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THE CARTEL SYSTEM

What is a cartel?
How is it related to the trust and other
forms of capitalist monopoly? What is
its role in world trade? Is the cartel an
instrument of industrial peace or of eco-
nomic warfare?

by James S. Allen



INTERNATIONAL PUBLISHERS, NEW YORK

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BY JAMES S. ALLEN

AUTHOR OF *World Monopoly and Peace*

Reconstruction in the United States

The Negro Question in the United States



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FOREWORD

What is a cartel? How is it related to the trust and other forms of capitalist monopoly? What is its role in world trade? Is the cartel an instrument of industrial peace or of economic warfare?

These questions again come forward, as they always do when existing economic relations are disturbed by war or crisis. World War II has been followed by a new upsurge of the democratic and communist movements in many parts of the world that threaten the very base of the cartel system. The war has also resulted in important changes among the imperialist powers, changes that affect the entire prewar network of relations among the monopolies of the leading countries.

In the midst of this stress and strain of the world capitalist system, many fanciful theories about the role of the cartel again are paraded forth. No matter that these theories appeared in more or less similar form in the previous period, and have been thoroughly disproved by events. The old fantasy about the possibility of organizing the world economy under the leadership of the monopolies, which has proved so disastrous to Germany and Japan in the late war, reappears today in the form of the pro-cartel doctrine, especially in Britain. In the United States, on the other hand, a program for world organization—that is, world domination—assumes the shape of an anti-cartel doctrine with its magic formula of free enterprise.

This battle of the titans, some appearing in the guise of free-enterprisers and others in American eyes as the devil's advocate for the cartel system, has added to the general confusion.

The present pamphlet attempts briefly and only in an introductory way to show the basic relation between the trust and the cartel, and to describe the main aspects of the world cartel system prevailing

before the war. Changes resulting from the war in relations among the monopoly-capitalist powers, various programs and theories now current, the position of the Soviet Union and of the democratic movements in relation to monopoly are treated in my book, *World Monopoly and Peace*.

JAMES S. ALLEN

The Cartel System

I. WHAT IS A CARTEL?

A cartel is a form of monopoly combination. Historically, it arose in its present-day form only as monopoly capitalism developed from the earlier stage of capitalist free competition. As the concentration of production proceeded, and with it the centralization of ownership and control, the modern cartel appeared as one of the forms of monopoly, developing simultaneously with the trusts and combines. Like the latter, it operated both on a domestic and international scale.

In his classic study, *Imperialism: The Highest Stage of Capitalism*, Lenin summarized the process by which monopoly capital extended its domination, first at home and then on a world scale, as follows:

“Monopolist capitalist combines—cartels, syndicates, trusts—divide among themselves, first of all, the whole internal market of a country, and impose their control, more or less completely, upon the industry of that country. But under capitalism the home market is inevitably bound up with the foreign market. Capitalism long ago created a world market. As the export of capital increased, and as the foreign and colonial relations and the ‘spheres of influence’ of the big monopolist combines expanded, things ‘naturally’ gravitated towards an international agreement among these combines, and towards the formation of international cartels.

“This is a new stage of world concentration of capital and production, incomparably higher than the preceding stage.”¹

By 1916, when Lenin wrote his *Imperialism*, monopoly capitalism, developing rapidly since the turn of the century, had already

become well differentiated as "the highest stage of capitalism." The trusts and combines had attained dominating positions in the economies of the leading capitalist countries, and had established interlocking connections across national boundaries. Lenin analyzed this phenomenon to show that the concentration of production and of capital was assuming world proportions. At the same time, he stressed that this process, far from being peaceful, proceeded by means of struggle and conflict among the monopolies within each country and between the monopolies of the leading capitalist nations.

While Lenin gave main attention to the giant trusts and combines, as distinguished from the cartels, he also noted the increasing role of the international cartel. "The international cartels which dominate the *whole* world market, dividing it 'amicably' among themselves—until war brings about a redivision—already number over *one hundred!*" he wrote.² Since then the socialist revolution in the former Russian Empire removed a large and important sector of the world market from the orbit of capitalism. But within the capitalist world sector the number of international cartels has increased manifold, and their role has grown enormously.

The cartel is one of the forms of monopoly combination, but it has distinguishing features which account for its increasingly important role in world capitalist relations between the two wars.

For our purpose we may accept the classification of monopoly combinations into three main groups: trusts (mergers and amalgamations), combines, and cartels. As will be seen shortly, this is a rather rough separation and is largely formal, but it does serve to draw certain necessary and elementary distinctions. A merger or trust is a complete unification of a number of companies, in which each loses its identity and a new single firm emerges. A combine is formed when the ownership of a number of concerns is interlocked, resulting in a unified financial and commercial structure, while other activities such as production or plant retain their original identity. A combine may also take the form of a single new enterprise in which two or more companies share ownership and control. In the cartel, the participating firms agree to certain restrictions with respect to marketing—such as price-fixing, production quotas, allocation of markets—but retain their financial independence and identity of manufacturing operations.³

The latter is the distinction usually made between the cartel and other forms of combination. Thus, according to one cartel expert, "combinations which involve the loss of financial independence lie entirely outside the cartel concept."⁴ And another cartel student, essentially agreeing with this view, defines the main features of cartels, as follows: (1) as a relationship between several economically independent profit-making units, as distinguished from combinations of a corporate type; (2) as composed of actual or potential competitors in a certain commodity or service; and (3) as a private relationship, which distinguishes a cartel from a government commodity agreement.⁵

Actually, complete manufacturing independence is surrendered in cartel arrangements which set production and export quotas. And often cartel relations lead to the establishment of interlocking financial interests among the cartel members, depriving them in varying degree of their complete financial independence. But there is an important distinction, inherent in these definitions. It is that contrary to the process of amalgamation or trustification, the formation of cartels by no means signifies the elimination of a conflict of interests between the individual firms joining the cartel. When a trust is formed, competition is completely eliminated between the units involved in the new combination. But within the cartel arrangement, the competitive struggle proceeds, although by more peaceful means, the participants having accepted certain conditions and limitations.

