The control over prices achieved by consolidation could just as easily have been jeopardized by the emergence of a substitute product as by the entry of new firms into the industry itself. The only protection against this first danger was entrepreneurial vigilance and resourcefulness, two traits Henry Havemeyer displayed in abundance in meeting the challenge which arose from sugar beets. By judiciously supplying critically needed capital funds—approximately half the amount invested in sugar beet factories—Havemeyer and the American Sugar Refining Company were able to turn what might have been an antagonistic interest into a docile appendage of their own industrial empire. This feat, in turn, made possible their continued exercise of effective control over domestic sugar prices. Through the leverage that their 70 per cent interest in all domestic beet factories and their 90 per cent control of the sugar-cane market provided, Havemeyer and the American were able to perform the delicate task of adjusting supply to demand in numerous local markets simultaneously, and in this way see to it that the prices set by the American were the prices that prevailed throughout the United States.

"... In capitalist reality, as distinguished from its textbook picture," Joseph Schumpeter has written,

it is not the competition [between firms in the same industry] which counts but the competition from the new commodity, the new technology, the new source of supply, the new type of organization. ... This kind of competition is ... so much more important that it becomes a matter of comparative indifference whether competition in the ordinary sense [exists. For the other type of competition] revolutionizes the economic structure from within, incessantly destroying the old one, incessantly creating a new one. This process of Creative Destruction is the essential fact about capitalism. It is what capitalism consists of and what every capitalist concern has got to live with. ¹

¹ Joseph Schumpeter, Capitalism, Socialism and Democracy, pp. 84-85, 83.
So it was for Henry Havemeyer in 1901, for in that year his control of the sugar refining industry was threatened by the development of a new source of sugar, the sugar beet.

Although sugar beets had been grown successfully in Europe since the Napoleonic Wars, efforts to transplant the crop to the soil, climate, and economic milieu of the United States were for many years unsuccessful. Despite bounties offered by many of the individual states, one after another of the early efforts to grow sugar beets failed. In part, this failure reflected the inability of Americans to develop the technical skill that the cultivation and processing of sugar beets required. But equally important was the fact that sugar cane could be obtained more cheaply from the world’s tropical islands. Beginning in the late 1880’s, however, these two obstacles to the development of a native sugar beet industry were gradually overcome.

In 1887, Claus Spreckels, Sr., made one of his frequent trips to Europe, this time on his doctor’s advice to get away from business pressures. However, the energetic Mr. Spreckels was not one to let time pass idly and he used the occasion to catch up on the latest developments in the sugar beet industry of his native Germany. On earlier visits he had made similar studies, but now he became convinced for the first time that the crop might profitably be introduced into the United States. Returning to California, he made preparations to erect a beet sugar factory at Watsonville, in the Pajaro Valley, using machinery imported from Germany. At the same time, he encouraged the farmers in the surrounding area to grow sugar beets, offering practical advice as to the best methods of cultivation. The Watsonville factory, completed in 1888, was an immediate success, processing three million pounds of sugar in its first season of operation.

In 1887 Henry T. Oxnard also made a trip to Europe. Unlike his brothers, Robert and James, he had decided not to remain an employee of the sugar trust after the family refinery was sold. While in Europe he investigated various aspects of the beet sugar industry, even working for a short time in one of the factories to gain firsthand practical experience. On his return to the United States a year later he organized the Oxnard Sugar Refining Company, with his two brothers and the Cutting family of New York as principal stockholders. Attracted by the bounties that Nebraska then offered, the

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4 A fourth brother, Benjamin, purchased a sugar plantation in Louisiana.
MAP 2. BEET FACTORY SITES IN CALIFORNIA, 1907
new company decided to build a beet factory in that state at Grand Island. When this first plant was completed, two other factories were constructed, one at Norfolk, Nebraska, and the other at Chino, California. Like the Spreckels plant at Watsonville, all three factories proved successful from a technical standpoint.

While the Spreckels and Oxnard ventures demonstrated that sugar beets could be grown satisfactorily in the United States, large-scale expansion of the industry was still hindered by the fact that sugar cane could be imported more cheaply from other parts of the world. In 1890 Congress unwittingly acted to offset this disadvantage. As part of the Republican party's maneuvering to devise a tariff that would protect American industry without producing an uncomfortably large revenue surplus, members of that party in Congress eliminated the duty on raw sugar and substituted instead a bounty of two cents a pound on sugar produced in this country. Although it was intended primarily to protect the sugar-cane growers of Louisiana, this bounty also had the effect of stimulating the domestic sugar beet industry.

In 1895 the Democrats eliminated the bounty provision in the tariff, but three years later, with the Republicans again in control of Congress, passage of the Dingley tariff, with its 1.35- to 1.685-cents-a-pound duty on imported raw sugar, again gave the domestic sugar beet industry the protection it needed. Given this stimulus, beet factories were constructed on a large scale for the first time in Michigan, Colorado, Utah, and California, among other states. The output of these factories increased steadily until by 1899 they were producing 3.1 per cent of all sugar consumed in the United States. What was significant, however, was not the figure itself but rather the rate at which it was growing, for by 1901 the sugar beet's share of the domestic market had increased by another 50 per cent, to 4.7 per cent of all sugar consumed in the United States. If this fact were not enough to force Henry Havemeyer to take precautionary measures, the news which Wallace Willett brought him in the fall of 1901 was.

Since the passage of the Dingley tariff, Willett had used the pages of his Weekly Statistical Sugar Trade Journal to promote and proclaim the advantages of sugar beet cultivation. Extensive articles were published on how to grow the crop, and each new development in the

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5 Hardwick committee investigation, 1911, pp. 372-77.
6 Blakey, The United States Beet-Sugar Industry, pp. 35-38; Hardwick committee investigation, 1911, p. 176. The 1.35-cent figure is based on the 40 per cent ad valorem duty of 3.378 cents a pound applied to the average price of raw sugar during the three years (30 U.S. Stat. 151 [July 21, 1897]).
7 See Appendix E of this volume.
industry was duly heralded. As a result, Willett had become known as one of the most knowledgeable men on the subject in the United States. One day in October, 1901, he went to see Lowell M. Palmer, by then one of the directors of the American Sugar Refining Company and still a close confidant of Havemeyer—to the extent that Havemeyer had close confidants. Having recently returned from a trip through the West during which he had visited various sugar beet factories, Willett was able to tell Palmer of the latest developments in that industry. "He told me," Palmer later recalled, "that the [beet] companies were making sugar [for between 3% and 4 cents a pound,] less than we had supposed they could make it at; and that he thought it would be a wise thing for us to have an investment in those companies."\

Realizing that Havemeyer would probably want to hear this news from Willett himself, Palmer arranged for a meeting between the two men. Havemeyer listened with interest to what Willett had to say, for sugar beets were providing ever-increasing competition for the American Sugar Refining Company's own cane products, especially in the various Midwestern markets. For this reason, Havemeyer and the other officers of the American had been giving serious consideration to entering the beet sugar field themselves. They had hesitated to commit themselves only because of doubts as to the essential soundness of such an investment. These doubts, however, were at last removed by the news which Willett now brought Havemeyer. When the editor of the Weekly Statistical Sugar Trade Journal was finished, Havemeyer said: "Mr. Willett, we have decided to go into the beet sugar industry. What are the best States and who are the best people?"

