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Competition and Combination

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COMPETITION AND COMBINATION.

I.

ADAM SMITH in his chapter (5, book iv.) 'Of Bounties' criticises the several statutes prohibiting the engrossing of corn, especially the Statute 12 Geo. III. which was in force when he was writing. He concludes: 'The popular fear of engrossing and forestalling may be compared to the popular terrors and suspicions of witchcraft; the unfortunate wretches accused of this latter crime were not more innocent of the misfortunes imputed to them, than those who have been accused of the former. . . . The law which should restore entire freedom to the inland trade of corn would probably prove as effectual to put an end to the popular fears of engrossing and forestalling.'

One of his editors and commentators, William Playfair,¹ vehemently attacks his master on this topic, saying, 'If there is any part in this book in which Mr. Smith has held his own theories too high, and held the opinion of others in too great contempt, it is manifest in this sentence; he compares a very natural to a supernatural occurrence, the possibility of a corn dealer mistaking his true interest is put on a par with that of a miracle.' Indeed, Playfair adds a supplementary chapter on 'The Commerce of Grain, Monopolies, and Forestalling,' to show the errors of Adam Smith.

But he might have pointed to Adam Smith's own words when speaking of the combinations of employers and workmen (book i., ch. 8), 'We rarely hear of the combinations of masters, though frequently of those of workmen. But whoever imagines, upon this account, that masters rarely combine, is as ignorant of the world as of the subject. Masters are always and everywhere in a sort of tacit, but con-

¹ The eleventh edition of *An Inquiry into the Nature and Causes of the Wealth of Nations*, with Notes, Supplementary Chapters, and a Life of Dr. Smith. London, 1805. T. Cadell and W. Davies.

stant and uniform combination, not to raise the wages of labour above their actual rate. To violate this combination is everywhere a most unpopular action, and a sort of reproach to a master among his neighbours and equals. We seldom, indeed, hear of this combination, because it is the usual, and one may say, the *natural* state of things which nobody ever hears of. Masters too sometimes enter into particular combinations to sink the wages even below this rate. . . . Such combinations, however, are frequently resisted by a contrary defensive combination of the workmen; who sometimes too, without any provocation of this kind, combine of their own accord to raise the price of their labour.

Well then, if combinations are the usual and even the natural state of things for settling the price of labour, why ought they—we may ask—to be considered as witchcraft, when supposed to be at work to settle the price of commodities? Or if competition is the natural state of things for buyers and sellers of commodities, why is it not the natural state for buyers and sellers of labour?

Other writers on Political Economy of the time of Adam Smith are more consistent in the opinions which they held about combination and competition. Either they do believe in witchcraft or they do not. Sir James Steuart for instance, in his chapter on competition (book ii., ch. 7), earnestly considers the question, if and how far on both sides, of buyers and sellers, competition is equally strong, and denounces all monopolies arising from the free action of buyers or sellers as a crime against the public, because they are diminishing the normal degree of competition for the sake of the private profit of the parties interested. He justifies the laws (still existing or no more existing) enacted against that crime, by their having prevented the price of commodities coming to a just relation with their value.

On the other hand, the French economists of the then new school of the Physiocrats are quite satisfied that the normal state of competition, which Steuart wanted to protect by criminal laws, is always in existence wherever Government keeps aloof from any public measure, or in other words that the principle of non-interference is a sufficient safeguard for the natural and normal state of competition in all cases.

The Physiocrats therefore do not see any danger of monopoly beyond the action of Government creating monopolies by law. Sir James Steuart, on the contrary, sees the danger of monopolies as

arising from the free action of buyers and sellers, and wants the criminal code as a protection against such monopolies.

For a long time the drift of opinion among economists, English, French, and Germans, was in favour of the Physiocratic view and against the fear of monopolies held out by Steuart. The first to fall back upon the old ideas of Steuart and the elder writers were the Socialists in not only asserting the possibility of a monopoly arising from the free action of producers, but showing the necessity of the consequence of monopoly flowing from all free competition. Louis Blanc (*Organisation du Travail*, 1841, p. 41) *e.g.* is saying, 'La concurrence conduit au monopole, et, par la même raison, le bon marché conduit à l'exagération des prix.' And in the same way as the writers of the seventeenth and eighteenth centuries had facts before them to support their fear of monopolies, so these new Socialist writers of the nineteenth century had new facts before them which supported at least part of their assertions. If they did not show the necessity of competition leading to monopoly, still they did show the possibility of this consequence taking place in certain cases.