The cartel has many forms and uses many devices, some more restrictive, others less, ranging from trade mark and simple patent agreements, to various measures for fixing prices, setting production quotas, and allocating market territories. It may take the form of loose agreements only partially affecting the marketing activities of the participants, or of a full-fledged association in which the members are bound strictly to regulations affecting all aspects of their operations. But whether in the looser or tighter form of cartel, the participants retain their identity as separate firms, and remain more or less independent, depending upon their own economic power and their ability to resist absorption by the more powerful monopolies. Cartel members constantly carry on a struggle within the cartel arrangement, some seeking to extend their domination by absorbing the lesser companies, while others attempt to protect themselves from

being forced into combinations where they will lose their independence completely.

Thus, the cartel may be considered the high road leading from free enterprise to monopoly combination. It is an important medium through which the monopolies extend their domination of the domestic and world economy. This is exemplified on a national scale by the trade association,* through which the leading monopolies in each industry or branch of production establish certain uniform policies to which the weaker and smaller producers are forced to adhere. In Germany, the trade associations provided the instrument for the most complete cartelization of the economy under the leadership of the giant monopoly combinations. A similar role is performed by the trade associations of England and the United States, more pronounced in the former, but in both countries serving as the central medium of cartelization.⁶

The international cartels are an extension of the domestic cartels, but in another form. The main participants in the world cartel system are usually the peak monopolies, which have already come to dominate the domestic field through their own direct control of production or by virtue of their control of the trade associations. A participant in a world cartel can exert his power in the allocation of markets only to the extent that he has already gained a dominant position in the home market. However, it is not unusual for trade associations in which control is shared by two or more dominant firms to establish special export associations to participate in a world cartel. In the United States such export cartels are sometimes considered permissible under the Webb-Pomerene Act; and in Britain, especially during the war, the domestic associations formed many export cartels in preparation for the postwar struggle for markets.

The distinction already made between the cartel and other forms of monopoly combination is an important one and is basic to an analysis of the international cartel movement. But it must not be taken too formally. All forms of monopoly represent essentially the same process of centralization of ownership and control, but at different levels. The cartel is the lowest form, the trust or merger

* In the United States, according to a study by the Temporary National Economic Committee (TNEC), there are 8,000 trade associations, of which 2,000 are national in scope.

the highest and the combine the intermediate form of combination. Cartels are part of the general process towards combination and amalgamation. This was placed quite clearly by one of the leading world cartelists, the organizer of the giant British chemical trust, Sir Alfred Mond (Lord Melchett):

"I use the word cartel to include fusion, pooling arrangements, quota arrangements and price conventions, because a cartel is protean in its form. . . . In an ultra technical way, a cartel may be defined as a combination of producers for the purpose of regulating, as a rule, production, and, frequently, prices. That does not involve giving up the identity of the different firms. It is not usually made for a period lasting more than a limited time. It does not necessarily carry with it, though in some cases it does, joint selling agencies. Sometimes, too, it carries with it quotas of production. But all this is, perhaps, too narrow a definition. The Germans have a term *Interessengemeinschaft* . . . a union or similarity of interest. The great German Dye Trust [I. G. Farben] started with what they call *Interessengemeinschaft*. When first formed it was a fairly loose combination to regulate production and prices. *It has been substituted since by an absolute and complete fusion and exchange of shares—what we would call a complete amalgamation—which is the final and most complete form of any kind of cartel which can be imagined.*" (Emphasis mine.—J.S.A.)⁷

It is through such a "union of interest"—imposed by the more powerful upon the less powerful—starting as a "simple" cartel arrangement, that many of the super-combines have been formed. But to see this as part of the process of concentration, as the direction of development, without at the same time seeing the contradictions and conflict within this process is to recognize only half the truth. For the cartel is essentially an unstable and temporary arrangement, an armistice or a truce between the monopolies within a country or of various countries. It is a means of temporarily regulating the struggle which has become too costly, of hitting off agreements between the giant competitors until such a time as new economic and political developments, leading to a new relation of forces, cause the struggle to be resumed in a more open form. On this point also the cartel

magnate already quoted proved quite specific. Discussing the difficulty of obtaining a free exchange of technological information among cartel members, Sir Alfred Mond wrote:

“The cartel or combination which exists only for a limited number of years is in reality nothing more than an armistice in industrial warfare; and people are not going to hand over arms and methods of warfare to those who in a few years may be fighting them again.”⁸

The combine is the more stable and the trust the most stable form of monopoly combination. International cartels are temporary, fluctuating, and unstable combinations, although some may prove more enduring than others. They function in the realm of inter-monopoly and inter-imperialist conflict. The presence or the absence of cartels in this or that sphere reflects the state of war or relative peace among the monopolies on a world scale, except in those fields where a giant monopoly or a closely interlocked group has been able to establish its hegemony without the benefit of cartel arrangements.

It would be erroneous to think of inter-monopoly relations in general, and the cartels in particular, only in the narrow economic sense, only as a development taking place separately from basic economic and political world relations. The great concentration of economic power in each of the leading capitalist countries, the connections established between the monopoly groups of various countries and the rivalries among them, affect all political arrangements between nations. The level of economic development within a country, the rate of growth in this or that branch of the economy, penetration abroad through the export of capital and the establishment of spheres of influence, the possession of colonies, the military power of the nations, the level of government intervention and control in the domestic economy and in foreign economic relations, the foreign policies of government—all are ingredients, sometimes hidden, at other times quite open, of the cartel formation.

