

**HEARINGS ON H. RES. 813 TO INVESTIGATE  
VIOLATIONS OF THE ANTITRUST ACT OF  
EIGHTEEN HUNDRED AND  
NINETY, HELD BEFORE THE COMMITTEE ON  
RULES, HOUSE OF REPRESENTATIVES, U. S.,  
JANUARY 23, 1911**

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Hearings on H. Res. 813 to investigate violations of the antitrust act of eighteen hundred and ninety, held before the Committee on Rules, House of Representatives, U. S., January 23, 1911  
by Various

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# **VARIOUS**

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# HEARINGS

ON

## H. RES. 813

TO INVESTIGATE VIOLATIONS OF THE ANTITRUST ACT  
OF EIGHTEEN HUNDRED AND NINETY

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*U. S. Cong. House.*

HEARINGS HELD BEFORE THE COMMITTEE  
ON RULES, HOUSE OF REPRESENTATIVES  
UNITED STATES, JANUARY 23, 1911

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### VIOLATIONS OF ANTITRUST ACT OF 1890.

COMMITTEE ON RULES,  
HOUSE OF REPRESENTATIVES,  
Monday, January 23, 1911.

The committee met at 10 o'clock a. m., Hon. John Dalzell (chairman) presiding.

The committee had under consideration the following resolution:

[H. Res. 813, Sixty-first Congress, second session.]

*Resolved*, That a committee of nine Members of this House, to be selected, five by the majority and four by the minority, and to be elected by ballot, be, and is hereby, directed to make an investigation for the purpose of ascertaining whether, since the year of 1897, there have occurred violations of the anti-trust act of July 2, 1890, the various interstate-commerce acts, and the acts relative to the national banking associations, which violations have not been prosecuted, dealt with, or lawfully disposed of by the executive officers of the Government; and if any such violations are disclosed said committee is directed to report the facts and circumstances to the House, with bills requiring appropriate action to be taken by such executive officers; and said committee shall also report any further legislation which it may consider advisable for reinforcing the acts of Congress aforesaid and more effectually punishing future violations thereof. Said committee is hereby further specially directed to investigate the United States Steel Corporation, its organization and operations, and if in connection therewith violations of law as aforesaid are disclosed to report the same and a bill requiring action to be taken thereon.

Said committee shall inquire whether said steel corporation has had any relations or affiliations tending toward violations of law with the Pennsylvania Steel Co., the Cambria Steel Co., the Lackawanna Steel Co., or any other iron or steel company nominally independent.

Also whether said steel corporation through the persons owning its stock or its directors or officers has or has had relations tending toward or aiding in violations of law with the Pennsylvania Railroad Co. or any other railroad company, or with any national banking companies, trust companies, or insurance companies, or with the stockholders, directors, or other officers of said companies, and whether such relations have caused or have a tendency to cause any of the results following:

First. The restriction or destruction of competition in production or transportation, including conspiracies to crush out and bankrupt competitors.

Second. Excessive capitalization of corporations with large bond and stock issues not representing real values.

Third. Vast combinations of corporations controlled by a few individuals, created by the ownership by one corporation of the stock of other corporations, the securities issued therefor constituting fictitious capitalization.

Fourth. Wide speculations in stocks conducted by conspiracies among associated owners and officers of the various corporations.

Fifth. Private profits through such speculations to managers of the corporations derived at the expense of the stockholders and the public, using corporation money or manipulating corporation power.

Sixth. To cause panics in the bond and stock markets and in the money markets like those of 1903 and 1907.

And to fully report to the House whether by reason of any facts thus ascertained there should be legislation by Congress as contemplated by the first clause of this resolution.

Said committee as a whole or by subcommittee is authorized to sit during sessions of the House and the recess of Congress; to send for persons and papers and to administer oaths to witnesses.

**STATEMENT OF HON. AUGUSTUS O. STANLEY, A REPRESENTATIVE  
IN CONGRESS FROM THE STATE OF KENTUCKY.**

The CHAIRMAN. How much time do you want, Mr. Stanley?

Mr. STANLEY. Mr. Chairman, I would like to have all the time I can get. I have a great deal of matter that I want to put in the record, and I will just ask the committee to give me as much time as they can.

The CHAIRMAN. We have one other gentleman to be heard this morning, who has not come in yet. You may go ahead.

Mr. STANLEY. You will understand that this is such an immense proposition that it is impossible to discuss it, even cursorily, in the time of a morning session. How long will you sit; from now until 12 o'clock?

The CHAIRMAN. Yes; and we can not give you more than half of that time.

Mr. STANLEY. I will say that I would like to have an hour and as much more as I can get.

The CHAIRMAN. We will give you an hour.

Mr. STANLEY. Very well.

