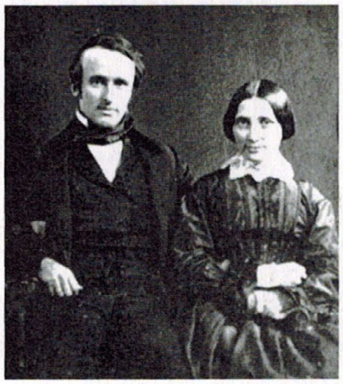
5 Monopoly—Not Always a Game



Rutherford Hayes (shown here with his wife, Lucy, not long after their marriage) said: "Shall the will of monopolies take the place of government by the people?"

The Civil War made some people very rich. Military supplies—guns, food, clothing, railroads—were needed, and quickly. Suddenly, there were new needs, new industries, and new fortunes. After the war, American inventiveness led to more new ideas and industries that continued to create riches.

Some of those industries grew very big. They became *monopolies*. That means the whole industry was owned by one company. Some businessmen, like Morgan and Rockefeller, formed business arrangements called *trusts*. The trusts were a form of monopoly. The public suffered.

To understand what a business monopoly is, imagine you are selling soft drinks at a school fair. The day is very hot and everyone is thirsty. You expect to make a lot of money. You plan to sell soda for $1 a glass (your cost is 25 cents a glass).

What you don't expect is to have competition. But, just as you're getting started, you notice another soft-drink stand. Your competitor is charging 75 cents a glass. Of course you have to lower your price or no one will buy from you.

Then, when sales are going well, another competitor appears. She is selling drinks for 50 cents each. You're annoyed, but there is nothing you can do but lower your price. You still make a fine profit, and people get drinks at a fair price.

Competition makes capitalism work well for the consumer. When there is competition it is called "free enterprise" or a "market economy." The people who are thirsty are much better off if businesses are competing. You, the business person, would like less competition. So you make plans to gain a monopoly in the field. You go to

It was 1886, and drugstores were awash with tonics—medicated drinks that were supposed to pep you up. Mostly they were hoaxes; most contained alcohol. Atlanta druggist John Pemberton came up with one that was a mixture of coca leaf and kola nut. It was nonalcoholic, and he called it the Great National Temperance Drink. Surprisingly, it tasted good—unusual for a tonic. Can you guess its name? Yes, it was Coca-Cola.

the two other soft-drink sellers and buy their stands. If they sell out, you can charge the public anything you want.

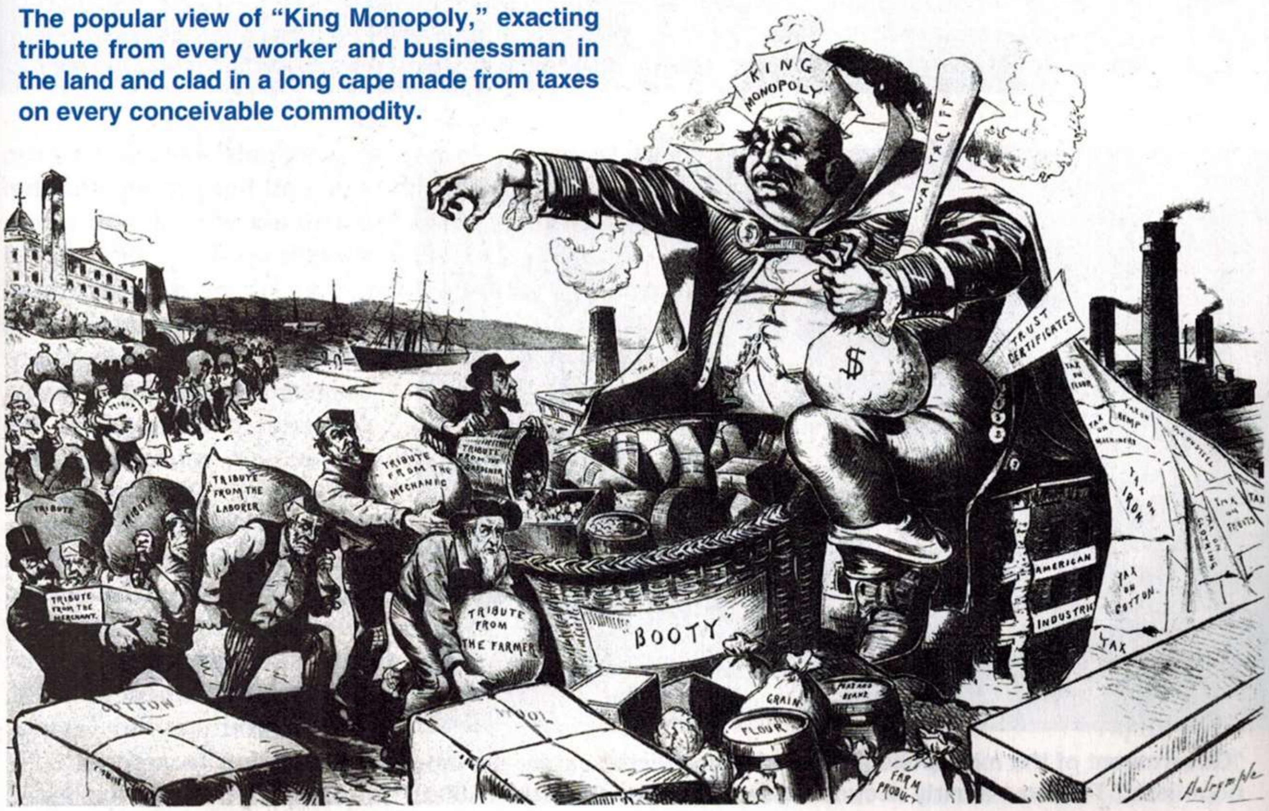
Suppose you start with three soft-drink stands and then buy a soft-drink bottling company and then another, and another, until you own the whole industry. Then suppose you buy up the trucking companies that ship your beverages, and then all the sugar producers and the companies that make all the other ingredients needed in soft drinks. You have become king of the soft-drink world. What power you now wield! You can charge people *five* dollars a glass—or anything you want—and everyone has to pay: you have no competition.