For these reasons, the cartel structure became an extremely sensitive indicator of the actual economic and political power relations among the leading capitalist countries, and between various branches of industry and trade. For a given period, the cartel struc-

ture registers the status of the inter-monopoly struggle for world markets among the chief contenders. The collapse of a cartel in one field indicates that the struggle in that sphere has again broken out into the open. The restoration of the cartel, or the creation of a new one, records the outcome of the struggle, signifies that a truce has been established until uneven economic development as between countries and industries or new political upsets bring about still another struggle.

Not only individual cartels, but the cartel structure as a whole have been basically revised or even temporarily suspended during periods of economic crisis or war. After the great crisis broke out in 1929 most cartels entirely ceased to function for a brief period, leading one British economist to remark that the drastic plunge of prices had "caused the virtual breakdown of almost all the existing control schemes, and for a short time in the spring of 1930 it looked as if the individualist *laissez-faire* system would be restored." But even in the course of the crisis the cartels had begun to re-form, responding to the new relationship being established, as the crisis affected various countries and industries differently. Ervin Hexner, an American cartel student, notes that as a result of the crisis, "almost all international control schemes (especially, the greater part of the international cartels) which existed before 1930, were reshaped in the second interwar decade."⁹

In the two world wars, cartel arrangements were as a rule suspended, although in both wars some international cartels continued to operate. But as a whole, the prewar cartel structures lost their significance, and cartel arrangements were held in abeyance to await the new relations which would be established as a result of the war. During the world wars, markets were completely disorganized, and the basic industries devoted entirely to war production no longer found necessary the regulation of capacity and markets provided by cartels. In each case, the consolidation of victory presented new problems, and the political developments emerging from the conflict new circumstances which had to be taken into account in the re-forming of the cartel structure.

In their broader significance cartels reflect the whole interplay of monopolistic forces and of inter-imperialist relations.

II. TYPES OF CARTELS

Cartel experts disagree sharply on which monopoly combinations should be considered cartels. For legal reasons—to avoid prosecution under the American anti-trust laws—the economists of the trusts hold that the patent licensing agreement and the combine are not, properly speaking, cartels. But since patent agreements possess all the attributes of a cartel arrangement among independent concerns, and since the combine is a transitional form between the cartel and the trust, they can be properly included in the cartel concept. Many independent economists agree with Corwin D. Edwards, for a time chairman of the Policy Board of the Anti-Trust Division, in classifying cartels into three main groups: the cartel association, the patent agreement, and the combine.¹⁰

In the first group may be included the simple price, sales, trademark, specialization, and marketing agreements between a number of firms. Also in this category are the informal conferences and loose associations operating under “gentlemen’s” agreements. The arrangements are very diverse, varying according to industry or trade. A higher form of this type of arrangement is the selling syndicate, which acts as a central agency for its members and is usually authorized to regulate output and prices. The highest form is the closely knit association, which usually has a central agency empowered to carry out and enforce the agreement.

An example of the somewhat looser type of association in a very competitive field was the North Atlantic Conference, which divided up shipping between the German and Anglo-American interests, including 16 of the biggest international companies. Typical of the more completely formed cartel association was the International Railmakers Association which controlled over 85 per cent of capitalist world production of rails. It allocated world markets by setting quotas for its members in Britain, the United States, Germany, France, Belgium, Luxemburg, and a Central European group.¹¹

The International Copper Cartel exemplifies the high degree of centralized control exercised by fully developed cartel associations. Re-established in 1935 under an agreement subsequently extended until 1941, the International Copper Cartel covered production and distribution of the main copper companies operating outside the

United States and the Soviet Union, although it did include the foreign subsidiaries of an American copper corporation. The three Chilean subsidiaries of Anaconda, the three North Rhodesian companies of the British, and the Belgian Congo company were direct participants. Two minor companies were associated, a French-owned concern in Yugoslavia and the British Rio Tinto Co. in Spain. A tacit understanding was obtained from the corporations producing copper in the United States that they would limit their exports. The cartel set production quotas for its members, and established a cartel "government" in which the British and American groups each had two votes, and the Belgian one.¹² Well centralized cartel associations, establishing production and export quotas, existed in many other fields, including steel, rails, rolled wire, lead, tin, aluminum, synthetic nitrogen, potassium, artificial silk, electric bulbs, and rubber.

In this type of association the cartel features are open and well defined. However, government participation in cartels of this kind has added a new element of controversy. What distinguishes a capitalist-monopoly cartel from a government commodity agreement? For example, as part of the opposition of American oil companies to an Anglo-American oil agreement negotiated in 1944, a great cry was raised against government cartels. On this occasion J. Howard Pew, president of the Sun Oil Co., termed the oil agreement a "super-state cartel" and found that "a cartel under the aegis of governments is no less reprehensible than a cartel entered into by individuals, as both are detrimental to the public welfare."¹³ Pew had a specific objective in view, and that particular oil agreement eventually faded out of sight. But many others raise essentially the same point. Thus, Professor Edward S. Mason writes as follows:

"As government participation increases—as it may well do in the postwar period—the international cartel, which in its pure form is an agreement between private firms, takes on the character of an international commodity agreement. The United States government has entered into commodity agreements for wheat and coffee; agricultural interests are pressing for broader participation after the war. If other governments sponsor and participate in international cartels in industrial materials and manufactured products, not only will a consider-

able part of the international trade of the world be brought under a high degree of commodity control, but the distinction between cartels and commodity agreements will become progressively less meaningful." ¹⁴

To classify all government commodity agreements as cartels is incorrect and confusing. In a purely formal sense, both private cartels and inter-government commodity arrangements can be classified as commodity agreements, and both often use the same devices to achieve their objective, such as production and export quotas, and price setting. All or some of these methods were used in the inter-government agreements on coffee and wheat. Similar devices are used by the government to regulate agricultural production and prices in the United States.

