# Playing the Defense

# The Beef Trust, Cronyism, and the 1891 and 1906 Meat Inspection Acts

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Laws, like sausages, cease to inspire respect in proportion as we know how they are made.

—John Godfrey Saxe, 1869<sup>1</sup>

he Meat Inspection Act of 1906 is an extremely significant regulation in United States history. Building on the 1891 Meat Inspection Act, the 1906 law drastically increased the government's role over meat production, paving the way for increased regulatory power throughout the economy. The traditional narrative focuses on Upton Sinclair's exposé of the Chicago Beef Trust. His book *The Jungle* depicted disgusting safety standards and spurred President Theodore Roosevelt to protect the nation's meat supply. To many historians, the Meat Inspection Act of 1906 is a canonical example of public interest legislation because politicians passed it to improve societal welfare.<sup>2</sup>

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<sup>1.</sup> Quoted in Shapiro (2008).

<sup>2.</sup> For public-interest interpretations, see Braeman (1964); Young (1989); Akerlof and Shiller (2015); and Olmstead and Rhode (2015).

However, Gabriel Kolko (1963, 98–108) provided a revisionist interpretation that encouraged some scholars to criticize the public interest account.<sup>3</sup> He argued that the Chicago meat trust sold safe food and vigorously lobbied for the 1906 law and its 1891 predecessor to create a government-enforced cartel. In essence, the inspection acts constituted what Murray Rothbard ([1970] 2006, 43) defines as "grant[s] of monopolistic privilege" because they increased the Beef Trust's market share by subsidizing it relative to its rivals and raising compliance costs on competitors. Monopolistic grants are examples of cronyism: that is, when the government rewards special interests at the public's expense.

I strengthen this perspective by investigating further the cronyism in the 1891 and 1906 laws. The 1891 legislation resulted in a grant of monopolistic privilege because the Beef Trust received more inspection subsidies than did smaller firms, though this resulted in costly animal condemnations. The 1906 law was more favorable still, granting larger firms larger inspection subsidies while instituting compliance costs that drove smaller competitors out of business. The Beef Trust benefited until the depression of 1920 and technological change weakened the Chicago meatpackers.

I move beyond Kolko by focusing on how the Beef Trust mainly lobbied against the proposals of rival special interests, who sought their own grants of monopolistic privilege. Despite improving consumers' living standards, foreign packers, reformers, and others heavily maligned the Beef Trust. They continually advocated harsh inspection regulations, antitrust lawsuits, and other policies to benefit themselves at the Beef Trust and public's expense. This forced the Chicago packers to play the defense by lobbying to change harmful proposals into more favorable grants of monopolistic privilege. Therefore, the legislative process behind the 1891 and 1906 acts shows that cronyism should be understood as a complex system where special interests try to secure government favors by proposing their own policies and by defensively co-opting rivals' threatening legislation.

The paper proceeds as follows. The next section briefly analyzes cronyism. Then I describe how the Beef Trust's innovations promoted the public welfare. Next, I explain how the Beef Trust responded to other groups' hostile proposals in the 1880s, which culminated in the 1891 Meat Inspection Act. After this, I describe the 1906 law, when the Chicago packers defensively lobbied and changed a threatening proposal. I close by explaining the monopolistic privileges the 1906 law granted to the Beef Trust until their eventual decline and then drawing general conclusions.

<sup>3.</sup> For examples of Kolko's influence see Friedman and Friedman (1980); Powell (2006); Hamowy (2007); Reed (2011); and Rothbard (2017).

<sup>4.</sup> For a similar critique, see Bradley and Donway (2013).

#### The Nature of Cronyism

Many economists argue that governments usually intervene to improve societal welfare. For example, Congress institutes new health standards for making food. Public welfare increases because food quality improves. However, suppose that the food supply is safe and Congress actually passes the law because a food company lobbied for safety standards to disproportionately raise the costs of smaller competitors who produce lower-priced products.

The second case is cronyism, which I define as government policies that "benefit special-interest politicians, bureaucrats, businesses, and other groups at the expense of the general public" (Newman 2021, 13).<sup>5</sup> The safety standards act as a "grant of monopolistic privilege"—the higher compliance costs drive out rivals and increase the lobbying business's market share, prices, and profits at the consumers' expense (Rothbard [1970] 2006, 43–47, 50–55). The lobbied politicians and bureaucrats do not necessarily need to be in league with the special interest and benefit in a self-interested manner—they could support the law out of ignorance, believing that it truly improves the public's welfare. Usually though, select politicians and bureaucrats earn money, campaign support, or a future job from the lobbying business. In addition, they often reap a psychic benefit from administering the legislation or exacting revenge on businesses they dislike.

The complexity of cronyism increases when several interests are involved. One interest may lobby against another group's proposal and change it to redirect the special privileges to themselves. For instance, suppose that health advocates lobby for stringent safety standards on all food businesses to obtain inspection jobs. A larger business lobbies against them and amends the bill so that it institutes fastidious safety standards only on its competitors. The larger business has not offensively lobbied for special favors; instead it has played the defense to achieve its goals.

To demonstrate cronyism the economic historian must prove two things: First, that a special interest had an ex ante motivation to benefit themselves and consequently lobbied for the policy. Second, that the intervention benefited ex post the lobbying interest group and harmed societal welfare. Identifying both is difficult. Even though cronyism is pervasive, lobbying interests almost always justify proposed special privileges as actually benefiting the public and economists frequently agree with them by arguing that the policies really do improve societal welfare.

This paper will accomplish the above. It will show that the Beef Trust improved the public's welfare and defensively lobbied against other special interests for inspection subsidies and greater burdens on competitors. Then, it will show that the resultant inspection laws privileged the Beef Trust at the public's expense. Therefore, the 1891 and 1906 inspection acts are examples of cronyism.

<sup>5.</sup> Not all will agree with this broad definition of cronyism. For works supporting similar definitions of cronyism, see Holcombe (2018, 13–14) and Whaples (2019).

#### The Rise of the Beef Trust

A history of the cronyism surrounding the 1891 and 1906 acts must survey the meatpacking industry. Such a survey first shows how the Beef Trust's arrival promoted the public interest. It then reveals that the Beef Trust's price, quality, and other innovations caused rivals to protect their own interests by falsely accusing it of creating a monopoly and selling unsanitary products.