That kind of thing happened in the 19th century. Rockefeller's Standard Oil trust was a huge monopoly. It owned more than 90 percent of America's oil industry, as well as pipelines, tankers, and related industries.

There are some benefits in a monopoly. If it is well

The system of corporate life and corporate power, as applied to industrial development, is yet in its infancy....It is a new power, for which our language contains no name. We know what aristocracy, autocracy, democracy are; but we have no word to express government by moneyed corporations....It remains to be seen what the next phase in this process of gradual development will be. History never quite repeats itself, and...the old familiar enemies may even now confront us, though arrayed in such modern garb that no suspicion is excited.

—CHARLES F. ADAMS AND HENRY ADAMS, 1871



The popular view of "King Monopoly," exacting tribute from every worker and businessman in the land and clad in a long cape made from taxes on every conceivable commodity.

Econo*mix*

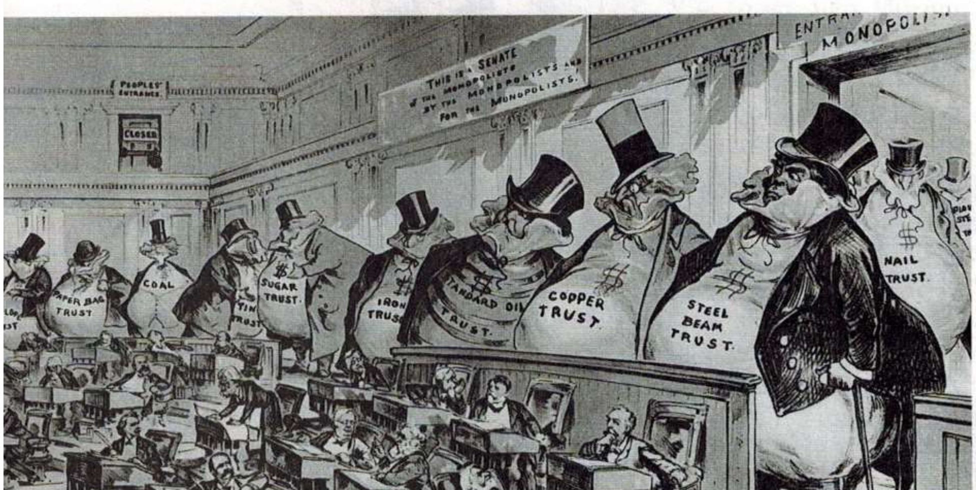
Why is it that everyone's eyes begin to close when you say *economics*, and open wide when you say *money*? I haven't figured that out, but—stay awake—here are some economic terms that will help you understand how nations earn money. Economists say that there are three basic ways that a nation can organize its system of doing business. These are: as a *market* economy; as a *command* economy; or as a *traditional* economy.

In a market economy the customer (*consumer*) determines what will be produced when he or she spends money. If people in the *marketplace* (stores, offices, catalogues, etc.) ask for green shoes and purple surfboards, someone will soon be making them. The United States is said to have a market economy.

A command economy is organized by the government. The government decides what will be produced and who will do the producing. The state owns production. *Communism* and *socialism* are command systems. There is a big difference between them, however. Most communist countries (like the former Soviet Union) have been dictatorships where you can't vote out a bad ruler. You can in socialist countries, which are usually democracies (like Sweden).