Some government commodity agreements are cartels and others are not. The distinction is to be found in whether the agreement represents primarily an association of monopolists (with government participation or sponsorship), or whether it performs some other, non-monopoly function. Thus, the government agreements on coffee and wheat cannot, properly speaking, be considered cartels, although they use similar devices. These agreements represent government intervention in the economy for the purpose of regulating the production and marketing of products which are produced by innumerable growers. Such agreements may operate in practice more to the advantage of the largest planters and of the marketing and financial concerns than to the hundreds of thousands of small and medium producers. But that does not of itself mean that they are agreements of the monopoly-cartel type.

On the other hand, cartels of the monopoly type, especially since World War I, have increasingly been formed with the sponsorship of governments and sometimes involved their direct participation. A well-known example is the International Tin Committee, which was organized by the British and Dutch governments when the private monopoly producers failed to reach agreement. Membership in the committee and restrictions of output were made compulsory by law, and national export quotas were set for the producers in British Malaya, Bolivia, the Dutch East Indies and Nigeria. A similar arrangement was the International Rubber Convention, and to a lesser extent the sugar agreement to which the United States govern-

ment was a partner. Government-organized or sponsored cartels of this type usually involve raw materials of which the output or processing is already highly monopolized.

In accordance with its economic policy, a government may sponsor domestic and international cartels in industrial products as well. In the United States for a brief period, during the economic crisis of the thirties, the government promoted domestic cartels under N.R.A. Codes. In Germany, even before Hitler came to power, the cartelization of the economy proceeded under government aegis; and in England the government for some time has followed a pro-cartel policy. For certain important industrial materials, such as copper, the production of which was greatly increased during the war, the United States may conclude commodity agreements, or officially sponsor private cartel arrangements to take care of the surplus stocks and allocate the new production. Negotiations regarding copper were reported under way at the end of 1944 among the governments and corporations concerned.¹⁵ Actually, the over-all tendency of development is for growing government intervention in one form or another in the economy, including the cartel system, on a national and international scale.

The patent-licensing agreement assumed increasing importance with the growth of new industries, the "laboratory industries," in which constant research for new materials and processes was necessary. It is also important in the older industries where new processes and new materials were introduced.* The patent agreement is probably the most common form of participation by American firms in international cartels, one of the reasons for this being that such arrangements can be more easily upheld against the provisions of the Sherman Anti-Trust Law. And it is for this reason also that the corporation economists and lawyers contend that the patent license does not, properly speaking, belong to the cartel category. But as Edwards shows in his study, agreements by which patents are licensed out to participating firms usually allocate sales territory, and set prices, production quotas and marketing rules for the product for which the patent is issued. All kinds of variations occur.

* Industries in which patent agreements play a most important role include: chemical, electrical and electrical equipment, machine, metallurgy, radio, optics, artificial textiles and synthetics, telegraphy and telephony.

An outstanding example of an all-inclusive agreement of this type was the arrangement between du Pont and Imperial Chemical Industries (I.C.I.), the British monopoly, covering practically all their products. The agreement was part of a whole network of pacts, resulting in the division of the world market among the chemical trusts of Britain, Germany, and the United States. Imperial Chemicals had a parallel agreement with I. G. Farbenindustrie, the giant German monopoly, and also with the Belgian Solvay, in which the contract with du Pont had to be properly protected. Thus, an agreement between I.C.I. and I. G. Farben on a specific product had to take into account the allocation already agreed upon between I.C.I. and du Pont. And similarly, without necessarily entering into a direct pact with I. G. Farben, du Pont was obliged to honor the division of markets between the German trust and I.C.I. Actually, according to the Department of Justice records, a gentlemen's agreement did exist between du Pont and I. G. Farben whereby they were obligated to give each other first option on patents and processes not already promised to others. In effect, the arrangements between I.C.I., I. G. Farben and du Pont resulted in a world chemical cartel, covering over four hundred products ranging from drugs to munitions and strategic war materials.¹⁶

The structure becomes very complicated, as arrangements on special products also involve other leading monopolies, which in turn extend the agreement through a whole maze of associated companies. Standard Oil's patent agreements with I. G. Farben on 100-octane gasoline, synthetic rubber, and oil affected the auto, aviation, and chemical industries of the country.¹⁷ Such arrangements are complicated further by exchange of shares, joint ownerships, cross interests, and various forms of combines often established in connection with the working out of patent agreements.

It is often difficult to determine where a cartel ends and a combine begins. As already pointed out, cartels tend to develop into combines, as the more powerful gain control over the weaker members, or as jointly owned companies are established to exploit a market commonly shared. For example, du Pont and I.C.I. formed the Canadian Industries, Ltd., as a joint subsidiary to act as their exclusive agency in Canada. In Brazil and Argentina, the same trusts organized subsidiaries known as Duperial, which in turn set up a

sub-network of monopoly in these countries through part ownership in other firms. Often a cartel-type agreement among big trusts eventually leads to a changed relation between them as one succeeds in taking over a greater share of the ownership and control of the competing corporation. This is exemplified in the relations between the General Electric Co. and the A.E.G. (General Electric of Germany):