The term *meat packing* originated in the colonial era, when businesses "packed" meat into barrels for shipment. In the mid-nineteenth century, Americans mostly ate a monotonous diet of pork. The main method of storage involved curing with large amounts of salt, and cured pork tasted better than cured beef. If consumers wanted a fresh alternative, butchers had to sell it immediately after the killing, making shopping a daily chore. Consequently, as late as 1880 the public consumed almost 50 percent of pork in the form of cured ham and bacon, which was more than the total nationwide consumption of beef (Whitney 1958, 27; Horowitz 2006, 20–25, 43).

Butchering animals for consumption involved relatively primitive methods and was done at local slaughterhouses in cities and towns. Ranchers drove animals to the market on hoof and had the hogs' eyes shut to prevent escape, spreading waste on the roads and causing traffic. To make matters worse, only around 50 percent of an animal was edible while the rest, including bones, blood, offal, and urine, was waste. In a world without proper sewage and waste disposal, butchers simply tossed this residue into a nearby river (Chandler 1977, 300; Cronon 1991, 225–26, 236; Horowitz 2006, 24, 27; Ogle 2013, 32–33).

By the 1870s this situation had changed only in the sense that Chicago, due to its nexus of railroads, became the main hub. Ranchers sent western cattle and hogs to the Union Stockyards in Chicago for shipment to butchers in eastern cities. The journey was dangerous and inefficient: bruised, sick, and overheated animals lost weight, and the fear induced by the trip made the meat less suitable for human consumption. Transatlantic shipments of live animals for Europeans made these problems worse. Contemporaries considered the practice so barbaric that Illinois passed a law in 1869 requiring all livestock transported by railroad to be offloaded, fed, and watered after twenty-eight hours of travel. Congress followed up with a similar law in 1873 (Yeager 1981, 13–14, 55; Wade 1987, 89–90; Cronon 1991, 236; Ogle 2013, 39–40).

The meat production industry was ripe for improvement. The small pork-packers Armour & Co., Swift & Co., and Morris & Co. rose to prominence in the 1870s and 1880s. Critics called them the "Beef Trust," an ironic name considering that they produced as much pork as beef and never formed a legal trust (Yeager 1981, 172–73). They experienced rapid success overseas, increasing the nation's meat exports from \$21 million in 1870 to \$134 million in 1881. Domestically, by 1890 the Beef Trust slaughtered 89 percent of the cattle in Chicago. Philip Armour,

Gustavus Swift, and Nelson Morris transformed the industry by utilizing revolutionary production and product innovations.<sup>6</sup>

In terms of production, the Beef Trust created extensive distribution systems, disassembly lines, refrigeration technologies, and sanitary advancements. The distribution structure monitored branch houses and equipped them with storage space and sales staff. On the disassembly line, workers mass-slaughtered cows and hogs. Disassembling a single cow involved 157 men in seventy-eight distinct processes, and this specialization decreased slaughtering time from nine hours to thirty-five minutes. In terms of refrigeration, the packers slaughtered the animals in Chicago and transported the dressed meat in tightly packed railcars with circulating cold air. Over the years the Chicago packers' sanitary improvements included replacing wooden cattle pens with brick structures, revamping sewage systems, and using electrical motor power that minimized dust (Armour 1906, 365–68; Chandler 1977, 299–302, 392–98; Pacyga 2015, 3).

The Beef Trust's product innovations concerned fresh meat, storable meat, and by-products. Dressed meat improved flavor and quality and increased the consumption of beef relative to pork. Sausages and canned meat could last for later use, and the Chicago packers maintained flavor and texture through "adulteration": mixing in water, ice, cereals, and other meats. The Beef Trust further improved meats' longevity by replacing what *Douglas's Encyclopedia* (1901, 93) described as "excessive quantities of salt" with small and safe doses of borax, boracic acid, and other chemical preservatives. Lastly, the packers manufactured from unused animal parts oleomargarine, lard, and other by-products sold to consumers. These by-products reduced the waste from slaughtering animals and "was a blessing for the sluggish Chicago River" (Wade 1987, 373).<sup>7</sup>

The Beef Trust's innovations caused retail meat prices to fall 6 to 8 percent per annum from 1883 to 1889, much larger decreases than the annual 1.4 percent deflation for consumer goods. The Chicago packers wanted credible reputations and began publicly advertising their improvements through brands like Armour Star, Swift Premium, and Morris Supreme. In particular, the Chicago packers offered slaughterhouse tours to teach consumers how they made food. In 1889, fifty thousand travelers visited Chicago annually. By the century's turn, the stockyards alone boasted annual tourists of five hundred thousand. The Beef Trust's facilities, the eighth wonder of the world according to some contemporaries, impressed consumers around the globe.<sup>8</sup>

<sup>6.</sup> See Ross (1980, 201); Yeager (1981, 49, 55–64, 74–75); Young (1989, 130); Libecap (1992, 249); Historical Statistics (2006, vol. 5, 550–51); and Ogle (2013, 280–81).

<sup>7.</sup> See Atack and Passell (1994, 468–69); Cronon (1991, 252); *Douglas's Encyclopedia* (1901, 93–94, 177–79); Gordon (2016, 67); Horowitz (2006, 58–59, 85–86); Rees (2021, 89–90); and Wade (1987, 103–04, 203).

<sup>8.</sup> See Yeager (1981, 49, 70–71, 83); Wade (1987, 177, 369–71); Libecap (1992, 244–46); *Historical Statistics* (2006, vol. 3, 158); and Pacyga (2015, 1, 21–27).

It is clear, then, that the large meatpackers increased consumer welfare relative to the period before their existence. In particular, the Beef Trust's innovations improved taste and reduced prices, spoilage, bacterial contamination, monotonous diets, and cooking preparation. Lastly, manufacturing by-products led to lower environmental pollution. Armour & Co., Swift & Co., and Morris & Co. vastly enhanced how Americans ate food and their living standards (Ross 1980, 201; Cronon 1991, 252; Gordon 2016, 41–42, 67–71, 83).

### Interest Groups Attack in the 1880s and 1890s

The Beef Trust learned that their success bred resentful competition. Foreign packers, dairy farmers, local butchers, cattle ranchers, and others responded by lobbying for special privileges to the detriment of the Beef Trust and consumers. These rival special interests forced the Beef Trust on the defensive. The Chicago packers managed to co-opt the Meat Inspection Act of 1891, but this victory came with unforeseen costs.