In reply to Havemeyer's question Willett said that "Colorado was a good State for sunshine, but that it could not control its farmers as well as Utah. . . ." The latter state was particularly attractive, Willett said, not only because "the Mormons could control their people," but also because the factory at Lehi was run by a man named Thomas R. Cutler, who had succeeded in growing beets for the lowest cost yet, 3¾ cents a pound. "Go out and see him," Havemeyer told Willett. He then added, "You understand, Mr. Willett, that this is not the American Sugar Refining Company, but you can say it is parties interested in that company, and that they wish to purchase one half, [though] not

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8 Hardwick committee investigation, 1911, p. 329.
9 See pp. 244-45 below.
exceeding one half, the stock of beet sugar factories, and that they are also ready to join in building other beet sugar factories. . . .”\(^1\)

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It was largely due to Cutler’s efforts that the Mormons, after a number of failures, were finally able to establish a viable sugar beet industry in Utah.\(^2\) A merchant aware of the high price of sugar in his home town of Lehi, Cutler had traveled to France and Germany in 1891 to study the most advanced methods of beet cultivation and processing. Upon his return to this country he had helped reorganize the floundering Utah Sugar Company and had then directed the construction of a new beet factory in Lehi.\(^3\) Once some initial financial difficulties were overcome—with the strategic intervention of the Mormon church—the company prospered. Its shares, at one time worth only 50 cents on the dollar, were selling for considerably above par when, in November, 1901, Cutler was unexpectedly visited by the editor of the *Weekly Statistical Sugar Trade Journal*. Willett conveyed to Cutler the message he had been told to deliver, that certain “parties” in New York “had made up their minds to go into the beet sugar business if they could get into it, [that] they believed it was going to grow, and [that] they would like to invest money in it. . . .” Specifically, Willett said, the persons he represented wished to obtain a half interest in the Utah Sugar Company and any other beet factories that might be built, provided they were sound investments. When Cutler seemed interested, Willett suggested that he travel to New York and discuss the matter further with the “parties” themselves.\(^4\) Although Willett did not identify these “parties,” Cutler suspected that they were connected with the American Sugar Refining Company.\(^5\)

As far as Cutler was concerned, Willett’s message was virtually an answer to a prayer. As the Utah sugar man later testified, “I had been in New York hunting capital for years”—though always without success.\(^6\) After consulting with his fellow directors and certain of the large stockholders in the Utah Sugar Company, Cutler agreed to

\(^1\) Ibid.
\(^2\) Hardwick committee investigation, 1911, pp. 765–87.
\(^3\) See the sketch of Cutler in the *National Cyclopedia of American Biography*.
\(^5\) Hardwick committee investigation, 1911, p. 820.
make the trip east. It was only after he had actually boarded the train for New York that Willett told him who it was that he represented.17

Thus it was that late in November Cutler found himself in Henry O. Havemeyer’s office on Wall Street. The president of the American Sugar Refining Company confirmed what Willett had already said, that the American had a surplus of capital and intended to enter the beet sugar industry. “We have heard of you, Mr. Cutler,” Havemeyer said, “and have heard, also, that you have been fairly successful in building up the beet sugar industry in Utah, and I have sent for you to know if you would take hold and help us establish the industry in any good location in the United States.”18

“I told him,” Cutler subsequently testified, “that I was not at liberty to accept a position of that sort; that my position was with my people, my home was in Utah; but that I wanted capital, my company wanted capital, and if he would entertain a proposition to supply us with one-half the capital that we required at any time, I would then agree to act in concert with him. . . .” As a beginning, Cutler said he would try to arrange for the American Sugar Refining Company to obtain a half interest in the Utah Sugar Company.19

The new alliance was formally sealed on March 2, 1902, when the American Sugar Refining Company acquired 74,000 shares in the Utah Sugar Company, half of its outstanding stock, for $18.00 a share. This was $8.00 a share more than the par value, but Havemeyer’s own audit had confirmed that the stock was worth the price.20 Assured now of adequate capital backing, Cutler was ready to proceed with his plans for expanding the beet sugar industry in Utah and nearby Idaho. Communities throughout those Mormon areas had long been clamoring for sugar beet factories, and Cutler was now in a position to supply them.21

The Utah Sugar Company had previously taken over a bankrupt irrigation company near Garland, Utah, hoping eventually to develop the surrounding area as a beet sugar center. Now, with Havemeyer’s support, Cutler was able to move ahead with that project. The irrigation company’s drainage systems were repaired and work on a beet factory was begun, the latter being finished in time for the 1903 sugar

18 Hardwick committee investigation, 1911, pp. 773–74.
19 Ibid.
MAP 3. **Beet Factory Sites in the Utah-Idaho Area (Intermountain Region),** 1907
beet season.22 (Sugar beets were generally harvested in the fall just before the first frost.)

Meanwhile, a new company had been organized, the Idaho Sugar Company, to construct a beet factory near Idaho Falls. This third plant also was completed in time for the 1903 season.23 In successive years other companies were organized and other beet factories constructed, the Fremont Sugar Company’s plant at Sugar City, Idaho, being completed in time for the 1904 season and the Western Idaho Sugar Company’s plant at Nampa opening in time for the 1905 season. As he had promised, Havemeyer saw to it that the American Sugar Refining Company purchased a half interest in each of these enterprises.24

As vice president and general manager of all four companies,25 Cutler sought to encourage orderly expansion of the industry in the Utah-Idaho area. Before a beet factory was even considered for a particular locality, an agricultural agent from one of Cutler’s companies would survey the soil, water, and climatic conditions to make sure they were suitable. Even then, before the factory was built, the farmers in that locale had to demonstrate that they were capable of growing a sufficient number of beets.

At the same time, Cutler sought to prevent other groups from invading his companies’ territory with beet factories of their own. While some of the sugar which Cutler’s companies produced had to find an outlet in Colorado and the Missouri River valley, the primary market was at home in the intermountain region. It was in this market that Cutler’s companies actually earned their dividends, and he did not want competition from other beet factories to force up the price his own companies had to pay for their sugar beets or force down the price they were able to command for their processed

22 Hardwick committee investigation, 1911, pp. 775–76; United States v. American Sugar Refining Co. et al., pretrial testimony, 1912, pp. 2308–10. A new company, the Utah Sugar Company, was organized to take over the properties of both the beet factory and the irrigation company. To calm fears that the American’s purchase of half interest might lead to the loss of local control, Havemeyer agreed to allow the directors of the new company to serve for a term of five years. He also agreed to the appointment of Joseph Smith, president of the Mormon church, as the seventh member of the board of directors. This gave the Utah interests four of the seven votes on the board and thus assured them of control for at least five years (ibid., pp. 2276, 2302–5).


24 Hardwick committee investigation, 1911, pp. 773–82.

25 Ibid., p. 771. Smith was nominally president of the various companies; see United States v. American Sugar Refining Co. et al., pretrial testimony, 1912, p. 2443.
sugar. By a combination of persuasive reasoning and forceful action, Cutler was notably successful in accomplishing both his aims. In 1903, for example, when an enterprising egg merchant from Utah sought to promote a beet sugar factory in Blackfoot, Idaho, only 25 miles from Idaho Falls, Cutler was able to convince him to abandon the attempt and join as a major stockholder in the Idaho Falls company. Then, several years later, when the citizens of San Pete and Sevier counties, Utah, seemed on the verge of inviting an outside party to build a beet factory in their area after being turned down by Cutler, the latter was able to take over the project himself by promising to build a beet factory within a year's time. In fact, the San Pete and Sevier Sugar Company, organized in 1905, became the fifth member of the Cutler group of companies.

By similar strategic moves, Cutler was able to forestall the building of several other projected beet factories.

In only one instance did he fail to head off an invasion of his own companies' territory. In 1904 a group of Binghamton, New York, businessmen agreed to move a beet factory from their own city where it had proved unsuccessful to Blackfoot, Idaho, provided the citizens of Blackfoot raised $100,000 locally for the project and guaranteed the availability of 3,000 acres of beets. Although Cutler tried to dissuade the townspeople from going through with the arrangement, they refused to heed his warnings. Thus the Snake River Valley Sugar Company, Limited, was organized and the New York beet factory was relocated in Blackfoot independently of Cutler and the American Sugar Refining Company. It was not long, however, before Cutler succeeded in gaining control of the company anyway. By threatening to build a competing factory in Blackfoot, he was able to persuade a majority of the Snake River company's stockholders to sell out their holdings, especially when he offered to buy the stock at slightly better than par. In this way, even the Snake River enterprise came to be included among the Cutler companies.