"In 1922 the G.E. and the A.E.G. concluded a 20-year agreement which to a certain extent restored the pre-war relationship between the two firms. The agreement provided for the exchange of patents and the division of the world market whereby G.E. 'obtained' the markets of the U.S.A., Central America, and partly Canada, while the Central and East European markets were allocated to the German trust. Unlike the position in pre-war times, however, the A.E.G. ceased to be an equal participant in this agreement. As far back as 1920 the General Electric Co. acquired 25 per cent of the newly issued stock of the A.E.G. This connection was greatly strengthened in 1929, when the American trust took over 30 per cent of all the shares of the German monopoly."¹⁸

Here the dividing line between a cartel agreement and a combine becomes pretty vague. Yet these are not the only connections of General Electric. It also has a controlling interest in the powerful Metro-Vickers firm in England, as well as direct investments in General Electric, Ltd., and in a leading French and two Japanese electrical equipment concerns.¹⁹ This is not all. Also linked with G.E. through interlocking controls of the Morgan group is the International Telephone and Telegraph Co., which holds most of the stock of many cable, radio communications, and telephone companies throughout the world. And the I. T. & T. also owns stock of the International Standard Electric Corp., which is a holding company controlling firms throughout the world engaged in the manufacture of communications equipment. This super-combine in the closely related fields of electrical equipment and communications is also a more permanent type of cartel arrangement, bolstered by direct ownership participation in hundreds of separate companies in

many countries. Cartel arrangements of a patent-licensing type exist between the firms in the combine, markets are divided among them, production quotas are set, and so forth.

This super-world combine, in itself still retaining many features of the international cartel, in turn enters into cartel relations with other world combines of a similar character. In the electrical equipment field there are two lesser world combines. Westinghouse Manufacturing Co. maintains close connections with the leading German, English, French, and Japanese producers not included in the G.E. combine. N. V. Philips, incorporated as a Dutch company but whose ownership the war has rendered rather obscure, is also a world holding company of giant size, controlling some eighty companies engaged in the manufacture and distribution of radio equipment, electric light bulbs, and other electrical supplies in many countries, mostly in Europe and Latin America. Thus, world cartelization in this field results from agreement among three giant combines within each of which cartel-type arrangements exist side by side with exchange of shares and interlocking ownership.

Interrelated stock ownership, holding companies in themselves small but controlling tremendous aggregates of productive plant, interlocking directorates, family control, and other devices used to build up corporate giants within a single country are also employed on a world scale. Many instances can be given of nominally independent companies, entering into cartel or patent agreements, which are actually under a single directorship. Aluminum, Ltd., of Canada, for example, is controlled by the same three families which own the Aluminum Co. of America. While such developments are characteristic of all countries of monopoly capitalism, they are especially marked in the American corporate structure and its extensions on a world scale.*

An illuminating account of how a giant combine is formed was

* The development of giant combines, of course, is not peculiarly American. Unilever, the British margarine and fats combine, controls 400 companies in 51 countries. The Kreuger Match Co., before its collapse during the world economic crisis, owned 150 match factories in 35 countries, enjoying a match monopoly or a share in the state monopoly in 15 countries, and had vast holdings in mines, wood-pulp plants, electrical engineering, railroads and other fields.

given at the Senate hearings on titanium, the most valuable and useful of all white pigments for paints, rubber products, glass, paper, enamel, and other materials.²⁰ The titanium cartel involves the leading producers in the United States, Britain, Germany, France, Canada, and Japan. They are linked not only by a series of tight agreements among them to govern markets, prices, and production but also through interlocking ownership. The combine was formed through establishing jointly owned companies in various countries. Its history is instructive.

The leading American participant is National Lead Co., listed among the two hundred largest industrial corporations.* In 1916, National Lead started towards control of titanium by buying up the Titanium Pigments Co., formed that year to exploit the process invented by two American chemists. In the meantime, another method of making the pigment was discovered in Norway by Gustav Jebsen, who formed Titan Co., A. S. Control over Jebsen was established in 1927 when National Lead purchased 87 per cent of Titan's stock, and acquired the major interest in a French company which had been set up by Jebsen. Two years later, National Lead and Jebsen organized Titan Co., Inc., as their joint holding agency for all foreign interests. Through this holding company they then organized a new company in Germany together with I. G. Farben, to which was assigned the exclusive territory of most of Europe and the Far East.

But the titanium monopoly thus established was threatened when still a third process was invented by a scientist working in France, and a company was organized there to license out his patents. In the United States these patents were eventually taken over by du Pont, whereupon National Lead entered into a deal with du Pont. The agreement maintained the monopoly over titanium within the country between the two, but granted the right to all foreign patents to Titan Co., the National Lead holding subsidiary. The threat having been averted at home, a new danger soon appeared in the form of a British company which was independently exploiting the French patents. The problem was solved by the organization of British Titan Products, Ltd., set up jointly by National

* Among the many interests of National Lead are the Patino Tin mines in Bolivia.

Lead, Imperial Chemical Industries, and two smaller British companies.

The next field to be conquered was Canada. The most important chemical concern there is Canadian Industries, Ltd., owned jointly by du Pont and I.C.I. Here, too, a new company was organized, Canadian Titanium Pigments, Ltd., as the joint subsidiary of Canadian Industries and National Lead. However, it transpired that the French process had also turned up in Japan. This time National Lead had to call upon I. G. Farben, to which it had assigned exclusive Far Eastern rights. Through their jointly owned German subsidiary, National Lead and I. G. Farben formed a new company in Japan together with a leading Japanese chemical concern.

