AMERICA'S FIRST CARTEL*

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IN THE post-war years following 1865 America faced a problem which it could not understand. Until the Civil War, Adam Smith's theory of the regulation of trade by free competition had worked fairly well. When the production of any commodity exceeded the demand, the small, inefficient businesses died quietly, leaving the field to the stronger. The development of the corporation as a device for carrying on business, however, was gradually making the old laissez-faire principle unworkable. For one thing, corporations did not die quietly. When an individual was forced out of competition, the sheriff sold his goods, and the business was ended. When a corporation was forced into bankruptcy, it was handed over to receivers, who proceeded to compete more ruthlessly than ever, until its rivals in turn were forced into bankruptcy. In the interest of self-preservation, corporation executives had to work out new rules for the game, even while the game was being played.

While the large corporations of the first decades after the Civil War were all transportation companies, in the anthracite region of Pennsylvania the common carriers had become miners and sellers of coal through force of circumstance. As cities grew and forests shrank in the early years of the nineteenth century, a market gradually had developed for fuels which could take the place of wood. An accident of geography had placed a valuable source of fuel in the form of vast beds of anthracite coal within a hundred-

* This article is based on a paper read before the meeting of the Association in Harrisburg, October 27, 1945.
odd miles of tidewater and the important seaboard cities of New York and Philadelphia. Between 1820 and 1860 a network of canals and railroads sprang up to connect the anthracite region with its market.

The canals naturally came first. The Schuylkill Canal from Philadelphia to Pottsville, which began shipping coal in 1822, opened up the Schuylkill fields; small feeder railroads were constructed to carry the anthracite from the mines to the canal terminus at Port Carbon. In 1820 the Lehigh Coal and Navigation Company completed a canal from Mauch Chunk to Easton, and a few years later the construction of the Morris Canal across New Jersey to New York City and of the Delaware Division of the Pennsylvania Canal to Philadelphia provided an outlet for Lehigh coal to both these important cities. The first canal from the anthracite region to New York City was the Delaware and Hudson, opened in 1829. It took a roundabout route from Honesdale to Port Jervis on the Delaware and then north to Rondout on the Hudson, above Poughkeepsie. From there its freight went down the Hudson River to New York City. Both these latter canals reached the mines over gravity railroads.

The railroads soon followed. The Philadelphia and Reading, paralleling the line of the Schuylkill Canal, reached Pottsville in 1842. Thirteen years later the Lehigh Valley Railroad completed its line from Wilkes-Barre to Philipsburg, New Jersey, and about the same time the Delaware, Lackawanna, and Western gave Scranton a rail connection with New York. By the start of the Civil War each of the three canals thus had a competing railroad.

Of these six transportation companies, three—the Schuylkill Navigation Company, the Reading Railroad, and the Lehigh Valley—were at first common carriers only. The other three—the Lackawanna, the Delaware and Hudson Canal Company and the Lehigh Coal and Navigation Company—also produced and marketed coal; the latter two, in fact, had been established primarily as mining corporations. Another important mining corporation was the Pennsylvania Coal Company, which in 1850 built a gravity railroad from its collieries at Pittston to Hawley, where it connected with the Hudson Canal. When the Erie Railroad reached

1 The lower Wyoming region around Wilkes-Barre obtained an outlet to market in 1831 when the Pennsylvania Canal was opened to Nanticoke, but this route never attained great importance.
Hawley a few years later, this gravity road made the Pennsylvania Coal Company the only important anthracite producer with an outlet to tidewater not controlled by the six anthracite carriers.2

The first decade after the Civil War saw all these companies expand rapidly. The Delaware, Lackawanna, and Western, which had used the Central Railroad of New Jersey and the Morris and Essex to reach New York, leased the latter road in order to obtain control of the entire route. The Lehigh Valley, likewise seeking an independent route to New York, leased the Morris Canal in 1871 and, when that proved unsatisfactory, built the Easton and Amboy Railroad four years later. The Delaware and Hudson constructed a railroad which gradually replaced its canal, and the Lehigh and Navigation Company paralleled the Lehigh Valley road with a line of its own, the Lehigh and Susquehanna. In 1871 the Jersey Central, having lost its profitable traffic from the Lackawanna and the Lehigh Valley, entered the anthracite region itself by leasing the newly-built Lehigh and Susquehanna and acquiring its own coal mines. The two transportation lines out of the Schuylkill region were consolidated when the Reading leased the canal in 1870.