After the Beef Trust penetrated European markets in the late 1870s and early 1880s, European packers and farmers advocated retaliatory tariffs on American meat products. However, European politicians, such as those in Germany, dismissed this cronyism because the visible protectionism would force their constituents to pay higher prices. Instead, they latched on to fastidious inspections and bans on public health grounds, monopolistic privileges that were easier to justify. Eastern Germany, which had established its own costly examination system, now demanded that the United States impose a similar inspection service. From 1879 to 1881, a fear of trichinosis and hog cholera led Germany and other continental European countries to ban American pork, crushing American meat exports from \$134 million in 1881 to \$69 million in 1882 (Young 1989, 130–31; *Historical Statistics* 2006, vol. 5, 551; Spiekermann 2010, 98–99, 106; Olmstead and Rhode 2015, 32–36, 164).

Admittedly, the Beef Trust, like other domestic and foreign producers, sold pork that contained trichinosis and hog cholera. Disease transmission was difficult to monitor at the Union Stockyards because one rancher's livestock could easily contaminate other animals. However, when the Beef Trust realized that it had slaughtered a diseased cow or pig, it still considered the meat edible because many scientists argued that cooking meat reduced infection risks from trichinosis, tuberculosis, and other diseases. For example, when reporting on tubercular meat, New York City Board of Health pathologists stated that "thoroughly cooking the meat destroys the germs" and "the disease is acquired as a rule through its communication from man to man" (Biggs et al. 1889, 2186). Eating raw meat was uncommon in America, including among immigrant families. Large parts of Germany, which had never established a compulsory inspection system like eastern Germany, suffered from a trichinosis death toll similar to that of the U.S. In America and those parts of Germany, infection from diseased meat was considered "an easily avoidable

private risk" because of the widespread practice of eating cooked meat (Spiekermann 2010, 98).

Initially, the Chicago packers hesitated to counter Germany's health protectionism by supporting federal inspection of exports because this would seemingly prove that they produced unsafe products. They only warmed to the idea after realizing that they could defend federal inspection as a redundant layer of quality control that boosted consumer demand. Or, as an Armour & Co. representative later stated, "The packers themselves do not seek the inspection. We know our meats are good, but the inspection acts as a guarantee by the government that they contain no disease" (*Chicago Tribune* 1898). Accordingly, in 1883 Philip Armour invited a Department of Agriculture scientist to inspect hogs at his plant. The following year, Emery Storrs, a Republican politico who worked for the Beef Trust, lobbied for a voluntary inspection system of meat exports that was packer financed (Wade 1987, 212; Olmstead and Rhode 2015, 159, 162).

Congress did not pass an inspection system in 1884. Instead, Congress created the Bureau of Animal Industry (BAI) in the Department of Agriculture (DOA) to quarantine diseased animals. Prominent advocates included veterinarians such as Daniel Salmon, who earned the United States' first doctor of veterinary medicine degree and led the DOA's Veterinary Division. They believed that meat diseases posed a serious health risk that only condemnations of diseased animals could control. Salmon and others advocated employing veterinarians to inspect animals to increase demand for their services and provide job security and influence. For their part, physicians tended to support government jobs that monitored workplace sanitation, which they considered a more important danger than diseased meat.<sup>10</sup>

However, the Chicago Live Stock Exchange, Nelson Morris, and Storrs lobbied against the proposed bureau. They considered the disease question unsettled and considered veterinarians "unscrupulous office-seekers" whose "sensational reports have damaged the export trade" (Olmstead and Rhode 2015, 56). They lobbied against the bill and succeeded in acquiring exemptions regarding Texas fever, a tickborne disease that did not pose a threat to humans. Once Congress passed the amended proposal, Salmon became the BAI's head and the bureaucracy continually lobbied for greater appropriations to fight diseases. Despite its establishment, however, foreign governments refused to lift their bans. By 1889 meat exports slid further to \$59 million (Libecap 1992, 254; *Historical Statistics* 2006, vol. 5, 551; Olmstead and Rhode 2015, 50, 56–61, 76, 85–86, 146–47, 178–79).

<sup>9.</sup> See also Welch (1906, 9); Yeager (1981, 193); Rosenkrantz (1985, 156–61, 164, 172–73; and 1986, 149, 158–59); Teller (1988, 20–22); Wade (1991, 88–89); Spiekermann (2010, 97–101); and Olmstead and Rhode (2015, 160-61, 172–79).

<sup>10.</sup> See Smith (1906a, 61; 1906b, 10); Welch (1906, 9); Smithcors (1963, 398–402, 407–08, 430–35); Rosenkrantz (1985, 156–61, 164, 172–73; and 1986, 149, 158–59); Teller (1988, 20–22); Wade (1991, 88–89); and Olmstead and Rhode (2015, 20–21, 44–50).

As the decade progressed, additional interests attacked the Beef Trust. The International Cattle Range Association and the Butchers' National Protective Association castigated it for artificially driving down cattle prices and forcing slaughterers out of business with predatory price cuts. Dairy farmers complained that the Beef Trust's oleomargarine sold for less than regular dairy butter. These groups wanted their own cronyism to restrict the Beef Trust. In 1886, farmers acquired a discriminatory tax of two cents per pound on producing oleomargarine. Three years later they pushed twelve states to adopt antitrust legislation to dismantle the Beef Trust. In the same year local butchers lobbied twenty state legislatures to mandate live inspections of out-of-state meat, a blatant grant of monopolistic privilege that threatened to prohibit the Beef Trust's dressed meat business until Armour & Co. legally challenged it. In 1890, Congress passed the Sherman Antitrust Act to penalize vaguely defined anticompetitive practices. In the right administrations inimical interests could direct the law against the Beef Trust. <sup>11</sup>

Contrary to the above interests' assertions, the Chicago packers failed to achieve a monopoly. First, economies of scale and product diversification, not predation, drove competitors out of operation. The Beef Trust did sell dressed beef below cost, but this resulted from the state of consumer demand, and the Chicago packers recouped their losses with the sale of by-products. Second, the Beef Trust undeniably did cartelize to control input and output prices, but their efforts failed due to secret price cuts, product diversification, falsifications of quota shipments, and new competitors. Despite the Beef Trust's domination of the Chicago market, the number of slaughtering and meatpacking establishments in the country increased from 872 in 1879 to 1,367 in 1889. Clearly, the Beef Trust never achieved a monopoly (Kolko 1963, 99; Yeager 1981, 111–34; Davidson and Lytle 1992, 241–42; Libecap 1992, 249–50).