Cutler's success in preventing outside groups from gaining a foothold in the Utah-Idaho region may well have been due, as some per-

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28 United States v. American Sugar Refining Co. et al., pretrial testimony, 1912, pp. 2427-39. However, due to serious loss from the blight, a factory was not built until 1911, and then it was built by another Cutler-directed company. The San Pete and Sevier company was, in fact, dissolved in 1907.
29 Ibid., pp. 2395-426.
sons later charged, to the close ties between the companies he headed and the Mormon church.31 Aside from the fact that the president of that religious body also served as president of the various beet sugar companies with which Cutler was connected, the Church of Jesus Christ of Latter-day Saints was a substantial stockholder in all of the enterprises. Also, Cutler was a bishop in the Mormon church.32 No less important than this alliance between the secular and the religious, however, was the fact that the prestige and resources of the American Sugar Refining Company stood behind whatever actions Cutler might take.

As time went by, it became increasingly clear that if the various companies which Cutler headed were combined into a single organization, substantial economies would result. It would no longer be necessary, for example, to have a complete set of spare equipment for each of the individual companies; they could all draw from the same stock. Agricultural agents could be assigned where they were needed, instead of being limited to the area in which the particular company they worked for had contracts with the farmers. Perhaps most important of all, at least insofar as Cutler himself was concerned, a consolidation would end the complaints that certain of the companies were being favored over others, for the fact was that the stockholders in the various companies were not all the same.33

This very diversity of ownership, however, was the main obstacle to consolidation.34 Those holding shares in one of the newer, more efficient factories did not want to see their plant merged with one that was considerably older. To overcome this objection it was finally agreed that in exchanging their stock for shares in a new, combined enterprise, those with an interest in one of the more recently built, more efficient factories would receive a premium on the par value of their holdings.35 In this way the path was cleared for the formation in 1907 of the Utah-Idaho Sugar Company as a vehicle for consolidating all the Cutler-managed beet factories. Henry O. Havemeyer and the American Sugar Refining Company received $5,681,740 of the

31 See, for example, the testimony of Barlow Ferguson, ibid., pp. 4121–23, 4129–30.
32 Hardwick committee investigation, 1911, pp. 765–66.
34 Ibid., p. 2350.
35 Ibid., p. 782. Stockholders in the Utah Sugar Company were to receive par value for their shares; stockholders in the Idaho Sugar Company, the result of a previous merger of the Idaho and Fremont companies, were to receive a 10 per cent premium; and stockholders in the Western Idaho Company were to be given a 25 per cent premium.
$11,102,180 in common and preferred shares that were issued, or slightly more than 51 per cent of the outstanding stock. This, however, represented only a minor portion of the interest that, by then, Havemeyer and the American had come to hold in various beet sugar enterprises.

The Evolution of the Utah-Idaho Sugar Company

1. Utah Sugar Company, with a factory at Lehi, Utah, built in 1891
2. Bear River Water Company
3. Idaho Sugar Company, with a factory at Idaho Falls, Idaho, built in 1903
4. Fremont Sugar Company, with a factory at Sugar City, Idaho, built in 1903
5. Snake River Valley Sugar Company, Limited, with a factory at Blackfoot, Idaho, built in 1905
6. Western Idaho Sugar Company, with a factory at Nampa, Idaho, built in 1905
7. San Pete and Sevier Sugar Company. No factory was built, however, and the company was dissolved in 1907. Later, the Utah-Idaho Sugar Company itself built a factory in Sevier County.

Note: Brackets indicate companies that were merged to form larger companies. Boxes indicate companies organized by groups other than Cutler and his associates. Arrows point to companies acquiring control of other companies through the purchase of their stock.


36 Ibid., pp. 2501–5. The Havemeyer and American Sugar Refining Company stock was held in the names of C. R. Heike, Arthur Donner, and H. C. Mott, all
The same process by which Havemeyer and the American Sugar Refining Company emerged as the principal stockholder in Utah and Idaho's leading sugar beet enterprise was simultaneously being repeated in Colorado and in Michigan. In those states, too, Havemeyer chose to work through a single individual, someone with deep roots in the area. In Colorado the individual selected was Chester A. Morey, a wholesale grocer who had helped organize one of that state's first beet sugar factories; in Michigan, it was Charles B. Warren, a Detroit lawyer.37

Like Cutler, Morey and Warren were responsible for seeing to it that, in each of their areas, no beet factories were built in which Havemeyer and the American did not have a controlling interest. Toward that end they could count on the vast resources of the American Sugar Refining Company in support of whatever measures they might have to take. As Havemeyer's personal representatives, Morey and Warren each came to preside over a small but substantial beet sugar empire. In Morey's case it consisted of six factories, with four others in various stages of construction, plus a railroad. In 1905 these separate enterprises were taken over by the Great Western Sugar Company of New Jersey, a holding company organized as the Utah-Idaho company had been to end the rivalry between individual factories and to assure uniformly efficient management. Of the $10 million in preferred shares and the $10 million in common shares that were issued by the Great Western, Havemeyer and the American Sugar Refining Company, as a result of their previous investment in Colorado beet factories, received all but about a third. In Warren's case the empire consisted of eight plants, two of which were subsequently dismantled because they duplicated existing facilities. All eight enterprises were merged in 1906 to form the Michigan Sugar Company. Initially the American Sugar Refining Company held

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slightly more than a third of the $9,161,000 in stock issued, but as additional shares were sold in order to finance capital improvements, the American came to own well over half of the Michigan Sugar Company's common stock.\textsuperscript{38}

While the Utah-Idaho, Great Western, and Michigan companies were the predominant beet sugar enterprises in each of their respective areas, they were by no means the only such enterprises—or even the only ones in which Havemeyer and the American were financially interested. Together, Havemeyer and the American owned half of the stock in the Amalgamated Sugar Company, a corporation formed in 1902 to assume control of the three factories that David Eccles, an Ogden, Utah, businessman, had built in his home state and in Oregon.\textsuperscript{39} In addition, they held a 50 per cent interest in the Menominee River Sugar Company on Michigan's upper peninsula and an almost two-thirds interest in the Continental Sugar Company with its two factories straddling either side of the Michigan-Ohio border.\textsuperscript{40} The American also became interested in beet factories in other parts of the country—in Chaska, Minnesota,\textsuperscript{41} in Waverly, Iowa,\textsuperscript{42} and in Billings, Montana.\textsuperscript{43}

All the same, there were quite a few factories in Michigan and its surrounding states in which Havemeyer and the American Sugar Refining Company did not have an interest. The same was true in Colorado, especially in the southern part of the state.\textsuperscript{44} But for the most part these independent factories were the more poorly located and the less successful sugar beet enterprises. From Utah to Michigan, with only a few exceptions, Havemeyer was able to acquire a decisive

\textsuperscript{38}Ibid., pp. 660–933, 7968–9028; Hardwick committee investigation, 1911, pp. 100, 631–41, 874–75. A more complete description of the evolution of these companies can be found in the dissertation from which the present monograph developed.


\textsuperscript{40}Ibid., pp. 8626–34, 9038–51; see also p. 309 below.

\textsuperscript{41}Ibid., pp. 8434–85.

\textsuperscript{42}Ibid., pp. 7986, 8772.

\textsuperscript{43}Ibid., pp. 903–20.

\textsuperscript{44}Besides those already cited, the American Sugar Refining Company may possibly have been interested in one other Michigan sugar beet company. The executive committee minutes for March 10, 1903, record a resolution calling for the purchase of $400,000 of the $750,000 in outstanding shares in the German-American Beet Sugar Company of Salzburg, Michigan (Hardwick committee investigation, 1911, p. 3027). Except for this notation, however, there is no evidence that the American Sugar Refining Company was interested in the company, and a later compilation of the American's beet holdings does not include the German-American company (\textit{ibid.}, p. 100).
vote in the affairs of those companies which he felt represented the
greatest potential threat to his control of the domestic sugar industry.
And this was true in California as well.