The same period also witnessed a concentration of ownership of coal lands. The three northern companies—the Hudson at Carbondale, the Lackawanna at Scranton, and Pennsylvania Coal at Pittston—increased their holdings until they dominated the upper half of the Wyoming field. In the areas centering around Wilkes-Barre, Hazleton, and Mauch Chunk, the Lehigh Valley began acquiring coal lands. Since the Jersey Central-Lehigh Coal and Navigation alliance was also an important landholder in this region, much of the acreage there was thus under corporate control, although many individual operators continued in business.

By 1870 the Schuylkill field was the only region where transportation and mining still remained entirely separate. Control of both the railroad and the canal was in the hands of a fair-faced, square-chinned young lawyer, named Franklin B. Gowen, who had been elected president of the Reading in 1869 at the age of thirty-three. His earliest training had been in the coal business. At thirteen he had gone to work for a Lancaster coal dealer, named Thomas

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2 Mines around Shamokin and Mount Carmel could ship to Philadelphia over the Northern Central, controlled by the Pennsylvania, but this tonnage at the time was not an important factor in the trade.
Baumgardner, who later became an operator. After eight years with Baumgardner, Gowen had become an operator on his own account until the sheriff sold him out two years later. Wiping out this disaster with a brilliant legal career in Pottsville, he had risen to the Reading presidency within ten years.

This early background had developed in Gowen a belief that mining and transportation should be independent of each other. When a bill was introduced into the 1869 legislature giving any railroad the right to acquire coal lands, he successfully lobbied through an amendment excluding Schuylkill County from its provisions. Now, however, he suddenly reversed his position. Fearing that the Lehigh Valley, which was pushing a branch line into Schuylkill County, might acquire coal lands there and deprive the Reading of its freight, he decided to protect his traffic by purchasing coal property himself.

Undeterred by the fact that the Reading's charter gave it no right to own coal lands, he secured money from McCalmont Brothers and Company, the London banking firm which owned a controlling interest in the Reading, and began acquiring property in their name. While this was going on, he planned the necessary political strategy to secure a charter which would enable the Reading to hold land. This took the form of an act incorporating the Franklin Coal Company. Tucked snugly away in the middle of the bill was an apparently innocuous provision, authorizing any railroad to acquire stock in the company. This bill unfortunately came up for consideration in the 1871 legislature just about the time Gowen had stirred up a storm of protest by doubling his freight rates to settle a strike in the mines. As a result the Franklin Coal Company was killed by the assembly.

Six weeks later Gowen came back with the very same bill in a better disguise. The proposed corporation was this time called the Laurel Run Improvement Company, a name which had no connection whatever with Schuylkill County. Gowen's backing of the legislation was a well-kept secret until the bill had passed the House and come up on the Senate floor. There his sponsorship was revealed, and a bitter fight knocked out of the bill the all-important provision permitting the Reading to acquire stock in the new com-

8For a full account of this and other labor troubles during the period, see Marvin W. Schlegel, "The Workingmen's Benevolent Association," Pennsylvania History, October, 1943.
pany. At this juncture the legislature adjourned for lunch. When the Senate reconvened, two of the bill's opponents were conveniently absent and another had changed his mind. On a motion to reconsider, the vital clause went back into the act, and the charter was passed. In December, 1871, Laurel Run dropped its *nom de guerre* and became the Philadelphia and Reading Coal and Iron Company, the name by which it is still known.

With his new charter safely in his pocket, Gowen bought coal lands right and left. Wherever there was a chance that a rival might acquire a property, he plunged into the bidding, regardless of its current value to the Reading. Soon he had purchased a greater acreage than all the other coal corporations put together. At the moment, however, his purpose went no further than securing the tonnage of these lands for his railroad. The collieries were leased to individual operators, and the Coal and Iron Company remained a holding corporation.