These groups then levied the "public health" charge: the Beef Trust competed by selling diseased and unsanitary products. The Butchers' National Protective Association lambasted "diseased, tainted, or otherwise unwholesome meat" from Chicago (Cronon 1991, 242). Farmers called oleomargarine a "midnight assassin" filled with "spores, mold, hair, bristles, and portions of worms" (Moss and Campasano 2017, 376). Predictably, rivals failed to acknowledge problems with their own meats or the Beef Trust's sanitary and quality improvements. Thus, the *Butchers' Advocate*, which represented eastern packers, criticized contagious bovine pleuropneumonia in Chicago beef while ignoring the disease's existence in the eastern states. The Beef Trust responded with similar tactics and accused competitors of producing unsafe meats (Young 1989, 132–34; Libecap 1992, 252; Olmstead and Rhode 2015, 27–29, 69–73, 158–60, 343).

When the Beef Trust renewed calls for federal inspection in the new Harrison administration, it was in this hostile environment. Secretary of Agriculture Jeremiah

<sup>11.</sup> See Yeager (1981, 87–110, 173–78); Wade (1987, 208–11); Libecap (1992, 252–58); Boudreaux and DiLorenzo (1993); and Olmstead and Rhode (2015, 179–80).

Rusk echoed the Beef Trust's concerns in late 1889 when he declared that the Butchers' National Protective Association and others levied "false statements...[that] have been a burden on our exporters" (Olmstead and Rhode 2015, 182). Against the mounting criticism, the Chicago packers now supported taxpayer-funded inspection as a way of persuading countries to lift their bans as well as to acquire subsidies for their exports (Wade 1987, 212).

The Beef Trust did not offensively lobby for a monopolistic grant of privilege; instead, it defensively lobbied to reduce compliance costs so that it could obtain favorable inspection. In early 1890 the Senate debated taxpayer-subsidized inspections of salted pork and live animals intended for export. However, the Beef Trust objected because the proposal required Bureau of Animal Industry inspection "at the port of exportation [e.g., New York City]" and stipulated that salted meats must "have been in salt for sixty days" (*Chicago Tribune* 1890b, 1890d). These compliance costs would force the Beef Trust to change its production methods and were unnecessary for shipments to Great Britain and other countries without stringent bans (*Chicago Tribune* 1890a, 1890d; Olmstead and Rhode 2015, 183–84).

Consequently, Armour & Co. instructed William J. Campbell, a former Republican Illinois state senator turned lobbyist, to persuade congressmen to allow inspections at Chicago facilities and make the salted meat inspection required only for those foreign countries that demanded it. Campbell succeeded in reducing compliance costs, and after Congress passed the amended bill in August, the *Chicago Tribune* reported that the law was "entirely satisfactory" for the Chicago packers because "it wouldn't hurt their trade and it may secure for them a much wider market than they now have" (*Chicago Tribune* 1890e). However, it was a short-lived victory. Germany and other protectionist governments protested that the law failed to inspect shipments of animal carcasses. Because they refused to lift their bans, the Beef Trust needed a new law (*Chicago Tribune* 1890c; *St. Louis Globe* 1890; *Inter Ocean* 1896).

The following March, Congress mandated antemortem and postmortem inspection of exports. In addition, it provided for the nonmandatory inspection of meat intended for interstate commerce, something that the Beef Trust had wanted in order to dispel growing domestic criticism of its products. Like the final 1890 legislation, the 1891 Meat Inspection Act pleased Philip Armour, Gustavus Swift, and Nelson Morris. Philip Armour told the *Chicago Tribune* that the law "seems to meet the case fairly well, and there is no objection to it on our part" (*Chicago Tribune* 1891a). Armour & Co. (1891, 1) wrote to Secretary Rusk that the regulations "are steps in the right direction" and Philip Armour (1892, 1) followed up by telling Rusk that he had "undoubtedly cemented the respect and friendship of the great Beef and Pork Packing industry." <sup>12</sup>

The Beef Trust saw the law's crony advantages—the taxpayer, not the packers, paid for the inspection, and the bureau devoted most of its annual appropriation to

<sup>12.</sup> See also Kolko (1963, 100); and Olmstead and Rhode (2015, 162-63, 184-89).

inspecting larger firms. This taxpayer-subsidized quality seal increased the demand for the Chicago packers' goods relative to those of smaller competitors and enabled them to get one-eighth to one-quarter cent more for each product. This competitive advantage penalized competitors who did not qualify for the subsidy. The law produced tangible results: by the mid-1890s federal inspection covered 76 percent of beef and 52 percent of pork intended for interstate and export markets. Slaughtering and meatpacking firms declined from 1,367 in 1889 to 1,080 in 1899. Even though Germany continued to protect domestic producers, other countries lifted their bans, and meat exports rebounded from \$59 million to \$114 million between 1889 and 1900 (*Chicago Tribune* 1891b; Kolko 1963, 53, 99; *National Provisioner* 1952, 78; Olmstead and Rhode 2015, 33–34, 189; *Historical Statistics* 2006, vol. 5, 551).

However, the Beef Trust discovered disadvantages in the law that reduced the profits from the monopolistic privileges. If federal inspectors condemned diseased animals, the Chicago packers had to suffer the monetary loss and dispose of the carcasses. Smaller companies that did not receive federal inspection escaped this problem. The Chicago packers frequently believed that condemnations under the new secretary of agriculture J. Sterling Morton, a Democrat, were overly harsh and that much of the diseased meat could safely be eaten if properly cooked. As a result, they tried reducing the burden by secretly selling condemned meat in the domestic market. This angered Morton, who persuaded Congress in March 1895 to penalize firms selling condemned carcasses in interstate commerce (Olmstead and Rhode 2015, 189–96).