Through the half interest it held in the Western Sugar Refining Com-
pany, the American was heavily involved in the California sugar beet
situation even before it was decided that it would take an active role
in the development of the industry nationally. The factory at Watson-
ville had been built by Claus Spreckels entirely on his own, without
outside assistance, but in 1897, following passage of the new, more
favorable tariff, Spreckels had concluded that, even though the
Watsonville factory had been greatly enlarged, it was no longer ade-
quate for his purposes.45 Deciding to build an entirely new plant, one
that would have an even greater slicing capacity, he had called upon
the American Sugar Refining Company for help in financing the
project.46 This the directors of the American had finally acceded to, as
part of an agreement extending the working arrangement between
Spreckels and the American on the West Coast for another ten
years.47

For $1,500,000 the American Sugar Refining Company had acquired
a half interest in the factory at Watsonville, and for another $500,000
it had acquired a half interest in the Pajaro Valley Railroad, a narrow-
gauge road used to bring beets to the factory. In addition, the
American had pledged to supply half of whatever funds were needed
to build a new beet factory on a site Spreckels had selected five miles
south of Salinas, California.48 It was understood, however, that while
the American would have an equal interest in the combined enter-
prises (to be known as the Spreckels Sugar Company), its role was to
be primarily that of a passive investor.49 Two years later, in 1899, the
new factory, with a slicing capacity of 3,000 tons of beets daily, was
completed in the midst of what had become an entirely new town,
appropriately named Spreckels, California. The town’s leading citizen

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45 The equipment was outmoded, and it proved difficult to obtain adequate
supplies of sugar beets, since the surrounding area was equally well suited for
growing other crops (ibid., p. 952).
46 Spreckels was, at the time, involved in building a competing railroad in an
effort to end the Southern Pacific Railroad’s dominant position in northern
California, and so he may have found himself temporarily strapped for funds;
47 See p. 166 above.
48 Hardwick committee investigation, 1911, p. 2934.
took great pride in the fact that this was the largest sugar beet factory in the world.

The Spreckels factory, however, had a close rival in terms of size. For in the same year that the new Spreckels plant was built, Henry T. Oxnard and his associates completed construction of a beet factory of their own, one capable of slicing close to 2,500 tons of beets daily, on a site approximately halfway between Los Angeles and Santa Barbara. The Southern Pacific Railroad, along whose right-of-way the factory lay, had, following custom, named the site after the family responsible for founding the new community. The plant at Oxnard was a new addition to the factories that the same group of individuals already owned, those at Chino, California, and at Grand Island and Norfolk, Nebraska. Later that same year, all four plants were brought under the control of a single corporation, the recently formed American Beet Sugar Company. Organized under the laws of New Jersey, this new company was capitalized at $20 million, three-fourths in preferred stock and one-fourth in common shares. Although the company was listed on the New York Stock Exchange, its shares were still held for the most part by a small number of persons consisting primarily of the several Oxnard brothers and the Cutting family of New York.

The output of the new factory at Oxnard, together with the output of the factory at Chino, proved to be far greater than the local California market could absorb at the current level of prices, and as a result the American Beet Sugar Company found itself increasingly forced to dispose of its surplus sugar in the various population centers along the Missouri River at whatever price could be obtained. Its need to dispose of surplus sugar in this manner became all the greater when, in 1900, it finished building a fifth beet factory at Rocky Ford, Colorado, in the southeastern portion of the state. This latest plant was capable of slicing 1,100 tons of beets daily, more than any other factory constructed so far outside of California. It was not long, however, before this dumping policy brought a sharp response from Havemeyer, for the various Missouri River points were an important market for the American Sugar Refining Company's own products.

The custom of the American Beet Sugar Company, in marketing its

50 Hardwick committee investigation, 1911, pp. 376–77.
51 Ibid., pp. 378–81.
surplus sugar at the various Missouri River points, was to sell at a fixed differential below the American Sugar Refining Company's price on the day the sugar was actually delivered. In this way, wholesale grocers were willing to sign contracts to purchase the American Beet Sugar Company's product even before the season's first beets had been harvested, knowing that they would be protected against any possible decline in cane sugar prices. In the meantime, the American Beet Sugar Company was assured of a ready market for its product once the actual season began.\textsuperscript{54} These benefits were, of course, enjoyed primarily at the American Sugar Refining Company's expense, but Havemeyer quickly saw in the system a means of inflicting financial losses on the American Beet Sugar Company.

Havemeyer waited until the late summer of 1901, by which time the American Beet Sugar Company had already entered into contracts for the forthcoming season. Then he dispatched Judson Lounsbery, the American Sugar Refining Company's chief salesman, to Kansas City with instructions to sell 7,500 barrels of refined sugar a week at 3.5 cents a pound f.o.b. New Orleans—a full cent below the normal price. Once these instructions were carried out, wholesale grocers began demanding that the American Beet Sugar Company deliver on its contracts by selling them beet sugar on the basis of 3.4 cents a pound f.o.b. New Orleans.\textsuperscript{55}

If the American Beet Sugar Company had complied, it would have incurred substantial losses, for even at the prices that generally prevailed, it was unable to recover the full costs of production on the sugar that was sold in the Missouri River markets. This was because the expense of transporting sugar was so much greater from California than from New Orleans; the only reason that the beet sugar was sold at the Missouri River points was that it was the most economical way of disposing of surplus California beet sugar. Claiming that the American Sugar Refining Company's prices were not true prices, the American Beet Sugar Company challenged the wholesale grocers with whom it had contracts to purchase cane sugar from the American Sugar Refining Company at the 3.5-cent figure. Since Lounsbery had made only a limited amount of cane sugar available at the 3.5-cent f.o.b. New Orleans price, the wholesale grocers were forced to admit that the American Beet Sugar Company's contention was true.\textsuperscript{56}

Recognizing that his scheme would fail unless he made more cane

\textsuperscript{55}Ibid., pp. 3613–14.
\textsuperscript{56}Ibid., pp. 3614–15.
sugar available, Havemeyer increased the weekly allotment at Lounsbery’s request to 10,000 barrels and, in an effort to dampen the demand somewhat, raised the price to 4 cents a pound f.o.b. New Orleans. Even so, it proved impossible to supply all the sugar the wholesale grocers were willing to buy, and within three weeks Havemeyer was forced to raise the price once again, this time to 4½ cents a pound f.o.b. New Orleans. There it remained throughout the rest of the sugar beet season, still sufficiently low to cause the American Beet Sugar Company substantial losses.

If it had not been for the affluence of its stockholders, the American Beet Sugar Company might well have gone under. Although the company did survive, Bayard Cutting for one was ready to call an end to the struggle. Contacting Havemeyer in New York, he initiated a series of discussions as to how the conflict between the two companies might be peacefully resolved. Gradually the basis for a settlement emerged. “The negotiations were two-fold,” Oxnard subsequently testified. “On the one hand, they [the lawyers for the American Sugar Refining Company] were to draw up a contract by which the American Sugar Refining Company should act as the supervising selling agents for the American Beet Sugar Company. That was one part of the negotiation. The other part was to fix a price on one half of the common stock of the [American Beet Sugar] company that the American Sugar Refining Company . . . should . . . pay.” The first point was raised at Havemeyer’s insistence, the second at Cutting’s.

Although the basis for a settlement had been reached, the two parties found themselves unable to agree on one important detail: how much the American Sugar Refining Company should pay for its half interest in the American Beet Sugar Company. When by April the two parties still found themselves deadlocked on this point, they decided to refer the matter to third parties for arbitration. The arbitrators suggested a price which they thought should be paid for the American Beet Sugar Company stock, but Havemeyer refused to be bound by their recommendation. The negotiations dragged on inconclusively through the summer and into the late fall. By then the American Beet Sugar Company had experienced a second season of strong competition from the American Sugar Refining Company, and its officers had lost whatever determination they once might have had to hold out against Havemeyer’s terms. At the latter’s insistence it was agreed that the American Sugar Refining Company would receive

60 Ibid., pp. 3620–29. 61 Ibid., pp. 3628–33.
of a cent for every pound of sugar marketed by the American Beet Sugar Company during the next five years and that, in addition, it would acquire 75,000 American Beet Sugar Company preferred shares for $1,875,000, a figure which represented only one-fourth of the stock's par value. A formal agreement embodying these provisions was signed by the two parties on December 16, 1902.62

Havemeyer then suggested that other California beet sugar companies might be willing to enter into similar arrangements with the American Sugar Refining Company. In response to this suggestion, Oxnard contacted the officers and directors of the Alameda Sugar Company and the Union Sugar Company, the first being located across the bay from San Francisco at Alvarado, the second just outside Santa Barbara.63 Edmund C. Burr, one of the principal figures in both companies, was immediately receptive to Havemeyer's suggestion. As he later explained, "I thought this way, that if the controlling interests in the manufacture of sugar in the United States, as I judged them to be, were associated with us in business, they would not be apt to try and crush us and, at the same time, hurt themselves,"64 Burr won his fellow directors over to the same view, and on February 10, 1903, an agreement was signed between the American Sugar Refining Company and the Alameda Sugar Company which was virtually identical to the one previously entered into by the American Sugar Refining Company and the American Beet Sugar Company.65 Although the Union Sugar Company was not a party to this agreement, it was clear that the marketing of its output was indirectly affected as well.