In spite of Gowen's intentions, irresistible economic forces were slowly pushing him forward. The anthracite industry was suffering from chronic overproduction. There had been a temporary boom during the last half of the Civil War, but the return of peace had sent prices diving back to their normal levels which left little or no margin of profit for the average operator. While the operations of *laissez-faire* would eventually have restored a balance between supply and demand, businessmen had too large an investment in their collieries to sit idly by and watch their capital wasting away.

As a measure of salvation, they had even encouraged the formation of a labor union in 1868, which undertook to regulate production and control the price of coal. Gowen had opposed this policy because he thought the price set by the union—three dollars a ton at the mines in the Schuylkill region—was too high. A firm advocate of lower prices to increase consumption and thus bring about greater profits in the long run, he had forced the union to abandon its control of production in the strike of 1871.

With the brakes off, production soared to new heights in 1872, and prices fell correspondingly. Coal dropped below two dollars a ton at the Schuylkill mines, a level at which only the most efficient operators could show a profit. In August the hard-pressed Schuylkill operators came to an agreement among themselves to establish minimum prices in Philadelphia, a market where they had little competition. This was only a partial solution, however, since
about half their coal was sold in New York and New England, where it had to compete with the other regions. They therefore sent a delegation to Philadelphia to solicit Gowen's aid in obtaining an agreement with the operators in the Lehigh and Wyoming fields to establish minimum prices. Recognizing that the colliery-owners could not long continue in business unless something was done, Gowen received the committee sympathetically and promised to help them.

Early in September of 1872, he went to New York City, where the other anthracite companies had their main offices, and conferred with his fellow railroad presidents. In order to maintain prices it was necessary to restrict production, and this could be done only by the transportation companies, since there were too many individual operators to compete successfully. The railroads, all engaged in mining and selling coal, had a vital interest in raising prices, and they were in position to control production by restricting shipments. As common carriers, of course, they could not refuse outright to carry coal when it was offered to them, but there were roundabout devices to accomplish the same end, as Gowen was soon to demonstrate.

Although companies which had been so fiercely competitive could not at once be persuaded to bury the hatchet, Gowen's nimble tongue eventually talked them into it. By February, 1873, agreement had been reached on all details, and a peace treaty had been signed. Negotiations were carried on in traditional diplomatic secrecy in order to prevent a blast of public indignation at this attempt to suspend the law of laissez-faire. Nevertheless, enough news leaked out to give a general idea of the terms of the agreement.

Minimum prices were fixed for all coal coming into the New York market; each region was to have a free hand in what was sold elsewhere. These prices were to be set low in the spring, in order to encourage advance buying, with a gradual increase during the season. A tentative sales quota was established for the year, based on an estimate of what the market would take at these prices and subject to monthly revision. The total was divided among the six companies according to fixed percentages. Determining these percentages must have been the major stumbling-block of the negotiations, but the war-scarred corporations were all willing to

make concessions in the interests of peace. The Philadelphia and Reading was allotted 25.85 per cent; the Lehigh Valley, 15.98; the Jersey Central, 16.15; the Delaware and Hudson, 18.37; the Delaware, Lackawanna, and Western, 13.80; and the Pennsylvania Coal Company, 9.85. The latter, not being a common carrier like the others, was not formally a member of the association, but agreed to abide by its rules. The Pennsylvania Railroad remained outside of the combination, but the amount of anthracite it hauled was too small to have any serious effect on prices.

While Gowen had at last consented to restrict production in order to maintain prices at a profitable level, he had not abandoned his belief in expanding consumption through lower charges. He took over the operation of most of the mines the Coal and Iron Company had hitherto leased to others and prepared to reduce costs by improved production methods. To decrease the expenses of distribution, he made the Coal and Iron Company a huge sales agency with offices in all the principal cities of the East. Since his selling costs would drop as his sales increased, he offered to act as agent for the individual Schuylkill operators in the competitive markets.

With most of the Schuylkill men this proposal was extremely popular. Their sales in New York and New England had hitherto been handled by commission men, or factors, who were assigned space on the Reading's wharves at Port Richmond in Philadelphia. Their fee was usually 25 cents a ton when they guaranteed payment by the purchaser; without a guarantee the commission was only ten or fifteen cents, but it was a rash operator who was willing to take a chance on such an arrangement. Making their profit regardless of the price of coal with only a small investment of capital, the factors were the envy of the hapless operators. Gowen himself, recalling his own experience in managing a colliery, declared that they "sat at the water's edge like leeches, sucking the life blood of a healthy trade."