Through joint ownership combined with tight patent agreements, National Lead dominated the world titanium market. In the purely formal sense, it can be argued that this is not a cartel, since none of the participating companies retained their identity of ownership in the new companies set up to exploit the process for the manufacture of titanium. Actually, it is a cartel become a combine, created by National Lead, du Pont, I. G. Farben and Imperial Chemicals for the joint exploitation of markets for a single product. It is a higher, more integrated form of the cartel than the cartel association or the simple licensing agreement. The aim of the cartel is achieved much more effectively and efficiently. The titanium combine represents a step towards complete amalgamation, which, as the British chemical magnate said, "is the final and most complete form of cartel which can be imagined."

III. EXTENT OF CARTEL SYSTEM

An inevitable result of the growth of monopoly during the inter-war years was the increasing control over world trade and services by the cartels and other monopoly combinations. As monopoly more and more superseded free competition in the home market it simultaneously came to dominate the world market as well. The concentration of production and centralized control in the basic export industries, the seizure by the monopolies of sources of raw materials in the colonies and dependent nations, and the extension of corporate

interests on a world scale, led to monopoly control of world trade.

This general conclusion is substantiated by the wealth of data available on the operations of the world trusts and combines and the cartel arrangements between them. Voluminous studies on the trusts and monopolies, and in recent years especially the work of the Temporary National Economic Committee in the United States, record the growing power and extension of the corporate system on a national and world scale. Side by side with the growth of the trusts, the cartels have multiplied to such an extent that the editors of *Fortune* found that "by 1939 the cartels had reached numbers beyond the ability of any recent world survey to tabulate."²¹

According to one listing, which did not include patent agreements and the loose type of cartel associations, there were 114 international cartels in 1914.²² A later survey placed the minimum number of cartels influencing European trade in 1938 and 1939 at 1,200.²³ The Kilgore Committee of the United States Senate has listed 63 American companies which in 1937 had cartel agreements with I. G. Farben.²⁴ According to a tentative listing of the Anti-Trust Division, 109 American firms participated in 179 international cartels. But such figures can give only a faint indication of the actual extent of the cartel system, which includes hundreds and thousands of patent agreements and conventions of various types. Some approach complete control of a product, others involve only partial control. Some cartels serve merely as a means of extending control over the lesser producers by a dominant trust; others are primarily a medium through which a number of big producers "regulate" competition among themselves.*

* For cartels which have assumed a more defined form, establishing control more or less completely over production on a regional or world scale, it is possible to determine with greater exactitude the proportion of the world market controlled by them. Thus, among the most important cartels are: the copper cartel, controlling 90 per cent of world production in 1932; rail cartel, over 85 per cent in 1932; tin cartel, 83 per cent in 1932; electric bulb cartel, 90 per cent in 1934; rubber cartel, 97 per cent in 1936; European steel cartel, 45 per cent in 1936; synthetic nitrogen, 67 per cent in 1932; artificial silk, 70 per cent in 1929; potassium, 91 per cent in 1932. (E. Varga and L. Mendelsohn, editors, *New Data for Lenin's Imperialism*, p. 296, New York, 1940.)

Accordingly, judgments vary as to which products may be considered cartelized. And so intricate are the cartel connections, so multitudinous their forms and devices, so uneven and fluid the cartel relation, that it becomes almost impossible to fix their number or estimate exactly the proportion of the world market under cartel control. Furthermore, even in the more highly developed and more stable form the cartel is a medium through which greater trustification and inner conflict proceed simultaneously, bringing about qualitative change within the system. Such factors would defy exact statistical measurement, even if all pertinent data were available.

Despite these obstacles various attempts have been made to estimate the share of world trade dominated by the cartels. These efforts are admittedly unsatisfactory, for the reasons already set forth. Nevertheless, while presenting an incomplete picture, they are of value in indicating the role of the cartels in the world market.

One estimate made by Ervin Hexner places at 42.6 per cent the share of world trade in 1937 "dominated or considerably influenced by marketing controls." This figure includes inter-government commodity agreements as in wheat, rubber, sugar, tin, etc., some of which do not properly fall within the category of cartels. But according to the author's own definition of "marketing controls" his figures primarily cover private cartel agreements, excluding, however, arrangements of the patent-licensing type. Cartels in the service industries, such as shipping and other transportation, communications, insurance, and banking are necessarily excluded. While they affect trade and play an important role in cartelization, this cannot be expressed in volume or value of trade. The result can therefore be considered a very minimum estimate.²⁵

Another admittedly exploratory study by Frederick Haussmann and Daniel Ahearn, employing a different approach and covering the period 1929-1937, arrived independently at about the same estimate.* They summarize their tentative findings as follows:

* Their estimate also includes government commodity agreements and necessarily excludes cartels in the service industries. But patent agreements, affecting manufactured goods, are included. They divide cartels into three groups, according to the proportion of the product controlled in world trade: (a) cartels, in which are included all products controlled in world trade by 70 per cent or more; (b) partial cartelization, which

"Taking into account the inaccuracy of the estimates due to the lack of exact statistics, we come to the basic conclusion that 42 per cent of world trade between 1929 and 1937 was cartelized or influenced by loosely knit associations or conferences. This is a minimum estimate.