Significantly, Morton admitted to Armour & Co. that he was uncertain whether "by cooking such of the [trichinosis infected] meat of these carcasses as may be utilized in the form of cooked meat, and utilizing the lard, that products may be obtained which would prevent any serious loss on the carcasses" (Morton 1895, 1). Indeed, according to Uwe Spiekermann, American and German officials increasingly recognized that "it was simply too expensive to kill 20–25 percent of livestock" (2010, 106). Destroying diseased meat did improve the quality of the meat supply. But this required an expensive examination system and the lower meat supply raised prices, which consumers hated. In 1902, a notable medical treatise proclaimed that "nothing is more certain in sanitary science than that cookery, which by the use of heat destroys parasites (including bacteria), is of the very highest hygienic value.... by fire food is largely purified from living parasites and other agents of infection" (Sedgewick 1902, 310). In line with this thinking, State Department officials argued that American "methods of curing and cooking" were superior to the "exceedingly unhygienic German custom of eating raw or rare pork" (Olmstead and Rhode 2015, 165). The BAI began phasing out microscopic examination for trichinosis in 1902 (Smith 1906b, 10; Wade 1991, 89; Ogle 2013, 63-64, 81; Olmstead and Rhode 2015, 164-65).

During the 1890s, the Beef Trust's cartels continued to fail. Chicago packers quickly formed a cartel in May 1891 to control meat shipments in the nation. But a new firm, the Cudahy Packing Company, undercut the agreement and drove the industry into fierce competition throughout 1892. When the Panic of 1893 struck,

the Beef Trust formed a new cartel and included Cudahy. But this cartel suffered from familiar problems, including internal cheating by the cartelists, and the new firm Schwarzschild & Sulzberger refused to join. By May 1896, the cartel collapsed, thwarting the Beef Trust's efforts to control competition (Yeager 1981, 114–25).

The run-up to the 1891 Meat Inspection Act shows the complexities of cronyism. The Beef Trust was not alone in desiring government favors; in fact, its lobbying was directly determined by other interests' calls for special privileges. Only because of foreign governments instituting bans on meat products did the Chicago packers support federal inspection of exports, and even qualified this support at first because the Beef Trust feared regulation would strengthen its critics. The Beef Trust initially fought inspection proposals until it co-opted the law. Furthermore, while the packers did receive some tangible benefits in the form of inspection subsidies, they discovered that the law came with unforeseen costs from the stringent condemnation of diseased carcasses.

### The 1906 Meat Inspection Act

The Progressive Era did not change the regulatory environment the Beef Trust faced: special interests continued to criticize it. The situation worsened in 1906, when the large Chicago packers suffered declining meat sales and faced a legislative proposal that threatened to replace the inspection subsidy with onerous burdens. The Beef Trust continually remained on the defensive during the buildup to the 1906 Meat Inspection Act. In this law, the Beef Trust's defensive lobbying enabled it to secure a much more favorable grant of monopolistic privilege.

During the Spanish-American War, Philip Armour lobbied the McKinley administration to acquire contracts for meat provisions. The increased revenue from this subsidy was outweighed by a costly encounter with Gen. Nelson Miles. This military official had an axe to grind ever since the Pullman strike of 1894, when his troops experienced serious difficulties in suppressing Beef Trust workers. After the war Miles accused the Chicago packers of selling unsanitary products that killed soldiers in Cuba. Although testimony uncovered that monotonous diets, poor storage, filthy water, and disease from the climate caused the illness-related casualties, the bad publicity damaged the Beef Trust. <sup>13</sup>

Antitrust headaches added insult to injury. Like other companies around the turn of the century, the Beef Trust embraced mergers to monopolize markets. In 1902, officials of Armour, Swift, and Morris attempted a massive merger with a \$550 million market capitalization. To their dismay, Wall Street backed out because they feared the Roosevelt administration would oppose it. Wall Street was right, for President Theodore Roosevelt, too, had an axe to grind. The former cattle rancher served

<sup>13.</sup> See Leech and Carroll (1938, 321–23); Wade (1986, 165–84); Wiley (1899, 1; 1900, 1682, 1687; and 1902, vi, 1432).

as a colonel during the war and testified with Miles against the packers. Furthermore, increasing population and tight livestock supplies, the latter of which was partially caused by the Bureau of Animal Industry's condemnations, resulted in higher meat prices. This angered the public and jeopardized Roosevelt's reelection (Yeager 1981, 138–45; Wade 1986, 181–82; Lesy and Stoffer 2013, 21–22; Ogle 2013, 63–64).

Not one to hide his biases, Roosevelt blasted the Beef Trust as an unmitigated "evil" (Young 1989, 227). Cheered on by ranchers who continued to insist that the Beef Trust held down cattle prices, the newly created Bureau of Corporations initiated antitrust investigations before the 1904 election. To Roosevelt and the ranchers' dismay, the bureau's postelection report revealed that the Beef Trust's market share comprised only 45 to 50 percent of the nation's beef. Even with this exoneration, the costly antitrust difficulties tied the packers down (Kolko 1963, 53, 75, 81–82; Yeager 1981, 186–90; Ogle 2013, 63–74).

Roosevelt and Miles' vendettas fueled an increasingly powerful interest group: the reformers. These settlement workers and muckrakers criticized capitalism for creating exploitative monopolies. Influenced by socialism, they advocated a new society that nationalized, heavily regulated, and dismantled large firms. Reformers insisted they promoted the general welfare, but they had cronyism in mind: government jobs that provided secure employment and power to oversee the economy. The reformers also sought out fame from publications, and the periodicals they wrote for desired sensational stories to maximize profits. Frank Mondell, a Republican congressman from Wyoming, characterized the reformers as individuals "whose profession in life it is to search out things to criticize in order that they may employ themselves in the endeavor to reform them" (National Provisioner 1906d). As an example, Florence Kelley of Chicago's Hull House, who had translated Marxist literature into English, lobbied for an Illinois law in 1893 that regulated working conditions of women and children. After drafting the legislation, she then became the state's first chief factory inspector, triumphantly writing to Friedrich Engels, Karl Marx's coauthor, that her subordinates were "outspoken Socialists and active in agitation" (Sklar 1985, 671–72). 14

Another self-interested reformer was Upton Sinclair. In 1904, this avowed socialist decided to write a book on wage slavery. He chose the Chicago meatpackers as the setting and stayed at Mary McDowell's University of Chicago Settlement House. The Beef Trust was a perfect target because Sinclair and other reformers "mistook the [Chicago packers'] careful attention to profit margins as corporate greed and a disregard for public health" (Davidson and Lytle 1992, 242). In *The Jungle*, Sinclair, in muckraking style, painted a frightening picture: inspectors overlooked diseased animals, poisoned rats crawled on meat, abysmal adulteration occurred, and workers regularly fell into cooking vats. Isaac Marcosson, the editor of Doubleday,

<sup>14.</sup> See also Sklar (1985, 661, 667, 669–72); Congressional Quarterly (2000, 240); Law and Libecap (2006, 330–32); and Leonard (2016, 11–49).