Gowen's proposal was especially satisfactory, since he offered to sell coal for ten cents a ton with guaranteed payments. When about half the operators had accepted the plan, he decided to

5 Engineering and Mining Journal, XVII, 89 (Feb. 7, 1874).
6 Franklin B. Gowen, Argument before the Joint Committee . . . to Inquire into the Affairs of the Philadelphia and Reading Coal and Iron Company and the Philadelphia and Reading Railroad Company . . . (Philadelphia, 1875), p. 23.
eliminate the middlemen by an order denying them space on the Richmond wharves after the end of 1872. The only exception made was for factors who controlled their own collieries. These Gowen called together late in December of 1872 and laid before them his idea, graciously asking them whether they would like to have him sell their coal. To his surprise, the factors became extremely critical of the plan, fearing that they were going to be forced into it. Losing his temper at the repeated objections, Gowen angrily declared that he might get ugly if they failed to cooperate. This seemed only to confirm the factors’ suspicions, and they stomped out of his office.

At the same time, Gowen’s plan for reducing prices to the consumer had stirred up another group of enemies in the coal trade. The same reasoning which had driven him into the wholesale business—increasing sales in order to lower unit costs—impelled him to open huge retail yards in Philadelphia, which, he estimated, would enable him to sell coal for a dollar a ton less than the small retailers. The dealers looked on the arrival of this gargantuan competitor with as much alarm as the corner grocer two generations later was to see the coming of the chain store and the supermarket. They hinted darkly that Gowen’s low prices were only intended to drive them out of business, after which they would soar to monopolistic levels, a charge which Gowen indignantly denied as an aspersion on his character.

The concern of the retailers, however, went deeper than the mere threat of corporate competition; they had paid little attention when the Lehigh Coal and Navigation had started selling its own coal in Philadelphia a few years earlier. The danger in the Reading as a rival was that the railroad had them at its mercy through its control of their source of supply. Gowen might, if he chose, raise the freight rates from two to six dollars a ton—he had done exactly that two years earlier in order to settle a strike—and put them out of business. In spite of his repeated assurances that he intended to compete fairly, the dealers were always conscious that they were in his power.

Moreover, several of Gowen’s new policies seemed to the retailers to be directed against them. One was the system he worked out for controlling production. When the monthly quota had been turned out, Gowen kept the mines going and filled all the available coal cars. Then, if an operator tried to ship more than his proper
percentage, he was truthfully informed that there were no empty cars to send him. This system served its purpose very well, but thousands of loaded cars standing on the sidings blocked the tracks and delayed deliveries. Occasionally cars consigned to retailers might get mixed with cars being used for storage and be lost for weeks.

Another result of Gowen's reform program irritated the dealers. As a prerequisite for accepting the individual operator's coal for sale, he had insisted that the product be better prepared than ever before. Schuylkill anthracite had been notorious for dirt and slate, partly because of mining conditions and partly because of pure carelessness. The custom had grown of allowing the purchaser a 5 per cent discount to cover impurities; the railroad made the same allowance on its freight bills, hauling the dirt for nothing. Convincing that the coal would now be clean, Gowen at the end of 1872 abolished the discount.

The elimination of the weight allowance served as another irritant to the dealers. Since the discount had been liberal, they had gained a little from it; now there was still some slate in the coal and they had to take a slight loss. Feeling that their deliveries did not hold out as before, they began to suspect that the railroad was giving them short weight. These grievances were magnified by the red tape of Gowen's centralized administration, which referred complaints from one office to another without settling them.

