The Most Intricate Economic Investigation of the 20th Century

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The most intricate economic investigation of the 20th century is the United States versus National City Lines (NCL) series of court cases which represents the investigation of General Motors' conspiracy in the American streetcar industry and assumed economic losses. Starting from the 1930s, National City Lines became a holding company, receiving investments from General Motors (GM) and other firms in the automobile and oil industries. The company eventually managed to monopolize the land transportation system in the U.S. by becoming the largest purchaser of buses, trams, and their supplies in the country. These criminal and civil court cases are controversial because the facts proving conspiracy and monopolization have been found insufficient, but the land transportation system has been eliminated, and the National City Lines investors have experienced substantial benefits since then.

Background of the Economic Investigation

Prior to the NCL's establishment, the United States operated a long system of public land transportation, which was beneficial to city populations, as people did not have to walk and could save time. However, starting in the late 1880s, different lines became consolidated to benefit from economies of scale (Stromberg, 2015). The NCL was established in 1936 and started receiving investments from several large companies in the automobile and oil industries, including GM, Mack, Phillips, Standard Oil, and Firestone (United States of America v. National City Lines, Inc., et al., 1955). The money was used to purchase declining streetcar systems in different American cities. Due to the consolidation, such lines became legally dependent on city authorities, which did not allow them to raise fares above 5 cents (Stromberg, 2015), and it eventually led to the bankruptcy of many of such systems. By the 1950s, the NCL owned at least sixty railway systems in major U.S. cities, including Baltimore, Los Angeles, Philadelphia, and Oakland (Wilkins, 1995). However, after purchasing the systems, the holding company began to uninstall the railways and substituting streetcars with gas-powered buses. At the same time, Wilkins (1995) indicates that the trend of streetcar companies going bankrupt and being eliminated and substituted by city authorities could be observed in non-NCL cities and Canada. Nevertheless, after the gas and automobile companies' investments into NCL were found and the system elimination and bus purchases trends were revealed, the NCL and its investors were accused of monopolization and conspiracy.

Economic Consequences of the NCL's Conspiracy

The alleged monopolization and conspiracy executed by NCL, as found during the investigation, had substantial economic consequences. The investors provided funds to the holding company indirectly through subsidiaries and proved to have withdrawn any interest in the assumed monopolization after they had sold all stock before the court hearings in the 1950s (United States of America v. National City Lines, Inc., et al., 1955). Nevertheless, both the first and the second court cases found that the firms accused engaged in an unlawful monopolization of U.S. commerce by eliminating competition in the sale of petroleum buses and products, supply of tubes and tires, and provision of public transportation services (United States v. National City Lines, 1951). The investigated economic crime was a part of the growing trend of the increasing affordability and availability of automobiles. Stromberg (2015) indicates that between the 1920s and 1950s, the value of streetcar fares remained low, public transportation companies were facing approaching bankruptcy, but the prices for automobiles were decreasing. Therefore, given the area of the investor companies' operations, they had an interest in eliminating public transportation systems in the United States to expand the demand for their products and reduce competition.

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The legal investigation of the NCL's alleged conspiracy was complicated and contradicting, because while the court found evidence proving the conspiracy, monopolization, and a Sherman Act violation, the NCL's investors were found to have no interest in such violations and, therefore, were excluded from the trial. The foundation for the legal economic investigation was the 1890 Sherman Antitrust Act. The document states that a legal entity may be held guilty of monopolization if it holds over 15 percent of profits in the industry, facing no competition, and had a four-firm market share of above 50 percent ("The Industrial Reorganization Act...", 1973). The NCL, however, did not meet all of these criteria, because while it owned over 60 streetcar systems in large U.S. systems (Stromberg, 2015), the market percentage was much lower than 50 percent, and some of the systems were also purchased by GM and other automobile manufacturers (Wilkins, 1995). The first court hearing did not find the NCL at fault in conspiracy and monopolization. Besides, GM's ownership aside from that in the NCL was not considered in the investigation.

The investigation found that the NCL's growth and expansion was fueled by corporate money from its investors, and the latter benefited from the requirements it set for the holding company. Specifically, by granting an initial amount of $9 billion and subsequent machinery and services worth $48 million, the investors required the NCL to purchase gas-fueled buses, petroleum, and tires from these particular companies only (United States of America v. National City Lines, Inc., et al., 1955). However, by the first court hearing, investors had already sold all the NCL's stock and proved to have no interest in conspiracy and monopolization (United States v. National City Lines, 1951). Instead, it was established in the second hearing that it was the NCL that was guilty of conspiracy and monopolization, not its investors (United States of America v. National City Lines, Inc., et al., 1955). The controversy of this court decision is that GM, Firestone, Mack, Standard Oil, and Phillips did not have interest in the monopolization at the time of the court hearing, but they were interested in streetcar systems' elimination and competition reduction to improve their business. In addition, the controversy of the economic investigation is related to the evidence that the NCL approached each of the investors individually, which allow applying the broad reading of the Anti-trust law and holding that the investing companies were not guilty of monopolization (United States v. National City Lines, 1951). Therefore, assuming that the NCL was an execution tool for the investing companies' monopolization and conspiracy plans, the judgment that the NCL was the guilty entity makes the holding and the entire investigation controversial and intricate.

Conclusion

The most intricate economic investigation of the 20th century is that of the National City Line's alleged conspiracy and monopolization. The legal analysis of the holding company's activities is significant, because it pertains to the elimination of streetcar systems in many U.S. cities and the subsequent introduction of gas-fueled buses and automobiles. The complicated nature of the investigation is also related to the involvement of General Motors, Mack, Philips, Firestone, and Standard Oil, which invested large capital into NCL, but were eventually found to have no interest in conspiracy and monopolization. After two court cases, it was found that it was only the NCL that was involved in conspiracy and market monopolization, but the investing companies' assumed interest in the monopolization and the use of the NCL as a tool for conspiracy execution was disregarded.

References

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