The great merger movement in American business, 1895–1904

Between 1895 and 1904 a great wave of mergers swept through the manufacturing sector of the U.S. economy. More than 1,800 firms disappeared into horizontal combinations, at least a third of which controlled more than 70 percent of the markets in which they operated. In *The Great Merger Movement in American Business,* Naomi Lamoreaux explores the causes of the mergers, concluding that there was nothing natural or inevitable about turn-of-the-century combinations.

With the aid of a formal model, Lamoreaux demonstrates that the merger wave was the product of a particular historical combination of circumstances: the development of capital-intensive production techniques; a spurt of rapid growth in a number of heavy industries in the late 1880s and early 1890s; and the panic and depression of 1893. Together, this sequence of events produced an episode of abnormally severe price competition that manufacturers finally turned to consolidation to alleviate.

Despite her conclusion that the mergers were not inevitable, Lamoreaux does not accept the opposing view that they were necessarily a threat to competition. She shows that most of the consolidations formed at the turn of the century were less efficient than the new rivals that appeared almost immediately, and that as a result the combines quickly lost their positions of market dominance. Moreover, in those few cases where consolidations proved to be more efficient, the nation was better off for their formation. Exceptions to these generalizations occurred, however, in a few industries where the new giant firms succeeded in erecting barriers to future competition. There, Lamoreaux argues, was where antitrust policy had a significant role to play. Unfortunately, the peculiar division of power and authority that characterizes our federal system of government prevented an effective policy from emerging. Limits on the national government's ability to regulate the activities of state-chartered corporations handicapped the enforcement of antitrust policy against those firms large enough to erect barriers to entry by purely internal means. Ironically, antitrust policy proved much more effective against small firms in relatively competitive industries than against large firms in oligopolistic ones.

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