The ousted factors and the disgruntled retailers filled the newspapers with attacks on Gowen and the coal combination in the early months of 1873. Gowen replied vigorously, and other voices were raised in his defense. One man, who signed himself "E. Z. Totalk," wrote:

For long years the trade has waited for a firm or company strong enough to take the surplus coal, pay for it, store it if necessary and make it bring more than cost. The strong company and the time to try the experiment are at hand in conjunction. If the production of coal can be redeemed from the condition of a losing and can be made a paying business, without adding materially to the cost of coal to the consumer, somebody will be much praised who is now much abused.7

7 Philadelphia Press, Feb. 18, 1873.
In spite of newspaper criticism and persistent rumors that the combination would soon break up, the new agreement worked. Prices advanced steadily according to schedule through 1873 and were not shaken even when the crash of Jay Cooke and Company in September sent the nation tumbling into a post-war depression. One reason for the success of the combination was its moderation. The average price Schuylkill operators had received at the shipping point in 1872 was $2.15; for 1873 it was only fifty cents higher. As the average production cost was about $2.30 a ton, this left the operator a profit margin of 10 per cent, modest enough for the times. New York wholesale prices were about $1.25 above the 1872 average, since the railroads followed their usual custom of raising rates as the price of coal went up, but this was little more than the average of the six preceding years. As the Engineering and Mining Journal pointed out, anthracite was the only staple which had returned to prewar prices. It cost no more than it had twenty years before, while flour was selling for twice as much.8

Even under voluntary restriction of production, more anthracite was mined in 1873 than ever before, although not all of it was sold. The associated companies renewed their agreement for 1874. Gowen lost on one of his principles when it was decided to raise prices fifteen cents a ton over 1873, but gained two other points. All interests agreed to limit the factors to fifteen cents a ton commission and to compel them to handle at least 25,000 tons a year. The companies also promised to abolish allowances for short weight or poor coal. Although the agreement was intended to be kept secret, one of the Lehigh operators mailed a copy to the Engineering and Mining Journal, which printed it in full.

As the effects of the depression began to be more fully felt in 1874, the market for anthracite sagged. The companies cut back production but maintained prices, although it was rumored that sales were actually made for less than the list prices. By the end of 1874 yards everywhere were piled high with unsold coal, and the corporations realized that more drastic steps had to be taken.

The easiest and quickest way to reduce costs was to cut wages. At the beginning of 1875 the operators in each of the regions announced new pay scales, embodying cuts of 10 to 20 per cent. The employers had nothing to lose by this offer. If the men accepted, prices could be reduced; if the men refused and struck, produc-

8 XVI, 105 (Aug. 12, 1873).
tion would be suspended long enough to get the surplus off the market.

The operators in the Scranton-Pittston area received the benefit of this move. Their men accepted the reduction and continued at work. Since the miners in the other regions all voted to strike, the Scranton companies were the only ones supplying the market. For nearly six months the walk-out continued until at last the men were starved out and had to go back to work at the terms offered them originally.

From the operators’ standpoint the results of the “Long Strike” gave them two important advantages. The crushing of the union made it possible to reduce wages much more easily, and the long suspension had cleared out the surplus coal. For the rest of 1875 the mines worked full time to catch up with the market. The season of 1876 opened with the posted prices, at least, just as high as in 1873, in spite of the fact that the nation had gone through three years of depression in the meantime.

The declining demand for coal was tugging hard at prices, but the combination seemed as strong as ever. A new agreement brought the Pennsylvania Coal Company formally inside the combination, and even the Pennsylvania Railroad agreed to abide by its rules, although not to join. A fine of $1.50 a ton was established for those companies which exceeded their monthly quotas to be paid to the corporations which failed to fill their allotments. This fine was not enforceable by law, but it was at least a psychological deterrent.

There was imminent trouble, however, in the position of Asa Packer, president of the Lehigh Valley. Fearful that he might be endangering his railroad’s charter by restricting shipments, he said that he would not be an active member of the combination in 1876. This meant, it turned out, that he would leave all control of production up to the individual operators in his region. The very first month the mines returned to work after being idle all winter, the Lehigh operators exceeded their quota. When the association’s board of control met in May, the Lehigh men declared that they could not pay the penalty for overproduction. Other members of the combination threatened to drop the agreement, but the offending operators promised that, if the fine for April was remitted, they would stay within their allotment thereafter.

