said of competition. Those, therefore, who oppose some kind of public control for the great industrial monopolies are simply playing into the hands of the collectivists. They are the true apostles of socialism:

Most of us will desire to see public control applied in such a way as to minimise the amount required, to avoid unnecessary detail, to leave the maximum of freedom to enterprise, and to secure the utmost intelligence and knowledge where limitations must be imposed. A large consensus of opinion among practical men seems to point to two principles of policy as best calculated to secure these ends.

First, there should be every possible form of publicity in regard to all transactions affecting public interests, that is to say, in regard to nearly all economic transactions. With

due publicity, self-help would be far easier, and public opinion would come in to aid the right, and would largely dispense with the necessity for direct legal control.

Secondly, where control is found to be called for, it should be as far as possible delegated to local or trade bodies familiar with the practical details of the case, and subject only to a mild revision from the central authority. Precise and rigid legislation should be avoided as far as possible. Most practical questions are questions of degree. These cannot well be dealt with by law. They are best referred to commissions or other bodies with a large lay element, and partaking of the character of a jury.

In this way we might get over the main difficulties which arise in the administration of industry. But the knotty question of the distribution of wealth would remain to be attacked. The competition of the various monopolies for labour would ensure a certain proportionality of remuneration as between different employments. But what is to prevent the governing corporations or individuals from making excessive profits by means of their exceptional position? First, I think, the potential competition of rival monopolists; for a monopoly is seldom absolute. Secondly, it is by no means certain that the profits must be large. The railway companies, for instance, though they compete very little with one another, cannot charge more than the traffic will bear, and have to compete with other modes of carriage. Hence, on the average, they only make a modest $4\frac{1}{2}$ per cent. Thirdly, when excessive profits could and would be made, it is open to the State to insist on profit-sharing, either with the nation, the consumers, or the *employés*. The former modes have been followed in dealing with the London gas companies and some Indian railways; the latter mode has been adopted by the Paris Municipality in all contracts under its control. Either plan would seem to be preferable to a severely progressive income tax, or other impost on property; for such taxes act as a direct discouragement to saving and premium on improvi-

dence. It is conceivable, too, that public opinion may develop until it is considered as shameful for a man to make 30 per cent. in business as by usury, unless his gains are liberally shared with those he employs.

Whatever is done, we must be careful not unduly to hamper the operations of self-interest, a motive power of enormous force, which we cannot at present replace by any equally effective impulse. We must also beware of stereotyping industrial methods. The best market must be provided for inventors, and the fullest opportunity afforded to that tendency to variation upon which the selection of the fittest, and consequently progress itself, really depends.

In order to present a general view of the subject, I have been obliged to treat very broadly of questions each of them presenting grave difficulties, and deserving very detailed examination.

What I have sought to show is, that in the growth of monopoly we have an economic fact of the first importance, which must modify views as to State control founded on the assumption that perfect competition prevails. I agree with Mr. John Rae that the action of the State thus rendered necessary need not proceed on different principles nor with wider objects than those prescribed by Adam Smith. But it will necessarily take somewhat different forms. Hitherto the tendency has been to an increase in the complexity of the State control; and Mr. Rae thinks we must expect this complexity to continue increasing. I see many features in modern industrial progress, however, which tend to lighten the burdens of the central government; and among them I think we may reckon this tendency to monopoly. For if it renders control more necessary, it also renders it more easy; and it is possible that such control as is required may be very largely secured by the simple expedient of publicity.

In any case, and whatever be the amount of control required, whether to prevent oppression by monopoly, or waste and degradation by competition, it behoves us to see that that

control is provided. It is no longer a question between *laissez faire* and regulation, but between wise and unwise regulation, or worse, between regulation and collectivism. Supreme power has been placed in the hands of a class not too much given to reflect, and especially familiar with the seamy side of the present *régime*. If the shoe pinches them too painfully they will be apt to fling it off, without asking whether a new one would be more comfortable, or even forthcoming at all.