"To this estimate, we add the 11.4 per cent of world trade influenced by trusts which were not connected with any cartels. Thus we can say that 53.7 per cent of the present total international trade was influenced by cartels or trusts. Trusts and oligopolies by themselves controlled, according to our estimates, 29 per cent of world trade." ²⁶

These estimates, admittedly rough and incomplete, show that at a minimum 42 per cent of world trade is cartelized. If to this is added the share of world exports controlled by trusts alone, without the benefit of cartel agreements, *well over half of world trade is controlled directly by monopoly combinations.*

This is a minimum statement of the case. Establishing the fact that monopolies and cartels control an absolute majority of the products entering world trade in itself does not tell the whole story. It is possible for a monopoly or a cartel to hold a decisive position in any given sphere of production and trade without actually controlling directly more than half the output. If the remainder of the

covers products controlled by less than 70 per cent; (c) conferences, by which is meant loosely knit associations and conventions not necessarily involving formal agreements but which do impose some cartel-type regulations. These three groups taken together control 42.3 per cent of world trade (cartels, 22.3 per cent; partial cartelization, 5.3 per cent; conferences, 14.7 per cent). Included, but dispersed among all three groups, are products controlled by "Trusts, Combined with Cartelization," whose share of world trade is separately estimated at 17.8 per cent. In addition, another group of products are classified as "Attempts at Cartelization"; this category, amounting to 6.3 per cent of world trade, is not included in the total estimate of 42.3 per cent. Still another classification, "Trusts, Not Combined with Cartelization," covering products amounting to 11.4 per cent of world trade, is handled separately and is not included in the total estimate of the share of the world trade controlled by cartels.

producers are numerous, scattered, and unorganized, a single trust controlling, say, only one-quarter of the output, can exert a decisive influence on production and markets. In addition, monopoly control over transportation and associated services as well as finance exercises a powerful influence upon the direction and nature of world trade.

These estimates are therefore a minimum, not only in the sense that lack of data and other unavoidable obstacles prevent a more complete statistical picture. The monopolies enjoy the dominant position in world trade primarily because they represent concentrated control over the most vital raw materials and the products of the most important and basic industries, which influence economic development throughout the capitalist world. The fact that the monopolies control directly an absolute majority of the products entering world commerce shows that the cartelized sector of world trade is greater than the so-called free sector. But the latter is free only in a very limited sense. Centralized control over the most decisive materials and products, and also over transportation and finance, permits monopoly to influence and dominate the free sector as well.

The monopolized sector of world trade dominates all capitalist world trade, including the uncontrolled, free sector of the market. This is true for each leading capitalist country individually, as it is for the capitalist world market as a whole.

The distinction made by Haussmann and Ahearn as between the share of the world market controlled by the trusts and the share controlled by the cartels is of special interest. According to them, almost 30 per cent of world trade is controlled by the trusts, operating alone or through cartel arrangements. This share is sufficient to assure the trusts the dominant position in all world trade, in the cartelized as well as in the non-cartelized sector. As the apex of monopoly combination, as the most stable form of monopoly towards which all other forms including the cartels gravitate, they tend to increase their sphere of domination. They stand at the very center of world cartelization, dominating the cartel structure, through it extending their corporate connection on an ever wider scale. The most powerful trusts are in a position to dictate terms to the less powerful within a cartel; at the same time they can choose between forming a cartel, joining an existing one, or fighting a cartel in which all lesser competitors are gathered.

The extent to which world trusts are powerful enough to dominate a sphere of trade without entering into direct cartel arrangements, the extent to which they have already absorbed or completely subordinated actual or potential competitors, is shown by the fact that the share of world trade controlled directly by them is estimated at 11.4 per cent.

At the same time, the tremendous sector of world trade (42 per cent) controlled through the cartels emphasizes the extent of world cartelization. The cartels are not only channels through which the trusts exercise their domination over wider sectors; they are also the central points of contact—of truce or of conflict—for the world trusts themselves. Thus the scope of world cartelization on the eve of World War II indicates, on the one hand, how fertile the ground had become for even greater trustification, and, on the other, the extent to which the cartels had become the medium of the inter-monopoly conflict as a whole.

IV. PREWAR CARTEL STRUCTURE

Allocation of markets is the central function of the international cartel. Whatever the device used—assignments of sales territory, export or production quotas, price agreements, patent exchanges and licensing—the allocation of markets is directly or indirectly involved. Without this, the cartel would lose its significance as an instrument of industrial truce or regulated competition.

The whole dynamic of world capitalist relations is registered in the allocation of markets among the cartel members. The real relation of power is established in the division or redivision of markets. Such allocations are made in accordance with the relative strength of the companies or trusts participating in the cartel. But the actual strength of the trusts, as well as their potential for further expansion, is determined by the relative position of their industry and their whole national economy, as well as general political considerations involving government policy and military power. Basically, the cartel structure reflects the whole complex of economic and political relations among the main capitalist powers. This is not fully expressed in every separate cartel, or in every sphere of industry and trade. The

cartel structure reacts very sensitively to new economic developments within this or that industry, and expresses through its constant changes and alterations the uneven and spasmodic nature of capitalist development or decay. But the structure as a whole at any given period presents a certain pattern of relations corresponding to inter-imperialist and inter-monopoly relations as a whole.

The world cartel structure which arose after World War I was built essentially around a three-way relationship among the monopolies of Germany, Britain and the United States. The entire network of world cartels gravitated around this tripartite arrangement. Regionally, and occasionally on a world scale, the monopolists of other leading countries played an important role, sometimes only as satellites of one or the other of the big three cartel partners, at other times in their own right. Thus, France, through her own colonial empire and also in Europe, played an important cartel role, as did to a lesser extent the monopolists of Belgium, Holland, Sweden, and Italy. Representing a rising dominant power in the Far East, and already commanding a well developed industrial base at home, the Japanese monopolists also appeared as leading participants in a number of cartels.

In general terms, the interwar cartel structure was determined by the following: (1) the resurgence of Germany after her defeat in World War I as a leading imperialist power, largely with the aid of American capital, to serve as the center of capitalist stabilization in Europe and as the bastion against European revolution and Soviet influence; (2) the further rapid development of the United States as the leading industrial and financial power of the world, but as yet without having developed her full potential in a drive for world markets; and (3) the continued stagnation of Britain's industrial economy and the inner weakening of the Empire, so that she was obliged to defend her world position against German, American, and Japanese encroachment rather than primarily to seek further expansion abroad. This general relation, presented here only in barest outline, was the framework within which the cartel structure took shape after World War I.

