Volume Title: Merger Movements in American Industry, 1895-1956

Volume Author/Editor: Ralph L. Nelson

Volume Publisher: Princeton University Press

Volume ISBN: 0-87014-065-5

Volume URL: http://www.nber.org/books/nels59-1

Publication Date: 1959

Chapter Title: Front matter, Merger Movements in American Industry, 1895-1956

Chapter Author: Ralph L. Nelson

Chapter URL: http://www.nber.org/chapters/c2523

Chapter pages in book: (p. -22 - 0)

MERGER MOVEMENTS IN AMERICAN INDUSTRY, 1895–1956

NATIONAL BUREAU OF ECONOMIC RESEARCH
NUMBER 66, GENERAL SERIES

Merger Movements in American Industry 1895–1956

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A STUDY BY THE
NATIONAL BUREAU OF ECONOMIC RESEARCH, NEW YORK

PUBLISHED BY
PRINCETON UNIVERSITY PRESS, PRINCETON
1959

L.C. CARD 59-11082

Printed in the United States of America

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*(Resolution adopted October 25, 1926
and revised February 6, 1933 and February 24, 1941)*

Foreword

The first compilation of a comprehensive and continuous series on mergers of industrial and mining corporations in the United States —no other nation has such a record—was made at the National Bureau of Economic Research exactly thirty years ago. Willard L. Thorp was its author, in his distinguished essay in *Recent Economic Changes* (1929). The series covered the years from 1919 to 1928, and a broad industrial classification was also given. This series was subsequently extended by Thorp and is now compiled by the Federal Trade Commission.

A few studies of the great wave of mergers at the beginning of the century are also available, but they are incomplete and virtually unclassified, and the period from 1904 to 1919 has been a dark age. Ralph Nelson's new series covers the entire period from 1895 through 1920, and provides more complete information on the industry, size, and type of merger than is possessed even for the recent past. The new series represents much resourceful investigation and careful verification, and students of both economic history and industrial organization will be permanently in his debt.

Not content with providing a definitive record of the most important merger movement in our history, Nelson has also tested some of the leading explanations for the tidal wave of mergers from 1898 to 1920. Three of these hypotheses—emphasizing the retardation of industrial growth at that time, the sharpening of competition consequent on development of a national transportation system, and the growth of the securities markets—receive special attention. There is also fascinating material on a host of other problems ranging from the influence of stock market levels on mergers to evidence bearing on the common belief that the original section seven (anti-merger section) of the Clayton Act ignored acquisitions of assets because they were so uncommon.

Two other National Bureau studies in industrial organization which are under way may be commented upon here. Michael Gort will soon complete a study of diversification of products by large manufacturing corporations, including both an intensive analysis of their product structure in 1954 and of its development since 1929. Light on this important and relatively modern development

—wide diversification was apparently less important before 1929, and certainly less commonly achieved by merger—will be a valuable complement of Nelson's work.

The other study is concerned with the amounts of capital and the rates of return on capital in manufacturing. Despite the strategic role of rates of return in a private enterprise economy, as both a guide to investment and a reward for efficiency, the paucity of data on this aspect of business enterprise long sheltered the subject from statistical examination. Here too we are in effect supplementing a pioneering National Bureau inquiry: Ralph C. Epstein's *Industrial Profits in the United States* (1934) was the most comprehensive study of profit rates up to that time.

Where Epstein was limited to a non-representative sample of some 2,000 large and 1,000 small corporations, it is now possible to use the corporate tax return data, which cover more than nine-tenths of manufacturing output, in essentially comparable industry detail for the period beginning with 1938. A record of capital and rates of return has been built up for a fifteen-year period, and I am now analyzing the effects of rates of return on investment, of wage rates on the substitution of capital for labor, and similar problems.

I have not mentioned numerous other National Bureau publications in industrial organization, such as *Cost Behavior and Price Policy* (1943), prepared by a committee of the Price Conference of which Edward Mason was chairman, the Universities–National Bureau Committee for Economic Research conference volume *Business Concentration and Price Policy* (1955), and Gideon Rosenbluth's *Concentration in Canadian Manufacturing Industries* (1957). They represent an important part of the literature of the subject, but I hope I will be pardoned for closing, not on a note of pride or complacency, but rather on one of hope: that there will be much more work of this kind—establishing the main contours of a remarkable economy of which we still know all too little, and examining untested hypotheses of which we have too many.

George J. Stigler

Acknowledgment

This study, begun as a doctoral dissertation at Columbia University, was finished at the National Bureau of Economic Research, which supported the work as part of its general research program. I am deeply grateful for the assistance so generously provided.

I am especially indebted to George J. Stigler, under whom the study was begun at Columbia and through whose efforts its was continued at the National Bureau. He gave his time generously to the improvement of the work and to the education of its author. His suggestions, always constructive, encouraging, and provocative, had enormous influence in improving the study in all its aspects.

The advice and criticism of a number of others is acknowledged with appreciation. The members of the staff reading committee, Michael Gort and G. Warren Nutter, were responsible for improvements ranging over the whole work. Solomon Fabricant had much to offer in improving the first chapter, while Geoffrey H. Moore and Sophie Sakowitz were responsible for important improvements in the chapter on mergers and business cycles. The manuscript received a very thorough reading from Willard L. Thorp, a National Bureau Director by appointment of the American Economic Association. His penetrating comments, covering every part of the study, have added much to its precision and consistency. John S. Dydo of Vassar College made many constructive suggestions.

The assistance of Victor Zarnowitz, a congenial and helpful officemate, is reflected in many places. Arthur d'Antonio was a careful and thorough research assistant. The style and presentation were improved at different stages by the editorial assistance of Mary Phelps, Margaret T. Edgar, and John Sibley, and the craftsmanship of H. Irving Forman may be noted in the charts.

I conclude with a note of personal appreciation to my wife, Ann, who was a continual source of encouragement and strength in ways too subtle to describe. To all of these people, and many others, I offer my sincere thanks.

RALPH L. NELSON

Contents

APPENDIXES

Tables

APPENDIX TABLES

Charts