“The State may become social reformer without becoming Socialist,” says Mr. Rae, one of our ablest writers on this question. I entirely agree with him. I will only add, in conclusion, that if the State does not become social reformer, it inevitably will become Socialist.

II.

FIXED EXCHANGE WITHIN THE EMPIRE.

To the Editor of the "Bankers' Magazine."

SIR,—The proposal to establish fixed rates of exchange within the British Empire, made by the chairman of Barclays Bank in his address on January 24, seems to me to have received less public attention than it deserves. So far as I have noticed, it does not appear to have been formally considered except in a letter from Mr. Frank Morris to the *Morning Post*, where that gentleman, with less than his accustomed acuteness, makes it the subject of an uncompromising attack. But what Mr. Goodenough proposes would really be a great advance in the development of our banking system, as I have tried to show for many years past ; and it is encouraging to hear that so high an authority regards the question as one of practical business.

Mr. Morris says that to fix exchange within the Empire (it is already fixed within the United Kingdom) is "to make water run up-hill." The illustration is unfortunate. If the water companies did not make water run up-hill, our domestic life in large cities would be impossible. The editorial comment on Mr. Morris's letter, though it expresses sympathy with Mr. Goodenough's proposal, makes the reserve that the fixed exchange would be clearly artificial. No doubt ; but could not every step which civilisation makes in controlling to our convenience the irregularities of nature be condemned on the same ground ?

Mr. Goodenough is really only asking us to go a little further on well-proved lines. He proposes to extend to the whole Empire the service of free remittance which the later development of our banking system has made so perfect within the United Kingdom. Why should I be able to make a payment to Edinburgh without any question of exchange rate, while that question at once arises in the case of a payment to Montreal or Melbourne? Some will say because the first case is one of internal, the second of foreign exchange. Even so, this explains nothing; but in neither case is there a "foreign" exchange. If for "foreign" we substitute the term "overseas," we are no nearer an explanation. The question of exchange arises whenever the cost of remittance has to be paid for by individuals, on the basis of a particular set of conditions. It is not necessarily a question of payments over-seas, or even of payments to foreign countries; in fact it is a misfortune that the term foreign has become associated with exchange. The real distinction is found in the fact that in the last century our banks developed a machinery of free remittance within the limits of their system; but that as soon as we cross the frontiers of that system we have to make special exchange arrangements for remittance.

In the eighteenth century such arrangements had to be made in every case of inland remittance. How heavy these inland exchange rates were may be seen by a reference to Boase's *Century of Banking in Dundee* (pp. 53, 274, etc.). Inland exchange rates, though small, still remain in the United States. The Federal Reserve Board are now trying to abolish internal exchange there. Would Mr. Morris think that their action also is due to "an unconscious phase of socialistic leaven"? If not, at what precise point does the provision of parity of exchange incur his censure?

There is no magic connected with remittance over-seas. At present it usually involves crossing the frontier of a banking system. This need not necessarily be the case. Our banks are extending their frontiers. In the last fifteen years they

have established direct banking connections over-seas to a remarkable extent; one of the latest examples being the arrangement between Barclays Bank and the Colonial Bank. We have had a striking object-lesson, too, in the Ottawa Deposit system of the methods by which over-seas remittance may be economised.

It is really a question for the banks whether they should or should not add to the many services they render the public the further service of free remittance at fixed parity between the various parts of the British Empire. This service need not, on balance, be very costly; nothing like so costly, if one may guess, as the cashing and crediting of coupons which they now undertake. Such a development would be most timely. Our position as the international clearing-house will be subject to competition from more quarters than one after the war. New York and Amsterdam have both developed an acceptance business, and the Central Powers are not likely to be less active in their rivalry.

Would not our long-standing financial supremacy be distinctly fortified against the new attacks if we were able to say that exchange on London meant exchange on any part of the British Empire? Exchange on London, since 1820 or thereabouts, has meant exchange on any part of Great Britain. Why not, after 1920, exchange on any part of Greater Britain?

H. S. FOXWELL.

1 HARVEY ROAD, CAMBRIDGE,
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