In the allocation of markets among the three main cartel participants, the general principle that prevailed was to reserve the tremendous United States market for the Americans, while dividing

the bulk of the remainder of the world market—with the usual exception of Canada and Latin America—among the monopolists of Germany, Britain, and their lesser partners. Canada and Latin America in most cases were treated as markets to be jointly shared chiefly by the British and American interests. From an analysis of the cartel agreements found in the files of American firms by the Department of Justice, Edwards draws the following conclusion:

“Since the primary interest of American participants has consisted in the enjoyment of an unchallenged position in the rich domestic market of the United States, and perhaps the Canadian market, they have usually been willing to sacrifice possibilities of export and investment abroad as the price of such a position. Similarly, foreign companies have been willing to purchase protection in other markets by foregoing sales in the United States.”²⁷

Naturally, this does not establish the rule for all the foreign economic activities of American big business. The United States did emerge during this period as the leading exporter of both goods and capital, taking over Britain's premier role in these spheres, and this shows that the American monopolists did more than merely dominate the domestic market. The powerful American trusts operating outside the cartels, as in the auto and oil industries, as well as those participating in the cartels, expanded their share of the world market. If that share was not larger and failed to correspond to the actual weight of the United States in the world economy, this was due to other factors, such as the economic and political crises of the interwar decades. Nevertheless, the general principle indicated by Edwards did apply in the cartels, and undoubtedly played a role in restricting American economic expansion abroad, as it did in hindering foreign penetration into the American home market. The monopolists of other countries were equally concerned with protecting their own home markets and their positions abroad from American encroachment, as the cartel agreements and increasing government import and export controls during this period demonstrate.

A few examples will suffice to illustrate the general principle prevailing in the allocation of markets through the cartels.²⁸

The agreement between du Pont and Imperial Chemicals, renewed in 1939, granted the American trust exclusive rights in the United States and Central America, while I.C.I. retained the British Empire with the exception of Canada. They agreed to exploit the Canadian, Brazilian, and Argentine markets through jointly owned subsidiaries. The rest of the world was left open in the du Pont-I.C.I. agreement, for it was the subject of a separate agreement between the British trust and I. G. Farben.

The pattern of the agreements conforms to the general relations of the three main powers in the world economy. In Central America, which the United States dominates, du Pont retained exclusive rights. The arrangements for Canada, Brazil, and Argentina reflected the predominance of British and American economic penetration into these countries over that of Germany and other powers. These arrangements also registered the fact that in the field of chemicals American penetration was already strong enough to force the older British interests in these countries to share the market by agreement. Leaving the remaining world markets to the British and German interests indicates that in this particular industry the American trust was not yet ready, or did not find it essential, to extend on any major scale into broader fields. Of course, the cartel agreement in itself does not tell the whole story. I. G. Farben had large direct interests in the American chemical industry, as did du Pont, Standard Oil, and others in the German. But the allocation of markets in the cartel pact does reflect the actual power relationship.

A more direct form of the three-way allocation of markets is illustrated by the alkali cartel, as modified in 1934. I. G. Farben together with its associated Belgian trust, Solvay, obtained exclusive rights to the European continent, while the American interests held exclusive rights to North America (including Canada and Central America), and I.C.I. retained most British possessions and various other areas. The American producers and I.C.I. shared South America and the Dutch East Indies between them. It is interesting to note that in Argentina the agreement recognized the predominant position of Britain by apportioning 75 per cent of that market to I.C.I., until 1936 when the American quota was raised to 35 per cent.

Ratios vary from industry to industry, and even from one product to another. In the agreement on tungsten carbide, which pro-

vides the best cutting edge for machine tools, the German Krupp trust agreed not to sell in the United States in return for General Electric's commitment not to export the product. A similar agreement prevailed in the autogiro industry. The Autogiro Co. of America, which held exclusive patents rights for the United States, agreed to leave the rest of the world to the Cierva Autogiro Co. of London, and the latter agreed to keep out of the American market.

An agreement still in effect at the outbreak of war in 1939 was made fourteen years earlier between International General Electric Co., Radio Corp. of America, Westinghouse Electric International Co., and the N. V. Philips combine allocating markets for radio equipment. The exclusive territory of the American group was defined as Canada and the United States, while Philips was granted exclusive rights to Holland (including the Dutch empire), Czechoslovakia, Denmark, Esthonia, Finland, Latvia, Lithuania, Norway, Sweden, and Switzerland.

In some cases, a much larger share of the foreign market was granted the American interests. For example, in a pact governing moving-picture recording and reproducing apparatus between the leading American concerns and the German and Dutch companies in 1930, the latter were given exclusive rights to eleven European countries and the Dutch East Indies, while the Americans received the United States, Canada, Australia, New Zealand, India, the Straits Settlements and the exclusive right to sell to the Soviet Union. In an agreement on diesel engines between General Electric and two German firms, the American trust obtained all countries outside of Europe and the Dutch colonies.

World War II has rendered the allocation of markets under the pre-war cartel system obsolete. While there are exceptions, and in a number of fields the pre-war cartel pacts will undoubtedly be resumed with some revision, in the main the old market allocations no longer correspond to the new relationships emerging from the war.

The American monopolists are no longer satisfied with the allocations prevailing before the war. The development of the American war economy raising production capacity and technique to a new high level, and the weakening of the other leading capitalist coun-

tries greatly improve the position of the American trusts in the world economy. They can be expected to drive energetically for a re-allocation of world resources and markets, in which their strengthened position will be more fully registered.

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