Mr. Chairman and gentlemen of the committee, it will be impossible for me in one hour to touch, even cursorily, on the various subjects embodied in this resolution, and for that reason I shall prefer to discuss a part of it thoroughly rather than to discuss all of it cursorily, or to discuss it as thoroughly as I can in the time. I will, for that reason, confine myself to two propositions. The first is, that the United States Steel Corporation is a combination in restraint of trade, as evidenced by its creation and its charter without any other facts that I would seek to elicit by this resolution, and I hope in future hearings, if you care to hear from me further, or by a brief submitted for the consideration of this committee, to make equally conclusive proof of the existence of all the other illegal practices mentioned in this resolution; and in the second place, to demonstrate to you that the merger of the United States Steel Corporation and the Tennessee Coal & Iron Co. was in open and manifest violation of the law and is now in open and manifest violation of the law. To those two questions alone I will confine what remarks I make this morning.

It strikes me, gentlemen of the committee, that you are called upon to report on this resolution. By its terms the House is asked to name a committee who shall ascertain the facts. You are, as far as this resolution is concerned, an inquisitorial and not a judicial body. You are in the attitude toward the accused of a grand jury. The question will be finally determined upon hearings that are exhaustive, such as you could not, with the many duties devolving upon you, enter into under any circumstances. For that reason it is your duty, as I see it, to report this resolution if you believe there is reasonable ground for believing that this is a combination in restraint of trade. If there is probable cause for believing that it is a combination in restraint of trade, then it is your duty to submit that question to the safest, the ablest, the most conservative of juries, chosen in the most careful way. I can conceive of no defendant, however great his interests or however manifest his innocence, who could ask for a more just or a more imposing tribunal to pass upon his case, or a more capable one, than a jury selected from the House of Representatives by the House of Representatives.



One of the most incriminating facts connected with the formation of the United States Steel Corporation is its overcapitalization. Now, I am perfectly well aware that the Sherman Antitrust Act can not make criminal or can not punish the overcapitalization of a corporation—

Mr. FASSETT. It does not affect it, does it?

Mr. STANLEY (continuing). Whether engaged in interstate-commerce business or not. No, sir; it does not affect it at all.

Mr. FASSETT. No.

Mr. STANLEY. But it is a fact to be considered, because overcapitalization springs from two things, always—one is excessive profits and the other is excessive power. If a concern such as the Carnegie Steel Co. (Ltd.) is making from 40 to 100 per cent there is a tendency of that concern to capitalize its skill, to capitalize its good will, and to capitalize its power to earn money. The price of the stock rises and falls automatically with its earning power, and it is the most natural thing in the world that it should increase its capitalization. When a concern is immensely prosperous, making an enormous profit on a fixed capital, as soon as that fact becomes known, either by virtue of its dividends or by virtue of its excessive capitalization, there is a tendency of capital to gravitate in the direction of that industry invariably; and when the man who is enjoying this immense profit sees capital diverted toward that business he sees the danger of active competition, and it is instinctive for him who is benefited by this peculiarly prosperous business to protect it from that competition. He may protect it by the excellence and the cheapness of his product, or he may protect it by combination in violation of the law. That the United States Steel Corporation was overcapitalized will not be denied. I have here a certified copy of a petition filed in the court of common pleas, in Allegheny County, Pa., in which H. C. Frick is plaintiff and the Carnegie Steel Co. and others are defendants. I will place in the record the style of this suit in full. I will also put in the record a copy of an iron-clad agreement recited here, by the terms of which each one of the members of this corporation agrees that in the event of friction he will accept on certain conditions the book values of his stock.

Mr. FASSETT. What is the date of that?

Mr. STANLEY. This is No. 422, at the March term, 1900. (Exhibit A.)

(All the papers submitted by Mr. Stanley for the record will be found, in the order in which they were submitted by him, appended to this hearing.)

Mr. STANLEY. Mr. Frick was notified that he would be paid the book value of his stock under the terms of this agreement. This petition is sworn to by a great number of the parties to it. It is a very elaborate affair. It is sworn to by Andrew Carnegie, by Henry Phipps, jr., John Walker, H. M. Curry, William L. Abbott, H. W. Borntraeger, S. E. Moore, and W. H. Singer. This was but a short time, now, you understand, before the formation of the United States Steel Corporation. In this petition they make this formal averment (Exhibit B):

Having so answered, we do respectfully suggest that any such estimate of values of our assets as is contained in the ninth paragraph of the plaintiff's bill is wholly immaterial, as we are advised, in the present case. The rights of

the plaintiff touching the price which is to be paid to him for his interest are based altogether upon the "ironclad agreement" to which he is a party. The value of his interest is by the terms of said agreement to be ascertained by reference to the books of the company. Those books were under the supervision of the plaintiff until the day of his resignation from the chairmanship of our company, and the entries have been made from time to time in accordance with his express judgment.

These books show that the net value on the 31st day of December, 1899, of the assets of the association was \$75,610,104.06. To a large extent this book value represents the actual cost of the properties represented in the balance sheets of the association.

That concern was shortly afterward sold to the United States Steel Corporation for five hundred and twenty millions of dollars.