Other beet sugar companies in California were approached by Oxnard, but since they were able to sell most of their relatively small output in nearby markets, they could see little value in paying the American Sugar Refining Company a ¼-of-a-cent-a-pound commission to supervise their sales. Without exception, they refused to enter into any agreement with the American.

Its alliance with the American Sugar Refining Company enabling it once more to earn a return on its invested capital, the American Beet Sugar Company decided to proceed with plans to establish itself even more firmly in Colorado's Arkansas River valley. In 1905 it

62 Ibid., pp. 3634-44; a copy of the contract is reprinted in ibid., pp. 7160-63.
63 Ibid., pp. 3137-39, 3647. The men connected with the two enterprises had formerly been shareholders in the old American Sugar Refinery before its acquisition by the trust.
64 Ibid., p. 3158.
65 Ibid., pp. 3151-59.
closed its plant at Norfolk, Nebraska, and moved the machinery to a new site at Lamar, Colorado, sixty-seven miles from the existing factory at Rocky Ford. A year later the company's officials decided to build still another beet factory in the area—the company's sixth—at Las Animas, Colorado. In this instance the factory was to be erected by an entirely new company, thus enabling local investors to join in the venture. Once built, however, the new factory was to be leased and operated by the American Beet Sugar Company.

The American Sugar Refining Company was asked if it would like to subscribe to a portion of the new company's stock, but the American's executive committee, fearing the company was already too heavily involved in other beet-growing areas, declined the offer. It did, however, agree to exempt the output of the Las Animas factory from the commission agreement with the American Beet Sugar Company.

As preparations were made for the 1907 sugar beet season, Henry O. Havemeyer could take satisfaction in the fact that he and the American Sugar Refining Company together held a commanding interest in almost every important sugar beet company in the United States. In the Utah-Idaho area the companies in which they were interested accounted for 100 per cent of the beet-slicing capacity; the same was true in the northern Colorado area. In the lower Michigan area the companies that were under Havemeyer and the American's control accounted for 52 per cent of the capacity; in California the figure was 81 per cent, and in the southern Colorado area it was 42 per cent. Of the various other companies scattered throughout the country, those in which Havemeyer and the American were interested accounted for 47 per cent of the slicing capacity. On an over-all basis, 70 per cent of the beet sugar processed in this country was handled by companies that were, in one way or another, under the control of Havemeyer and the American Sugar Refining Company.

While it was true that beet sugar still accounted for only 13 per cent of all the sugar consumed by Americans, it was also true that this

66 Ibid., pp. 283-84.
67 Hardwick committee investigation, 1911, pp. 3047-48.
68 The American Sugar Refining Company had previously turned down an opportunity to subscribe to the stock of the Holly Sugar Company, an enterprise which then erected beet factories at Holly and Swink, Colorado, for substantially the same reason (ibid., p. 3036).
69 See Appendix F of this volume.
percentage represented a fourfold increase since 1900.\textsuperscript{70} Moreover, in certain parts of the country at certain times of the year—most specifically, in the region between the Sierra Mountains and the Ohio River during the fall and early winter—beet sugar dominated the market, its share of total sugar sales then greatly exceeding the yearly national average. But aside from these considerations, the important point, at least as far as the American Sugar Refining Company was concerned, was that beet sugar was a home-grown product. This meant that, regardless of the attitude Congress might later adopt toward sugar duties, the American’s control of the domestic industry would remain intact.

From the point of view of the beet companies themselves, this outside interest brought many important benefits. The most apparent, of course, was the large infusion of capital. The direct investment by Havemeyer and the American Sugar Refining Company in the beet sugar industry totaled close to $30 million.\textsuperscript{71} Not counting those companies which failed, this represented well over half the funds invested in the industry.\textsuperscript{72} While not all of this sum represented an original investment in beet sugar processing facilities—a significant part was used merely to acquire title to already existing facilities—it is nonetheless true that a great many of the factories in existence in 1907 would not have been built had it not been for the availability of these outside funds. Even when Havemeyer and the American Sugar Refining Company purchased the shares of other stockholders, the money was often used to finance additional beet factories.

The American Sugar Refining Company was also an important source of short-term capital. On October 20, 1903, Havemeyer was authorized to loan the company’s funds “to the various sugar-beet companies, in which the company is interested,”\textsuperscript{73} and this he proceeded to do on a continuing basis, making available at 6 per cent interest whatever funds were needed for working capital while the sugar beet season was in progress. These loans averaged between $6 million and $7 million a year.\textsuperscript{74}

Less apparent, but perhaps even more important, than the infusion of capital was the stimulus provided to greater efficiency. The

\textsuperscript{70} See Appendix E of this volume.
\textsuperscript{71} This is a rough estimate based on the par value of Havemeyer’s and the American’s holdings in 1911; see Hardwick committee investigation, 1911, pp. 100, 559.
\textsuperscript{72} Ibid., p. 100.
\textsuperscript{73} Ibid., p. 3030.
\textsuperscript{74} This can be seen from an examination of the minutes of the American Sugar Refining Company’s executive committee, \textit{ibid.}, pp. 3030ff.
American Sugar Refining Company had its own staff, men thoroughly familiar with various aspects of the sugar beet industry, both the agricultural end of the business and the manufacturing end. These experts regularly visited the various sugar beet factories in which Havemeyer and the American were interested, advising the local management as to what new methods might best be adopted. In this way, under the over-all supervision of Cutler, Morey, and Warren, all the factories were brought to a uniformly higher level of technical performance.

Each company maintained a separate set of books, showing not only its profits and losses but also in detailed form its costs. When a company consistently failed to report any net earnings and the American Sugar Refining Company's sugar beet experts could see no extenuating circumstances, Havemeyer would then seek a change in management. In 1905, for example, he insisted that Robert Oxnard take over as president of the American Beet Sugar Company. Pointing out that the average cost of manufacturing sugar at a typical factory controlled by the American Sugar Refining Company was 3.211 cents a pound while the average cost at the various factories owned by the American Beet Sugar Company was 3.985 cents a pound, he wrote, "I invite your attention to the differences [in costs, a detailed breakdown of which he included,] and hope during your administration that the cost of producing 100 lbs. of Granulated will not exceed 3½ cents a pound." Similarly, just before the start of the 1907 season, Havemeyer forced a change in the Continental Sugar Company's management because of its repeated failure to earn a profit. Typically, however, he replaced the old set of officers with a new set recruited from among the local stockholders.

These benefits—the infusion of capital and the stimulus to greater efficiency—were social as well as private in nature. But they were incidental to the primary purpose for which Havemeyer and the American had acquired an interest in the various sugar beet companies. That primary purpose was to maintain and reinforce Havemeyer's control over the domestic sugar industry.

The American Sugar Refining Company's predominant interest in the domestic beet industry would, by itself, have been insufficient to assure price stability. There was also the need to co-ordinate the

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75 United States v. American Sugar Refining Co. et al., pretrial testimony, 1912, pp. 2653, 2683–85, 2779–81, 3347, 3476, 9145.
76 Ibid., p. 3689.
77 Ibid., pp. 9078–80, 9144–54.
marketing activities of the various refineries controlled by or allied with the American in each of the several cane-refining centers. In the 1900's, these refining centers were, as they had been for over half a century, the Atlantic seaboard cities of New York, Philadelphia, and Boston, the Gulf coast city of New Orleans, and the West Coast city of San Francisco.