Page & Co., shrewdly realized that giving newspapers free promotional copies would generate his firm substantial profits. He knew a money-making sensationalist hit when he saw one: he had aggressively promoted *The Clansman* in 1905, a racebaiting polemic that inspired the film *The Birth of a Nation* (1915). After *The Jungle* hit the shelves in February 1906, it was estimated that more than a million people had read the novel by year's end. Meat sales sank.<sup>15</sup>

At best, Sinclair was unreliable. At worst, he was extremely disingenuous. Although in his autobiography Sinclair professed to have thoroughly investigated the packinghouses "again and again," in a neglected interview he admitted to visiting the facilities only three times, and one on a guided tour (Wade 1991, 82). Furthermore, Sinclair implied in his autobiography that he published *The Jungle* unedited. In reality, he cut the book by almost a third. One passage his publisher deleted clearly shows Sinclair's sensationalism and that he was more interested in creating a riveting story to generate publicity and money than providing factual analysis: a worker gave birth in a slaughterhouse and then threw her baby into a cart of beef on its way to a cooking vat. Sinclair's fabrications inflicted serious damage, frightened the public, and provided fuel for other critics (Wade 1991, 82–85, 89–90).

One such critic was President Theodore Roosevelt, who requested that the Department of Agriculture internally investigate *The Jungle*'s claims. The BAI, which perennially requested bigger appropriations, could have used the opportunity to paint a dark picture to justify a larger budget. But even it admitted that Sinclair "willfully closed his eyes to establishments where excellent conditions prevail" and engaged in "willful and deliberate misrepresentations of fact" (Mohler et al. 1906b, 349–50). Among his other falsehoods, the DOA found no instances of poisoned rats and their dung processed into human food. To the charge of men falling into vats, this happened only once and workers properly recovered the body. These findings failed to please Roosevelt, who withheld them from circulation.<sup>16</sup>

Fortunately for the president, he had dispatched Commissioner of Labor Charles P. Neill and Assistant Secretary of the Treasury James B. Reynolds as inspectors. Neither had any experience in the meatpacking industry, and both were anti-capitalist critics who sympathized with a book on wage slavery. Reynolds, a former worker at the University Settlement in New York, was even friends with Sinclair's Chicago confidant Ernest Poole. Their informal remarks, according to Maureen Ogle, illustrated "precisely what the president wanted and needed" (2013, 79). Despite having previously visited the stockyards on tours without complaint, Neill and Reynolds now revealed poor working environments, rotten wooden tables, bloody aprons, workers spitting on floors where they placed meat, and other disgusting conditions. The two

<sup>15.</sup> See Mohler et al. (1906b, 346–50); Young (1989, 229–30, 281); Wade (1991, 82–83, 85–89); and Lesy and Stoffer (2013, 37–48).

<sup>16.</sup> See Mohler et al. (1906a, 273–76; 1906b, 337, 346, 349–50); Wade (1991, 90); Libecap (1992, 254); and Hamowy (2007, 127).

federal employees, critics of big business, realized that if they told Roosevelt what he wanted, they could further their careers.<sup>17</sup>

The Chicago packers responded to *The Jungle* by engaging in a balancing act. They emphasized health innovations to protect their inspection subsidy and prevent reformers from dictating safety standards. At the same time, they advocated that Congress bring smaller firms into regulatory compliance to diminish competition. Thus, J. Ogden Armour, the new head of Armour & Co., announced that the Chicago packers supported federal inspection because it "puts the stamp of legitimacy" on their products, in contrast to smaller rivals who sold their meat "without having been inspected by [the] government" and purportedly "with little or no concern" (Armour 1906, 66, 378). Louis F. Swift, the new head of Swift & Co., proposed to Roosevelt and Neill that an accredited sanitary commission, not inexperienced reformers, visit its plants, and that the Chicago packers would adhere to "regulations which are reasonable, rational, and just" (Dyson 1906, 97).<sup>18</sup>

The Beef Trust's efforts failed, and the reformers piled on. Most significantly, settlement worker Mary McDowell, a Sinclair associate and the head of the University of Chicago settlement who professed to have "not seen the plants since before the [1904] strike," toured the Beef Trust's plants after *The Jungle*'s release and wrote a letter to Reynolds describing an "almost humorous haste" to clean up the slaughterhouses (Roosevelt 1906, 273). McDowell completely lied: she had actually visited Armour & Co. since the strike and corresponded with a company official "to confess I had not known your canning room was so improved" along with other changes (*Washington Post* 1906). But with *The Jungle*'s momentum, McDowell had no qualms attacking the Beef Trust, truth notwithstanding (*Inter Ocean* 1906; *Washington Post* 1906; Lesy and Stoffer 2013, 36, 40–41).

Consequently, the Beef Trust's fear of hostile legislative proposals came true. Senator Albert J. Beveridge, a Republican from Indiana, worked on an inspection bill in May 1906. John Braeman, though sympathetic to the bill, argues that Beveridge wrote it because he was "eager to bask in the spotlight" and garner "personal glory" (1964, 54). In other words, Beveridge recognized that attacking the Beef Trust would further his own career. Among other provisions, his proposal mandated stringent inspection for foreign and interstate commerce, stipulated that the packers must pay for inspection, and empowered the DOA to mandate sanitary regulations. The Senate passed the bill that same month (Braeman, 54–59; Congressional Quarterly 2000, 100).

In June, after J. Ogden Armour left for Paris to escape the bad publicity, Louis Swift strategized with Thomas Wilson, the general manager of Morris & Co. They

<sup>17.</sup> See Braeman (1964, 51–52); Wade (1991, 83, 89–91); Hamowy (2007, 129, 247–48); and Lesy and Stoffer (2013, 40, 51).