In a traditional economy people usually do the same work their parents did. If your dad is a government leader, you will be trained for a leadership role. If he is a shoemaker, that's probably what you'll do. In most traditional economies, women work at home. Many Asian and African nations have traditional economic systems.

Now that I've described these systems, I have to tell you that no country is simply market, command, or traditional. There's a fourth system—it is called *hybrid*, which means a mixture. That's what most economies actually are—a little of this and that. It's just that some are more of one than another. France is an example of a true hybrid: its economy is both socialistic and market driven. See what you can find out about our economic system. How much of a hybrid are we?



"Government of the monopolists, by the monopolists, and for the monopolists." This was a fairly accurate view of the Senate in the 1880s.

run, a monopoly can be very efficient. But usually it is the consumer who suffers when there is no competition.

Americans decided they didn't want monopolies or trusts. A trust is a legal arrangement that allows many different companies to be owned and run by the same people. It is a form of monopoly. The big 19th-century trusts put all their competitors out of business. They were organized in a way that put them mostly beyond government control.

Now you may be saying, "No one *has* to sell out to a monopoly." But that isn't

This famous and scary cartoon portrayed the monopoly octopus and its stranglehold on the cities through control of oil, steel, subways, telephone wires, electricity, gas, coal—and political influence.

quite true. The monopolies grew so large that they could use unfair business methods. Suppose you are running your soft-drink stand and a big, rich competitor comes and sells drinks for 15 cents. Remember, the drinks cost you 25 cents. You can't stay in business long with that kind of competition. The big monopolies did that kind of thing to put competitors out of business. They could afford to lose money for a while because they were so wealthy.

In 1887, former president Rutherford B. Hayes asked, "Shall the will of monopolies take the place of government by the people?" The answer the American people gave was *no*.

Americans care about individual rights. That has given us strong anti-monopoly feelings; it also makes us want as few laws as possible.

So regulating business in a capitalist country is not easy. Most businesspeople want as little regulation as possible. But the public needs to be protected from unfair business practices. In the 19th century, big business in America got out of control. Politicians were often corrupted by business influences. (What does that mean? How might they be corrupted?)

It was clear that rules and regulations were needed. The American people demanded reforms. In 1890, Congress passed the Sherman

Have you a yen for money? In what nations would you find these coins?

dinar *peso*
euro *pound*
forint *riyal*
franc *rupee*
kopek *yen*
kwanza *yuan*

Antitrust Act. Senator John Sherman, who sponsored the law, was a brother of General William Tecumseh Sherman. The Sherman Antitrust Act was intended to make business responsible to the public. It said that trusts and monopolies that restrained free competition were illegal. At first no one—not the president, Congress, or the courts—would enforce the law. Nobody wanted to offend the powerful businessmen. But that changed. The presidents, congresses, and courts made the law effective.

An anti-Cleveland cartoon. Cleveland wanted to cut tariffs; Republicans said cheap European goods would drown American ones.

Let's Talk Business

What Is a Partnership?

Suppose you are a shoemaker, and you make shoes in a small shop by yourself. Then you join with another shoemaker. Now you have a *partnership.* You share the work, the ideas, the profits, and the problems. There are real advantages. It's an easy way to go into business. You can start a partnership with a handshake. Then, if you are sick or you want to take a vacation, your partner can keep the business going. But the arrangement does have a problem. Suppose you've been fooled. Your partner is a bum. He charges things to the business. The business soon has big debts and you don't know about it. Now creditors arrive wanting to be paid back for those debts. Your partner has skipped town. You are stuck with all his debts because you were partners (even though you had nothing to do with those debts).

What Is a Corporation?

A *corporation* is a form of business that evolved from the *stock companies* of the past. The London Company, which sent John Smith and others to Jamestown, was a stock company. In the 19th century, corporations became big and sophisticated.

You are a shoemaker, but you're tired of making shoes one foot at a time. You want to open a factory, use the latest machinery, and make thousands of pairs of shoes each week. There is a problem: renting factory space, buying machinery, and paying salaries will cost a lot of money. You don't have it. What do you do? You decide to form a corporation. Now you can sell stock to *stockholders.* Each stockholder then owns a share in your shoe factory; but the modern corporation gives them a big advantage over a regular partnership or an old-fashioned stock company. It gives them *limited liability.* That means the stockholders are not responsible (liable) for the debts of the corporation. The corporation holds a business charter (from the government) that recognizes it as a separate being with its own rights and responsibilities—apart from its owners or members. Legally, the corporation is almost like a person itself.

What Is a Tariff?

A *tariff* is a tax on foreign goods brought into a country. That tax makes the foreign goods more expensive. That means that goods made at home have a better chance of selling. So tariffs help local industry and hurt foreign ones. What do tariffs do to prices? How do they affect the consumer? In the Gilded Age, the Republican Party supported high tariffs, the Democrats low ones.