The pattern of railroad freight rates defined for each of these cane-refining centers a "natural" market territory, that is, an area in which it enjoyed lower transportation costs than did any other refining center. For the refineries located in the Atlantic seaboard cities of New York, Philadelphia, and Boston, the natural market territory included all the states and portions thereof to the east and north of a line extending from Charleston, South Carolina, on one side to Fargo, North Dakota, on the other (see Map 4). The natural market territory for the refineries located in San Francisco included all the states and portions thereof between the Pacific slopes and the Continental Divide. The remaining areas of the United States comprised the natural market territory of the refineries located in New Orleans.78

For the most part a refinery would try to limit its sales to its own natural market territory, for to sell outside that territory meant that it had to absorb part of the transportation costs. Still, there were times when a company from one refining center found that it was to its advantage to sell sugar in the market territory of another refining center.

The Western Sugar Refining Company, for example, under Spreckels' direction, had for many years followed a policy of selling no more sugar in its home territory than the market would take at a predetermined price level, this level being based on a profit margin sufficient to enable the company to earn what Spreckels felt was a "satisfactory" level of profit.79 The Western was able to follow such a

78 Ibid., pp. 3079-80, 3459-62; Hardwick committee investigation, 1911, p. 1426.
79 United States v. American Sugar Refining Co. et al., pretrial testimony, 1912, p. 3459. If it can be assumed that Spreckels was a short-run profit maximizer, this "satisfactory" profit would then have been determined by the principles underlying traditional price theory. Otherwise, his actions would fall into the category of "cost-plus" pricing. For a discussion of differences between the two types of pricing behavior, as well as an argument that they are actually the same, see Fritz Machlup, "Marginal Analysis and Empirical Research," pp. 519-54. It is the present author's contention, however, that the two types of pricing behavior are, in fact, quite different, the "cost-plus" type being based on long-run rather than short-run profit maximization; see his The Theory of Oligopoly (in preparation). One of the theoretically significant aspects of the Corporate Revolution was that it marked the beginning of the shift in emphasis from short-run profit maximization to long-run profit maximization for the megacorps which emerged during the period.
MAP 4. PRINCIPAL CANE-REFINING CENTERS AND "NATURAL" MARKET TERRITORIES, 1907
EXERCISE OF CONTROL

policy because, from the time it had been organized by Spreckels and the American Sugar Refining Company in 1891 until 1898, it had enjoyed an almost absolute monopoly of the refining business on the West Coast. In 1898 a group of Hawaiian planters long opposed to Spreckels' hold on the industry 80 attempted to operate a converted flour mill in competition with the Western; but they were forced to give up the struggle in 1902 after the annual loss reached $600,000. 81 It was agreed that their plant, located at Crockett, California, would be leased to the Western for $200,000 annually, the arrangement to last until at least 1906. For the next three years, the Western Sugar Refining Company again enjoyed a monopoly on the West Coast. 82

However, Spreckels' policy of limiting his company's sales in the home territory to the amount the local market could take at predetermined price levels had one potential disadvantage. If that were all the sugar produced, he would be unable to operate his California refinery, the one refinery still in use, at its most efficient level of production. 83 To avoid this result Spreckels allowed the actual output to exceed the needs of the local market, disposing of the surplus sugar by selling it for whatever it would bring in the various cities along the Missouri River. As long as the price obtained in that market was greater than the direct cost of refining plus the expense of transportation, this policy made sense, for then the Western Sugar Refining Company would be able to spread its overhead costs over a larger volume of production. 84 For much the same reason the American and National sugar refining companies also used the various Missouri River points as a "dumping" ground for their surplus sugar.

These Missouri River points, however, were in the natural market territory of the New Orleans refineries—specifically, that of the one remaining plant still operated in that city by the American Sugar Refining Company. The old Planters Sugar Refinery had been

80 See pp. 88-90 above.
81 Hardwick committee investigation, 1911, p. 976; United States v. American Sugar Refining Co. et al., pretrial testimony, 1912, p. 3801. Because the Crockett plant was formerly a flour mill and had not been intended to serve as a refinery, it proved to be expensive to run. For this reason, before its purchase by the Hawaiian group, it had not been a significant factor on the West Coast.
82 United States v. American Sugar Refining Co. et al., pretrial testimony, 1912, pp. 3892-907. This condition lasted until 1907; see pp. 270-71 below.
83 The old American refinery, immediately after being leased to the Western Sugar Refining Company, had been closed down and held as a reserve facility. It never again operated, for it was destroyed in the 1906 San Francisco earthquake.
84 United States v. American Sugar Refining Co. et al., pretrial testimony, 1912, p. 3459.
EMERGENCE OF OLIGOPOLY

combined with the Louisiana Sugar Company’s plant at the time the trust was formed, and all production had been concentrated in the enlarged facility. While two other sugar refineries had subsequently started up in competition with the American in New Orleans, they were both quite small, their combined output being only about 1,100 barrels of sugar daily. There was also a refinery at Sugar Lands, Texas, just outside of Galveston, but its output was only 400–600 barrels a day. In comparison, the American Sugar Refining Company’s plant at New Orleans was capable of producing 12,000 barrels of refined sugar daily. Moreover, while the other refineries depended almost entirely on the local Louisiana crop for their raw-sugar supplies, the American imported cane sugar from Cuba to keep its New Orleans plant going during the late spring, summer, and early fall months when the local product was not available.

Thus, the invasion of the natural market territory of the New Orleans refineries was made primarily at the expense of the American Sugar Refining Company’s plant in that city. If the policy of dumping surplus sugar at the Missouri River points was not to lead to a price war between the several cane-refining centers and result in such a demoralization of prices that the original reason for the dumping would be obviated, co-ordination among these refining centers was essential. Havemeyer was able to provide this co-ordination, implicitly by his interlocking interests if not explicitly through direct control.

Co-ordination was made somewhat easier by the timing of the various cane-sugar seasons. The Louisiana crop, which supplied the New Orleans refineries with most of their raw sugar, was first harvested toward the end of September. By late October the season was at its height, the quantities going to market being in excess of what the local refineries could process. Some of the surplus was stored; the rest was sold in a semifinished state as “plantation sugars.” The Louisiana season ended around the first of January,

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85 See p. 115 above.
86 Ibid., pp. 7486–87, 7614–16. The Henderson refinery was erected in 1887, the year the trust was formed; the Cogswell refinery was built five years later by a former employee of the Henderson refinery.
87 Hardwick committee investigation, 1911, p. 1502.
88 See pp. 229 and 248 above.
89 Plantation sugars were those that had been refined to the extent possible on one of the Louisiana plantations. Since the methods available for processing the raw sugar on a plantation were crude compared to those available at a refinery, the end product was usually some shade of yellow rather than white, and it generally contained certain impurities. For this reason it sold at a differential substantially below that of refined sugar.
just as the initial shipments of Cuban cane began reaching North American ports. The Cuban product continued to pour into this country throughout the spring and summer, not only supplying the eastern seaboard refining centers with the great bulk of their raw sugar but also supplementing the stocks of the American Sugar Refining Company's New Orleans plant. For the remaining months of the year, the eastern seaboard refineries obtained whatever additional raw sugar they needed by importing it from the Dutch East Indies.90 The Hawaiian crop, on which the San Francisco refineries depended for their raw-sugar supplies, was also harvested at about the first of the year, but since it took approximately sixty days in transit, the initial shipments did not reach San Francisco until March. By July the importations were at a peak, the quantities reaching San Francisco also exceeding what the local refineries were capable of processing. This situation usually lasted until the end of September, when the large importations from Hawaii fell off.91

Thus it was that at certain times of the year the several refining centers, especially New Orleans and San Francisco, found themselves burdened with surplus supplies of raw sugar. In San Francisco, the Western Sugar Refining Company was under long-term contract to purchase a certain portion of the sugar cane produced in the Hawaiian Islands, so that even though its large warehouses might be filled to capacity, it could not stop its importations. To avoid excessive storage costs, the Western had no choice but to sell its refined sugar as expeditiously as possible. The American Sugar Refining Company's plant at New Orleans was in a somewhat similar position, for though it was not contractually obligated to purchase the entire Louisiana crop, it realized that what it did not purchase would nonetheless find its way back into the market through other means, either as plantation sugar or as a competing brand of refined sugar.