<sup>18.</sup> See also *Minneapolis Journal* (1906, 2); Dyson (1906, 34–35, 96–98); Yeager (1981, 138); and Lesy and Stoffer (2013, 53–54).

turned to their strongest congressional allies in the House: Chicago "blond boss" William Lorimer and James Wadsworth of New York, a wealthy rancher who found *The Jungle* "most costly to my foreign trade" (Braeman 1964, 61). Both Republicans, the two men controlled the House Committee on Agriculture, and Lorimer proclaimed that it would never approve the Beveridge bill, "not if Little Willie can help it" (Braeman, 61). After Roosevelt released Neill and Reynolds's informal report, Lorimer and Wadsworth forced Roosevelt to release the BAI's more thorough report. Working with Swift and Wilson, they drafted a pro–Beef Trust bill that restored taxpayer-funded inspection and held hearings on their bill, where the Chicago packers could defensively lobby for what they wanted.<sup>19</sup>

In the House hearings, Wilson represented the Beef Trust. His goal was three-fold: prove that it produced safe products, defend taxpayer-funded inspection, and ensure that Congress bring smaller firms into compliance with inspectors and proposed sanitary regulations. First, "the sight of blood and other offals" had misled Neill and Reynold's "fine sensibilities," workers could more effectively cut meat on wood than metal, and they brought their own cleaning implements to reduce the spread of disease (*Conditions in Chicago Stock Yards* 1906, 6). Second, the Beef Trust had "no objection" to the government "putting on as many inspectors as they want, provided we do not have to pay for them" (30). "It is to our advantage," Wilson reassured Congress, "to have good inspection... from the hoof to the can" (31). Third, smaller firms "have no losses for condemnation; they have no expense for this inspection." For this reason, they possessed "a tremendous advantage... in disposing of their meat products," an advantage Wilson wanted Congress to eliminate (88).<sup>20</sup>

Thanks to the Beef Trust's defensive lobbying, a reluctant Senate yielded to the House bill in late June. To Sinclair and other reformers' frustration, the Meat Inspection Act of 1906 made the taxpayer subsidize a more thorough inspection of meat products that was now required for both export and interstate markets. Other pertinent provisions included mandatory sanitation standards determined by DOA experts. Confident in this grant of monopolistic privilege, Armour & Co. boasted that "nobody in this country will give the law heartier support than we will" (*National Provisioner* 1906i; Kolko 1963, 106–07).

Kolko wrote that the Beef Trust lauded the law and "were warm friends of regulation, especially when it primarily affected their innumerable small competitors" (1963, 107). The truth is more complicated because the Meat Inspection Act was proposed by rival special interests and the Chicago packers only approved of it after significant lobbying efforts made the bill more favorable. They were very guarded

<sup>19.</sup> See National Provisioner (1906a, 1906g, 1906h); Braeman (1964, 61, 63-64, 66); Wade (1991, 91); Ogle (2013, 79-80); and Congressional Quarterly (2000, 221, 314).

<sup>20.</sup> See Conditions in Chicago Stock Yards (1906, 23, 46, 49); and National Provisioner (1906b, 1906c, 1906e, 1906f, 1906j, 1906k).

during the run-up to the act because of declining meat sales due to *The Jungle* as well as threats from reformers and politicians. Contrary to Kolko, at no point during the process did the packers actively lobby for a government-enforced cartel.

## Cronyism in the Inspection Act

The 1906 Meat Inspection Act demonstrates how health regulations can provide cronyism through grants of monopolistic privilege to larger firms. Even though reformers and politicians initiated the legislative drive for their own self-interested reasons, the Chicago packers' defensive lobbying modified the proposal so they would benefit, and they reaped these benefits for over a decade.

First, as with the 1891 law, the Beef Trust received free inspection that was frequently denied to its smaller competitors. The Department of Agriculture continued to possess the power to allocate the annual appropriations, and when it did not deem a firm large enough to "warrant the expense of an inspector," it made that firm "stop its interstate business" (*National Provisioner* 1906n). Therefore, as the *National Provisioner* explained at the time, the DOA possessed "the power to ruin these smaller concerns" by concentrating the "boon of government inspection" in the larger packinghouses (1906n). Even though the department increased the number of facilities it inspected, its selective allocation of appropriations effectively prohibited some firms from engaging in interstate trade (*National Provisioner* 1906m, 1906o; Olmstead and Rhode 2015, 206–07).

Second, complying with the experts' sanitary requirements disproportionately hurt smaller firms because the Beef Trust, with its more advanced facilities, did not have to make large adjustments. In 1910, meatpacker George McCarthy attributed "one of the direct contributing causes of the high cost of meat" to requiring "plants in absolutely sanitary condition from top to bottom." This forces "the smaller class of packer" to "expense in reconstructing and fixing up his plant" (*National Provisioner* 1910, 18). McCarthy continued, explaining that the law required firms to "have separate machinery for certain things; separated out, instead of using one machine for several things. All those things cost money" (19). For example, meatpackers needed separate facilities for making pure and compound lard. It is no surprise the big packers considered the regulations fair while the greatest protest came from the smaller concerns (*National Provisioner* 1906l; 1952, 97).

Third, the condemnations that the Beef Trust had faced since the 1890s now extended to those smaller competitors that received inspection. In 1908, "small slaughterers and meat packers" complained to the *Journal of Commerce* that inspectors' incentives to meet quotas caused an "immense amount of meats [to be] wasted by wholesale condemnation." The inspectors "forc[ed] on the public, regardless of cost, higher qualities of meat [because] a lower grade, for which certain classes of consumers have long shown a preference, both from taste and on the score of less

expense, has been condemned" (*National Provisioner* 1908). Even the commission of doctors and veterinarians reviewing the Bureau of Animal Industry's condemnation regulations admitted that "several sections (for instance, the sections on hog cholera, swine plague, actinomycosis, tuberculosis, and tapeworm cysts) could be made less stringent without any danger to the health of the consumer" (Bureau of Animal Industry 1909, 362). These fastidious health condemnations severely hampered the ability of small firms to operate (Bureau of Animal Industry 1909, 361; *National Provisioner* 1910, 18).