After adhering to their word for one month, they again exceeded their quota in June. When the board of control met in
July, they received a new pledge that the Lehigh men would shut down for two weeks in August to make up for their overproduction in June. Unfortunately, their July production was again in excess of their allotment, and the collieries owned by the Lehigh Valley Railroad even failed to keep the promise to suspend in August.

Gowen was furious. At the board of control meeting on August 22, he offered a resolution which described the sins of the Lehigh operators and dissolved the combination. To a reporter he said bitterly, "We were associated with some people who thought they had so much more character than money that they were willing to exchange the former for the latter commodity."

Gowen angrily determined to return to his old theory of lowering prices to increase consumption and thereby lower production costs. Because of high overhead expenses, the cost of mining did drop rapidly as production increased. Moreover, the sliding scale of wages in the Schuylkill region automatically lowered costs as coal fell. Feeling confident of his ability to beat his rivals into submission, Gowen dumped thousands of tons of coal on the New York market, driving prices down more than a dollar a ton. The frightened Schuylkill operators sent a delegation to find out what he was trying to do, but the only concession they could get from him was a reduction of seventy-five cents a ton in freight rates.

By March, 1877, coal was selling in New York for about half what it had brought when the association had been in effect. The desperate anthracite men held a series of meetings to attempt to arrange an armistice. A modified revival of the old agreement was proposed, with production quotas restored but control of prices abandoned. Gowen, however, demanded that the companies should establish a single sales agent to handle all sales of anthracite in the competitive market. When this proposal proved too radical for the other companies, Gowen dropped negotiations and sailed for Europe.

When coal in November sold for an average of $2.35 a ton, the lowest price ever received in New York, all concerned were willing to make peace. Gowen's terms were outlined in an article in the Philadelphia Public Ledger on December 10, 1877. He demanded a three-year agreement; quotas on total production, not merely that sent to competitive markets, for all seven transportation companies, meaning that the Pennsylvania Railroad

*Philadelphia Times, Aug. 25, 1876.
must be included; weekly payments of forty cents a ton on all coal shipped to provide a fund for the collection of fines for over-shipment; limitation of the factors' commission to ten cents a ton; and no suspension of mining except during the winter months. On the quotas to be allotted each company he was willing to negotiate.

The delegates met in conference in New York on December 13 to discuss these terms. All the companies were represented except the Lehigh Valley. Asa Packer, still clinging to his conscientious scruples, sat in his office in the building in which the meeting was being held, but refused to attend. Trying to get some satisfaction out of him, Thomas Dickson, president of the Delaware and Hudson, sent Packer a note, asking if he would agree to carry out plans suggested by the Lehigh operators, provided he could do so without violating his charter. Packer at first refused to endorse even this, but at length signed his name to the note with the added condition that all the operators must agree.

To get around this difficulty, the Lehigh operators authorized Robert H. Sayre, vice-president of the Lehigh Valley, to act as one of their representatives. At the next conference, on December 18, Sayre proposed that production be limited merely by periodic agreements to suspend, with no other controls. The other corporations, however, decided to accept at least part of Gowen's terms. The conference issued a communique, announcing that agreement had been reached on establishing a board of control, on dividing the entire production, and on setting a fine for exceeding quotas. It did not mention that the Lehigh operators insisted that Sayre should hold their deposits to guarantee payment of their fines, which meant that they would pay the penalty only when they felt like it. Minimum prices were also quietly forgotten.

The most important point, however, had not yet been decided. At a third meeting on December 27 the conferees attempted to divide the allotments among the companies. Since he had had 33 per cent of the total production in 1877, Gowen refused to take less than 31. The Lehigh men, granted 18 per cent by the committee, demanded 20. Samuel Sloan, head of the Lackawanna, asked for 17 per cent instead of the 12 he was allotted.

Failing to reach an agreement, the conference decided to try
again at Philadelphia on January 2, 1878. There it was first proposed to base the percentages on the average production of the last five years, but Gowen and Sloan refused to accept this because their quotas would have been too low. The average of the previous ten years was also voted down. Next a compromise was suggested, giving the Reading 28\(\frac{3}{4}\) per cent, the Lehigh 18\(\frac{3}{4}\), the Jersey Central 13\(\frac{3}{4}\), the Hudson and the Lackawanna 12\(\frac{3}{4}\) each, the Pennsylvania Railroad 7\(\frac{3}{4}\) and the Pennsylvania Coal Company 6. This satisfied everybody but the Lehigh men, who turned the proposal down, and the meeting broke up.