Since this surplus occurred in the two refining centers at different times of the year, it was possible to co-ordinate the marketing of the surplus in such a way as to minimize the losses between centers.92 For example, in July of 1891 Havemeyer wrote as follows to Robert Oxnard, who was then the American Sugar Refining Company's repre-

90 It was this sugar imported from Java which the domestic beet sugar largely displaced. Because of the great distance it had to travel, Dutch East Indies raw sugar was often in poor condition by the time it reached the eastern seaboard cities, and the losses from deterioration were usually significant; see p. 292, n. 3, below.


92 Ibid., pp. 3731-34.
sentative on the Western Sugar Refining Company's board of directors and also secretary of the company:

... I think, in view of the probable decline in prices after October 1st, say 1/4 of a cent, that the [California] refinery should increase its meltings at once to the maximum, and work up all the raw sugar possible so that on October 1st, with the stock of raw sugar on hand then and the anticipated supplies thenceforth, the output of the refinery will be lessened for the three final months of the year to what the local markets only may require. The New Orleans sugars must be marketed, and the stock of San Francisco sugars should be so low at that time as not to bring the refined product within the competition of the New Orleans product.

Havemeyer explained to Oxnard the basis on which the Atlantic seaboard refineries were then quoting prices on sugar sold at Missouri River points, suggesting that the Western Sugar Refining Company quote identical prices in that territory. He then concluded, "I hope you will carefully consider what I have written, and bring it to the attention of Messrs. Spreckels..."93

Even after the emergence of an economically viable sugar beet industry, this co-ordination of marketing policies among the several refineries continued.94 But as time went on, it became increasingly clear that unless the marketing of beet sugar was also co-ordinated, these other efforts would be for naught. It was for this reason that Havemeyer arranged for his own company to acquire a major interest in almost every important beet sugar factory. Once this was accomplished, Havemeyer was able to provide the needed co-ordination.

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The beet sugar season began first in California, the initial beets usually being harvested at the end of August, just as the importations of cane sugar from Hawaii were coming to an end. A month later, the season began in the interior parts of the country, with production reaching a peak during the first week in November. By then the output of sugar was usually greater than the local markets could absorb without depressing prices, and so it became necessary to dispose of the surplus in other markets. This state of affairs generally lasted until the end of December, by which time the beet season was usually over.95 Not only the timing of the seasons but also the structure of rail-

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93 Ibid., pp. 3571-72.
94 Ibid., pp. 3481-83, 3283, 3296-98.
road freight rates forced the shipment of surplus beet sugar from west to east, for the rates were prohibitive on sugar moving in the opposite direction. The problem was to avoid having the surplus beet sugar from the producing areas farther west undercut prices in the natural market territories of the beet-producing areas to the east, while at the same time avoiding interference with the normal distribution of refined sugar cane.

It was to find a solution to this problem that officials of three of the companies in which the American Sugar Refining Company was interested met, with Havemeyer’s blessing, during the week of June 8, 1903. These gentlemen within the week reached agreement on the broad outlines of a plan. Each company was to sell as much of its sugar as it could in its own home territory where it enjoyed the advantage of favorable railroad freight rates. The California companies were then to dispose of their surplus in the Missouri River market, bypassing the Utah-Idaho and the Colorado territories. The Utah and Idaho companies were also to dispose of their surplus in the Missouri River market, bypassing the Colorado territory. The Colorado companies, meanwhile, were to dispose of their surplus in the Chicago market. In this way, no company would have to face the competition of outside sugar in its home territory.

If the plan had involved nothing further, it probably would have been unacceptable to certain of the companies involved. Due to the vagaries of railroad freight rates, it cost the same to ship sugar from California and from the intermountain region of Utah and Idaho to the Missouri River territory as it did to ship sugar from Colorado to the same destination, despite the different distances involved. On the other hand, it cost ten cents a hundredweight more to ship sugar from Colorado to Chicago than from Colorado to the Missouri River territory. Thus, adoption of the simple division-of-markets scheme would have meant an increase in the transportation costs of the Colorado companies. Offsetting this disadvantage was the fact that the Colorado companies would probably suffer most heavily from outside competition in the absence of such a scheme. But how was one to weigh these considerations?

Again, due to the vagaries of railroad freight rates, it cost 75 cents a hundredweight to ship sugar from California to the Utah-Idaho region, but only 50 cents a hundredweight to ship it from California to the Missouri River territory. Thus, for the California companies,

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adoption of the division-of-markets plan would mean a certain savings in transportation costs, since the plan would limit the sales of their surplus sugar to the Missouri River territory. But while the California companies would save on their transportation costs, they would be forced to sell in a market where sugar prices were generally lower than they were in Utah and Idaho. The Utah-Idaho companies, meanwhile, would be able to sell in the home market, incurring only local transportation costs, at a price no longer affected by outside competition. Again, how was one to measure the benefits to be received as opposed to the sacrifices that would have to be borne if the division-of-markets plan were actually adopted?101

To avoid the issue it was decided to include as part of the plan a provision for equalizing revenues. Each company was to supply detailed information on the prices it received for its output, and at the end of the season this information was to be used to compute the average price received by each company. This figure was then to be compared with the average price received by all of the companies together. Finally, those companies whose average price was greater than the over-all figure would be required to pay the difference into a common pool which would then be distributed among those companies whose average price was less than the over-all figure.102

Once the details of this plan had been transmitted to Havemeyer and his approval obtained, the next step was to win the support of those companies which had not been represented at the meetings in San Francisco.103 This task was begun at once. On July 21, two weeks after Havemeyer had indicated his approval, William Hannan wrote to the head of the American Sugar Refining Company in New York, telling him that “the details of the plan have been under discussion, and the beet producers located in San Francisco believe that it can be very successfully operated.” Eventually, with but a single exception—a small, strategically unimportant factory in Waverly, Washington—all the beet sugar factories west of the Missouri River agreed to give the plan a try.104

The division-of-markets plan was put into effect on a one-year trial basis only, but it was found to work so well that when the year was up, the plan was extended for another two years.105 Although the

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101 Ibid., pp. 2533-39.
102 Ibid., 1398-99, 3651-57, 3776-77.
103 Ibid., pp. 3323-24.
104 Ibid., pp. 3006, 3326, 3651.
105 Ibid., p. 2545.
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mechanics of the plan, including the equalization of revenues, was by now fairly well established, Havemeyer’s constant intervention was still essential. He was, in fact, the focus of an elaborate intelligence network. Each week he received reports from the refineries in which the American Sugar Refining Company was interested, informing him of the amount of raw sugar on hand, the amount of raw sugar newly purchased, and the amount of raw sugar melted that week, together with the prices paid for the raw cane and the prices received for the final refined product. Since the refineries in which the American was interested supplied approximately 90 per cent of all the refined sugar consumed in the United States, Havemeyer was able to obtain a fairly accurate picture of the flow of cane sugar to the consumer.

During the sugar beet season Havemeyer also received weekly reports from the beet factories in which American was interested, and these provided him with the same sort of information supplied by the refineries; at other times of the year, he received weekly reports on how the sugar beet crop was progressing. Again, since the factories in which the American was interested represented 70 per cent of the nation’s beet-slicing capacity, these reports enabled Havemeyer to gauge fairly accurately the amount of beet sugar that was likely to find its way to market in any given year.

Both the reports from the several refineries and those from the various beet factories were supplemented by frequent intelligence from raw-sugar brokers throughout the world and large wholesale grocers across the United States, describing local market conditions. These reports enabled Havemeyer, drawing on his many years of experience, to make a reasonable estimate of what trends were likely to prevail in the months ahead. His judgment in such matters, communicated to the officers of the various companies in which the American was interested, was an important part of the direction that Havemeyer exercised over the domestic sugar industry.