Taken together, interstate meatpackers declined from 923 in 1906 to 300 in 1910. The industry estimated that the law added three to five cents per pound to meat prices, or roughly twenty-five percent of the total price. Although consumers did not make the connection, the inspection act was partially responsible for the rising meat prices they complained about in the early 1910s. Yet, while small packers and consumers suffered, the Beef Trust profited because its competition declined. For example, as a percentage of net worth, Armour & Co.'s profits grew from 6 percent in 1906 to over 9 percent in 1910 (*National Provisioner* 1910, 18; Gras and Larson 1939, 638; *Historical Statistics* 1960, 128; Ogle 2013, 81–82).

World War I turned the inspection act into a bonanza for the Chicago packers because it enormously increased the demand for their products while continuing to stifle competition. *The Jungle* had caused meat exports to fall from \$115 million in 1906 to \$68 million in 1914; by 1916 European governments' purchases shot it up to \$198 million. The U.S. entry in 1917 exploded meat exports further to an astounding \$698 million in 1919. By 1919, the Chicago packers' share of slaughtered animals that received federal inspection reached 69 percent, a noticeable increase from 60 percent in 1908. Armour & Co.'s profits climbed to 20 percent of its net worth in 1917. In terms of assets, the company moved from the ninth-largest industrial company in 1909 to the third largest in 1919. J. Ogden Armour and the other leaders of the Beef Trust received the rewards. In 1918 Armour's contemporaries estimated his rapidly increasing wealth at \$125 million—making him tied for the sixth wealthiest man in the country.<sup>21</sup>

Unfortunately for the Beef Trust, the monopolistic privileges did not last. After the Beef Trust defeated antitrust lawsuits in the early 1910s, the American National Live Stock Association lobbied the federal government to resume antitrust proceedings to boost cattle prices. Soaring food prices during World War I infuriated consumers, and in early 1917 President Wilson directed the Federal Trade Commission to investigate the Beef Trust. Three years later, at the behest of cattle ranchers upset at livestock prices and grocers worried about the Beef Trust's entry into the retail business, Wilson's attorney general forced onto the Chicago packers a consent decree that divested ownership in stockyards, stopped them from producing

<sup>21.</sup> See Gras and Larson (1939, 638); Whitney (1958, 62); Ferguson (1995, 139); Historical Statistics (2006, vol. 5, 551); and Peterson-Withorn (2017).

various nonmeat foods, and prohibited the companies from entering the retail business. Congress codified it in the Packers and Stockyards Act of 1921. The Beef Trust managed to protect its monopolistic grant through court battles that delayed and weakened the law's enforcement for over a decade.<sup>22</sup>

The worldwide depression of 1920–21 proved far more damaging. Meat exports collapsed to \$157 million in 1921, and Armour & Co. suffered a punitive 15 percent loss in 1921. Technological change then dealt the killing blow. New refrigerated trucks inaugurated a decades-long process that moved slaughtering away from Chicago and closer to the farmer and rancher. The rise of grocery stores that directly bought from small packers and not from the Beef Trust's wholesale warehouses further cut into profits. As a result of these changes, the Beef Trust's share of federally inspected slaughter declined to 58 percent by 1929. The heyday of the Beef Trust was over (Gras and Larson 1939, 638–41; Whitney 1952, 44, 62; Yeager 1981, 239–41; *Historical Statistics* 2006, 551).

This does not mean that the 1906 Meat Inspection Act began to promote the public interest. It is true that in the late 1910s Thomas Wilson, recognizing the permanent fixture of condemnations, led a lobbying effort to persuade Congress to enable the BAI to destroy tuberculosis-infected cows on farms and ranches. Such a policy would offload the burden onto the farmer, rancher, and taxpayer. Through a long eradication campaign in the 1920s and 1930s that involved taxpayer-funded compensation to cow suppliers, the BAI reduced the prevalence of tuberculosis. However, this eradication had become less costly because new innovations in household refrigeration, processed foods, and diets caused consumers to demand less beef and more fruit, eggs, and other substitutes. This mitigated the price increases from the relative reduction in the beef supply. More importantly, market-based technological innovations would have reduced the danger of animal diseases in the absence of continued meat inspection and the eradication campaigns. First, advances in home freezers and commercial lockers started decreasing the dangers from animal diseases. Second, trucking increased the profitability of establishing slaughterhouses closer to ranches and farms, which would have reduced the cost of private-sector detection and containment of outbreaks. Though federal regulation did improve the quality of meat, other avenues existed.<sup>23</sup>

Examining the meatpacking industry, its detractors, and relevant regulations demonstrates the multifaceted nature of cronyism. When a business lobbies for subsidies and discriminatory legislation, it often concurrently fights alternative legislation proposed by other special interests. These special interests could take the form of competitors interested in increasing their own market share, businesses the original company buys inputs from or sells outputs to, or individuals that want to

<sup>22.</sup> See Benedict (1953, 150); Aduddell and Cain (1981, 233–39); Yeager (1981, 219–25); and Gresham (2019, 18–19, 27–28, 32, 40, 46, 68, 91).

<sup>23.</sup> See Yeager (1981, 239–41); Spiekermann (2010, 108); Ogle (2013, 84–89); Olmstead and Rhode (2015, 280–87); and Gordon (2016, 66-68, 76, 121).

increase their employment prospects and influence through additional regulatory oversight. In other words, businesses simultaneously try to achieve two goals: secure their preferred form of cronyism while blocking harmful legislative proposals from other factions interested in their own special privileges. The Beef Trust's activities fit this pattern. The Beef Trust had to continually fight against hostile legislation and secured a grant of monopolistic privilege only after defensively lobbying against other interests' proposals and amending them to fit their desires.

#### Conclusion

The large Chicago packers pioneered important market innovations that increased consumer welfare and revolutionized how the public ate meat. However, antagonistic special interests wanted the government to onerously regulate the Chicago packers for self-interested reasons, such as protecting rival firms and providing job security for reformers. It was only in this context that the Beef Trust, as a way of monopolizing the industry, supported inspection subsidies in the early 1890s and then sanitary requirements in 1906. In the end, the Beef Trust achieved its goal by co-opting the 1906 Meat Inspection Act and using it to drive smaller competitors out of business and raise prices. Such tactics reveal the complicated process behind cronyism: special interests can secure their desired privileges either by taking the initiative in the political process or playing the defense by revising rival groups' legislative proposals.

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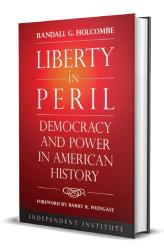
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