**Mr. FASSETT.** Do you introduce any figures showing their earnings?

**Mr. STANLEY.** No, sir; but I admit that the earnings of the Carnegie Steel Corporation were 40 per cent or over. One year, I believe, they reached 100 per cent. But the gentleman from New York will understand that I am not railing against the Carnegie Steel Co. I think it was one of the greatest, most expert, most wonderful business organizations in the world, and I wish, devoutly wish, that Andrew Carnegie and the other ironmasters, and stock promoters and stock gamblers, were in control of the steel industry to-day. I am as much grieved at the prospects of losing our primacy in the steel industry as I am as to the effect upon the ultimate consumer. I do not even claim that those profits were not honestly made. I am making no allegation one way or the other about that; nor am I claiming that the overcapitalization was illegal. But I do say that the effect of this overcapitalization was to force the overcapitalized concern into a combination in restraint of trade, as I will show you further on. Now, these immense profits were made between 1897 and 1901 in the steel industry, and I file here a table from the Iron Age showing the profits between 1897 and 1901 of the various steel industries. I file a table showing the production and prices of Bessemer steel rails in the United States from 1897 to 1899, showing a sudden increase of price from \$18.75 per ton up to \$28 per ton. (Exhibit C.)

I file also a table showing prices of beams and channels, showing a like increase. (Exhibit D.) I will not tire the patience of the committee with these recitations except to say that they show an increase in some instances of 100 per cent.

I will now file with the committee a statement showing that at the time that many of these inordinate prices were obtained these various steel companies which made them were a constellation of conspiracies in restraint of trade. Each particular star was itself combined of manufacturing companies. If you will examine the Addystone pipe case you will see the modus operandi of each one of these concerns. Finding the business profitable, the appetite grew with what it fed on, and the makers of pipe and tubes, the makers of wire and nails, the makers of rails, the makers of plate, went in—the steel industry was divided into types, and the maker of each particular character of steel went into combination—with other manufacturers, and these inordinate profits followed automatically (Exhibit E), with the result, of course, that some of them determined not only to fleece the public, but to take the swag from their neighbors.

**Mr. FASSETT.** Do you show that the prices of the products increased to the people?

Mr. STANLEY. Yes; I show that from authorities that I do not think will be questioned. (Exhibit F.) Then these various companies increased until of these nine companies, the Carnegie Steel Co. heading the list, the Federal Steel Co. was composed of 3 plants, the American Steel & Wire Co. were composed of 45 plants, the National Tube Co. of 30 concerns, the American Bridge Co. of 30 plants, the National Steel Co. of 10 different plants, the American Steel Hoop Co. of 15 plants, the American Tin Plate Co. of 40 plants, and the American Sheet Steel Co. of 27 concerns. All of these concerns had an actual value of \$241,000,000. They were capitalized at \$626,000,000, and they went into the United States Steel Corporation with a capitalization of \$1,113,000,000. (Exhibit G.)

Mr. FASSETT. When you say "actual value," what do you mean?

Mr. STANLEY. The actual cost of their plants and the fair valuation of their ores. Now, all of these different concerns were getting along very happily. Each fellow was making enormous profits; each fellow had absolute control of the business. You will find that the Tin Plate Co., and the Wire & Nail Co., and later half a dozen of these people, owned from 80 to 95 or 98 per cent of the industry. It was a complete monopoly within itself, and if these various giant concerns could each have moved in its own particular sphere, they would have gone on in this way, unless the Addyston Pipe case and like decisions had stopped them. But Carnegie determined to invade the field of his neighbors, he being the iron master, greater in wealth, greater in strength. He built the greatest industrial fortune in the history of the world. He came nearer being the result of his own energy and his own talent; and he was ambitious, as he was gifted and strong; and I have nothing to say against him. No fair man can help but admire many things in this prince of the industrial world. Of course there are other things about him that I do not admire, but that is neither here nor there. Carnegie determined to invade the field of his neighbors. He threatened to build a line to the seaboard, and then the Pennsylvania Railroad had chills and fever. He threatened to go into the tube business and the wire and nail business and to build different smelting factories, and there was hurrying to and fro, there was panic in the steel business; and I have not time to recount it now, but I will incorporate in the record the graphic account given by Mr. Bridges (Exhibit H) in his inside history of the United States Steel Corporation of the fear, the terror, the dismay with which Carnegie filled the industrial world when he made this threat. There was but one of two things to do. One was to meet the fierce competition threatened by Andrew Carnegie, and the other one was to pay him for immunity, to buy from the one man that threatened competition the power to plunder. Says Mr. Bridges, they fled to Morgan, and his fertile genius evolved the plan which in form was the charter of the United States Steel Corporation.

In addition to that, I noticed in the New York Tribune of January 15, 1911, a signed article by Mr. George W. Smalley, whom I need not introduce to any of you, in which he says that he now holds an interview signed by Mr. Carnegie himself—a statement signed, and his interview O. K.'d by Carnegie—in which Carnegie said that 11 days before the United States Steel Corporation was formed he sold to Morgan, and that the contract was oral between the men. Per-