What then are these cases?

Proudhon a few years later than Louis Blanc, in his *Contradictions économiques*, when saying, 'Competition is killing competition'—every growth of competition is diminishing the number of competitors—tells us of a huge combination or amalgamation which had taken place at the time when he was writing and was greatly exercising the public mind. The object of the new combination was the union of all the coal-mines of the Loire, against which the town councils of Lyons and St. Étienne remonstrated, and the French Government had appointed a commission to inquire into the character and the object of the new company. Well, says Proudhon, I am asking now, what can Government interference do against it by the help of the civil law and political economy? Can it prevent the coal-owners from associating in order to diminish the cost of production? Can it compel them to renew their old war and to ruin themselves by heightening the cost of production and lessening the price of coal?

Yet Proudhon's antagonist, Frédéric Bastiat, in his *Harmonies économiques* (ch. x.), written for the purpose of refuting the *Contradictions économiques*, still keeps to the old creed of his countrymen of the eighteenth century, saying: 'It is sufficient to know that competition is nothing else but the absence of any arbitrary authority interfering with buying and selling, in order

to infer that competition is indestructible.' This, of course, is no answer to Proudhon, although Bastiat meant it to be an answer.

II.

Facts of the kind mentioned by Proudhon to show competition killing competition have since the time when he was writing grown to such a mass of material that the Bastiats of the present day cannot fairly repeat the words of their ancestor, meaning to get rid of the problem. For even suppose it to be true, as Bastiat asserted, that competition is indestructible, there is a great difference between what is left of competition in the present English railway system and the competition of private undertakings in most other trades of the present age. It may be true that the coal-mines of the Loire, even after their amalgamation, had and have still now to meet the competition of other coal-mines, yet it is not the same thing if a few large undertakings of the type of these companies are competing, or if hundreds and thousands of smaller ones are the competitors, being so much farther off from anything like a monopoly. A State railway system itself, like the present railway system of Prussia, where competition has been killed by the 'arbitrary authority' of Government, has certain limits to its arbitrary authority, viz. the limits of the country. Yet who would deny that in spite of the competition of Russian railways, Belgian or French railways against the Prussian railway system, still the 'arbitrary' power of the latter is a fact wherever the competition of those foreign lines is not able to meet the State railways in the same market? And who would think the questions of railway monopolies answered by the fact that this kind of competition is still alive even in face of a large State railway monopoly? Yet it would confirm Bastiat's doctrine, that competition is indestructible.

Hence it follows that the problem of the persistence of competition cannot be solved by abstract reasoning, but only by going into the particular facts of the different groups of production. The tendencies of competition on the one side, and of monopoly or combination on the other, are always at work, but what are the conditions which make either of them the stronger of the two in different trades, in different countries, at different times? Why is it that competition among the railways of a country is at all times and at all places nearer to monopoly than competition among bakers or butchers? What conditions are

strengthening the tendency of combination among railways, and what other conditions are strengthening the tendency of competition among bakers and butchers? Why have the Rhenish Westphalian collieries succeeded recently in forming a syndicate, and why have British collieries not succeeded? Why had the coal-owners of the Tyne and Wear a syndicate a hundred years ago, and why had they nothing of the kind for the last half of this century? The answer to these questions cannot be found but by analysing the facts of the case.

We must go into the legal, the technical, and the psychological conditions of the various departments of trade, as well as the various times and nations, in order to get an insight into the real state of things. Only through the knowledge of those facts can we settle the dispute between the optimistic views of the followers of the *laissez-faire* principle and the pessimistic views of Socialists or others who pretend that rings, pools, trusts, amalgamations, necessarily mean a step to the Socialistic state and the decisive end of all competition. It may be quite true that the latter tendency is prevailing in certain departments of trade more than in most others, and yet the variety of influences brought to bear on those departments stands in the way of the end predicted by Socialistic prophets.