The desire for a new combination was too strong, however, to allow this decision to end the efforts toward peace. Edward C. Knight, head of the North Pennsylvania Railroad, which carried Lehigh coal from Bethlehem to Philadelphia, arranged a meeting with Gowen and Tom Scott, of the Pennsylvania. The Reading president offered to surrender part of his quota to the Lehigh if the other companies would do the same. On this basis enough concessions were obtained to give the Lehigh an extra one per cent, and the combination was saved.

The new association got off to a shaky start. A very detailed contract had been drawn up in precise legal language, but none of the parties had ever signed it. Rumormongers spread the story around as an indication of the combination’s weakness, and Gowen declared that the lack of signatures was immaterial. The legislatures of both New York and New Jersey investigated the agreement. When a New York Assemblyman asked George Hoyt, president of the Pennsylvania Coal Company, what was to prevent the combination from raising the price of coal five dollars a ton instead of one dollar, he replied: “... from talking with Mr. Gowen, of the Reading, I think I know what his views are of the larger percentage, and I think he would be decidedly opposed to any such thing, and don’t think you could hold him in it if there was an idea or attempt to hold prices up above a fair point.”\(^{10}\) The New York assembly reported that it had found nothing to investigate, and the New Jersey committee even registered its approval of the combination.

The market situation was a more serious threat, however. News of the negotiations to raise prices had impelled consumers to stock up to the limit of capacity. A Massachusetts coal dealer

\(^{10}\) New York State Assembly, Documents, 1878, Vol. VII, Doc. 128, p. 50.
reported that there was enough coal in New England to last through half of 1878. In September the association's board of control voted to extend the agreement to the following April, but gradual improvement in the coal trade was causing discontent. The Lehigh operators at the October meeting refused to agree to a continuation after the end of the year. They demanded instead a new compact to limit only competitive production, since an increase in their local trade was depriving them of what they thought was their fair share of the general market.

Gowen and Dickson, of the Delaware and Hudson, appointed as a committee to work out a new arrangement, told a representative of the Lehigh operators that they were willing to meet him any time before the end of the year, provided he had authority to speak for the Lehigh Valley Railroad. When the Lehigh men refused to complete the negotiations within the time set, unrestricted warfare was resumed.

Industry in 1879 was slowly climbing out of the hole into which it had fallen in 1873. The demand for anthracite boomed along with business. Unfortunately, production climbed even faster, reaching a total of 20 per cent above any previous year. Prices tumbled as they had in 1877. Insisting that higher prices could be obtained, Gowen asked the other companies to join in raising them. When the Delaware and Hudson declared it could get no more for its coal, he offered to take all it could produce at $2.50 a ton. For three months he manfully absorbed all the Hudson's surplus, 117,232 tons, eventually disposing of it at a loss of nearly $40,000.

In October, therefore, he accepted the suggestion of Judge Francis S. Lathrop, who had been appointed receiver for the Jersey Central, that a new combination be discussed. Along with the Central, the three Scranton companies, and the Erie, which was now becoming a more important anthracite carrier, he signed a contract for the control of production and sales, but this agreement lapsed when the Pennsylvania and the Lehigh Valley refused to add their signatures. By the end of the year, however, all the companies decided to limit production by shutting down simultaneously at agreed-upon intervals. This informal agreement continued in effect for many years.

The anthracite association had blazed the path for American industry in the post-war world. Business in general followed
along the road in working out rules for fair competition until for a brief period in the early New Deal days every business in the country was forced into a trade combination. A corollary had to be added to Gowen’s principles, however. His theory that enlightened self-interest would be sufficient to make corporations keep prices low did not work. As businesses grew bigger, they became more powerful and more extortionate. Striking out in protest, the people tried to turn the clock back by making competition compulsory. With the establishment of the Interstate Commerce Commission in 1887, they found a better scheme for the railroads—competition within strictly prescribed rules with the government acting as umpire. Ever since, America has been slowly stumbling its way towards a similar solution for other industries.