106 Ibid., pp. 3296–98.
107 Hardwick committee investigation, 1911, p. 43. The figure is based on the year 1906 and has been revised to include the production of the refineries in which the American was interested, namely, the McCahan, the National, and the Western. Figures for the McCahan and the National are based on their given capacities, 600,000 barrels and 2,000,000 barrels respectively; the figure for the Western was arrived at through the following formula: Listed production for the American included half of the Western’s output (ibid., p. 57). Since the Western’s production in 1906 was 120,000 tons, 60,000 tons, or 4.14 million barrels, were added to the American’s total.
109 See p. 248 above.
These reports not only benefited the companies individually but also, and perhaps most important, helped to make sure that prices were co-ordinated among them. As Havemeyer wrote on November 1, 1904, to F. R. Hathaway, the person newly appointed to take charge of all sales for the six Michigan beet sugar companies:

I have sent you a wire recommending that the business be done not exceeding 5¢ [a pound]. I would disregard in every way what any competitor of the American Sugar Refining Company is doing... The outside refineries in the winter time do not represent over 30% [of the market].... Do as all the other beet companies do, hold your sugars on the basis of the American Sugar Refining Company's net prices—f.o.b. New York, plus the freight, and allow not less than 10¢... Stick to the American Sugar Company's prices as a basis. Besides all of which there is no need of hurrying the sale of the sugar as I doubt if the price will be any lower in view of the beet market.110

Havemeyer continually reiterated the advice that the various other companies in which the American was interested should adhere to its posted prices. “Business all over the United States in Refined sugar is absolutely dull,” he wrote to Hannan on March 21, 1905. “Grocers do not take their orders. You have a large stock; so has New Orleans. Nothing will be gained by lowering the price except to increase the demoralization. As soon as the trade resumes, you will undoubtedly get your fair share of it.”111 The extent to which companies followed the American Sugar Refining Company’s prices—both those companies in which the American was interested and those in which it was not—was the extent to which Havemeyer was able to exercise control over the domestic sugar industry.

Perhaps it should be more clearly specified what is meant by “control.” It does not mean that Havemeyer or the American Sugar Refining Company was able simply to dictate, unilaterally, the price at which refined or processed sugar was sold to the public. The price of raw sugar, the size of the beet crop, and the current seasonal demand for granulated sugar were all constraints that had to be taken into consideration. Other factors also had to be weighed, such as the possibility of refined sugar’s being imported from abroad, the likelihood of new firms being encouraged to enter the industry, and the effect of a change in price on future consumption. But given these

111 Ibid., p. 3288.
parameters, "control" did mean that Havemeyer, acting through the American Sugar Refining Company in New York, was able to set a price which, calculated to maximize industry profits in the long run, was then adopted as their own by virtually every other producer of refined cane and processed beet sugar. The price set by Havemeyer was, in effect, the industry price.\textsuperscript{112}

The mechanism by which this price was effectuated throughout the industry was as follows: Each morning at 10 o'clock the price set by Havemeyer was posted outside the American Sugar Refining Company's offices on Wall Street. Meanwhile, the heads of the refineries in Boston, Philadelphia, and New Orleans, as well as Havemeyer's representative in San Francisco, had been informed by telegraph what the New York price would be that day, and taking into account local conditions, they adjusted their own refineries' price to whatever change, if any, had been made by Havemeyer.\textsuperscript{113} This price was then posted outside each of their offices. The independent refineries in each of the refining centers, if they so chose, had only to follow the price posted by the American.\textsuperscript{114}

Any change in the posted price of cane sugar was telegraphed immediately to the major beet sugar companies in which the American was interested, for the price of beet sugar was based on the price of refined cane in either New York, New Orleans, or San Francisco (depending on which city was cheapest to reach by rail) plus the cost of transportation, less the customary differential. Thus a change in the price of cane led automatically to a change in the price of beet sugar. Of course, if local conditions warranted, that is, if the beet companies found themselves becoming overstocked with sugar, they might decide to increase the differential between cane and beet. But this was done infrequently and usually only after consultation with Havemeyer. In general, the price of beet sugar simply followed the price of cane.\textsuperscript{115}

\textsuperscript{112} There was, of course, more than one price for refined sugar, depending on the grade desired. But the price of granulated sugar was the basis for all other prices, the other grades usually selling for a fixed differential below granulated.

\textsuperscript{113} Obviously the American's quoted price in Boston and Philadelphia was most clearly related to the price in New York, the price in New Orleans being somewhat less so, and the price in San Francisco being least clearly related to that in New York. Still, all the prices tended to move together.

\textsuperscript{114} It will be remembered that there were no independent refineries in San Francisco at this time, the Crockett refinery still being under lease to the Western. In Boston the only independent refinery was the Revere; in New York, besides the National, the only independent refineries were the Arbuckle and the Federal; in Philadelphia, there were no independent refineries except the McCahan.

\textsuperscript{115} United States v. American Sugar Refining Co. et al., pretrial testimony, 1912, pp. 3072–73.
Each of the major beet sugar companies—the Spreckels in northern California, the American Beet Sugar in southern California and southern Colorado, the Utah-Idaho in the intermountain region, the Great Western in northern Colorado, and the Michigan in Michigan—was the price leader for beet sugar in its particular area. The other, independent factories located in those beet-growing areas based their own prices on the price quoted by the majors.\textsuperscript{116} At the same time, in those markets, such as the Missouri River valley and Chicago, where more than one major beet sugar company sold its product, prices were co-ordinated by having a single broker handle all sales, whether of beet sugar or of cane.\textsuperscript{117}

Thus, as a general rule, there existed in each community, regardless of how distant it was from a refinery or beet factory, a single wholesale price for refined cane sugar and, based on the price of cane, a single wholesale price for processed beet sugar; and both these prices were governed by the price set by Havemeyer in New York each morning.

One would expect that the companies in which the American was interested would not deviate from the single price, both because of the division-of-markets plan and because of the fact of the American’s partial ownership. The other, independent companies, however, were another matter. One might think that the temptation to cut the price, even slightly, and thereby gain a larger share of the market would have been irresistible. From time to time, the independent refineries did, of course, succumb to that urge. But when they did, one of the companies allied with the American was usually quick to retaliate, for the very success of a price cut in siphoning off its customary trade was a sure tip-off that the single price was not being maintained. “We have had instances here in the east,” Havemeyer wrote to Hannan in San Francisco on an occasion when the Western Sugar Refining Company was being plagued by price competition, “where some of our competitors would make a cut of 10 to 25 cents [a hundredweight] for trade; lately in West Virginia and Ohio. To meet the competition in that particular territory we allowed loyal customers to make corresponding prices and settle with them at the end of the month on sugars sold in that prescribed territory. Our competitors soon got tired of the business and withdrew....”\textsuperscript{118} Havemeyer urged that the Western adopt the same tactic.

For the most part, the knowledge that one of the companies

\textsuperscript{116} Ibid., pp. 3959–60.
\textsuperscript{117} Ibid., pp. 1291–93, 1309–19, 3061–65, 3665–66.
\textsuperscript{118} Ibid., p. 3365.
affiliated with the American would retaliate was sufficient to dissuade an independent refinery from cutting below the industry price. As the head of the Los Alamitos Sugar Company later testified when explaining why his company always followed the price set by the Western, "... if we would cut the price ten cents they would meet it probably, and cut it ten cents more, so it would mean a price war, and being a small producer we could not afford to fight a big concern like the Western Sugar Refining Company..." Thus it was the economic power of the American Sugar Refining Company and its various affiliates which enforced the maintenance of the single industry price, both for refined cane and for processed beet sugar.

The ability to enforce this single industry price was, in turn, the key to Havemeyer's control of the domestic sugar industry. It was with this purpose in mind—the establishment of a single industry price and the corresponding elimination of price competition—that the original sugar trust had been formed and the American Sugar Refining Company organized to take its place. It was, moreover, the underlying motive for Havemeyer's efforts to prevent the entry of new firms into the industry and his endeavors to gain a commanding interest in the various beet sugar companies. It was, finally, the explanation for his constant intervention to see that sales were co-ordinated among the various companies in which the American had invested.

Thus, by 1907, when the more general Corporate Revolution was about to enter its second phase, Havemeyer as the head of the American Sugar Refining Company had succeeded in countering whatever economic threats had arisen to challenge his control over domestic sugar prices. The problem of entry had largely been solved, although not before several breaches occurred. The danger of sugar beet competition had for the most part been allayed through subvention. The only remaining threats to Havemeyer's control lay outside the economic system.

119 Ibid., pp. 3959-60.