I propose to show this by certain events that have arisen in the history of the English coal trade. There is an opinion prevailing, not only among Socialistic writers, that recent combinations in trade of the type of rings or pools (*Cartelle*) that have attracted so much interest from economists and the public in general, are peculiar to our age. The attention of economists, as far as I know, has never been drawn to the fact that such organisations have existed long before our time, and have been destroyed by opposing forces. Indeed, they belong to times past as well as to the time present.

III.

The paternal government of the seventeenth and the eighteenth centuries enacted several statutes with the intention of protecting the public against frauds in the coal trade. By 16 and 17 Charles II. (re-enacted by 7 and 8 William III.) the Lord Mayor and Aldermen of the City of London were empowered to fix the price of all coal brought into the Thames, and in case of any coal merchant refusing to sell at the fixed price, to send a

constable into the coal merchant's shop for the purpose of selling the coal at a reasonable price.

It was not the primary necessity of coal that was the sole cause of such legislation. It was the narrow field of production and transportation for this article which created the suspicion of combinations and monopolies of coal traders. The latter reason was more distinctly expressed by the Act of the ninth year of Queen Anne, saying—

Whereas the Cities of London and Westminster, and other places, are chiefly supplied with coals by sea from Durham, Northumberland, and Newcastle-on-Tyne, and the having the same at cheap prices tends greatly to the improvement of the manufactures and trade and navigation of this kingdom, by breeding and employing many thousands of skilful mariners for the service of Her Majesty, and to the relief of the poor, and for the better advancing of the duties on coals granted to Her Majesty for the present war, it is necessary the same should not be monopolised, but that the coal trade should be free and open. . . . Be it enacted that all agreements, etc., between coal-owners, lightermen, owners of ships, etc., for engrossing coals, or for restraining any person from freely selling, buying, etc., shall hereby be declared null and void.

Yet it was not easy to draw the line between what was prohibited by this Act and the freedom of selling and buying.

This was shown by several petitions presented to the House of Commons in 1729. By an Act passed 11 and 12 William III., for the explanation and better execution of former Acts made touching watermen and wherry-men rowing on the Thames, many persons keeping wharfs and dealing in coals had been restrained from carrying the coals from and to the Thames. At the same time the said watermen exacted unlawful premiums for vending some sorts of coals in preference to others, which together with other abuses tended to a monopoly. Therefore, by an Act of 3 Geo. II. 'for the better regulation of the coal trade,' it was declared lawful for any persons to keep their own lighters for the carrying of coals to or from any ship.

Here we have an instance of the coal-owners and ship-owners of the North complaining of a monopoly created by the watermen at the port of London, as against the freedom of trade to be protected by Parliament in favour of the coal-owners.

Another instance was the complaint of the coal market of London not being free and open. Up to the year 1769 there was an open place in Billingsgate, called Rome land, where the London coal market had been held for centuries. At this time, however, several large coal merchants erected a building which they called the Coal Exchange, and which in fact was made by them the coal market, with a membership fee of £3 18s.

a year. Several petitions were directed against this unlawful proceeding, being contrary to the principle sanctioned by many statutes, that 'trade shall not be monopolised, but shall be free and open.' Now the number of members was about 150 at the new Coal Exchange, and there was no monopoly of trade except the entrance fee. Yet by the Act of 28 Geo. III. Parliament gave way to those petitions in a certain degree, enacting—

Whereas a certain number of coal buyers have formed themselves into a society, and held private meetings at the Coal Exchange, in the City of London, proposing to make regulations for the purpose of carrying on the trade in coals, which regulations may have a tendency to prevent the said trade from being free and open. . . . That any number of persons united in covenants or partnerships, consisting of more than five persons, for the purchasing of coals for sale, or for making regulations with respect to the manner of carrying on the said trade in coals, shall be deemed an unlawful combination to advance the price of coals, etc.

The consequence of this statute was not to dissolve the Coal Exchange; but, following the opinion expressed by the Select Committee of the House of Commons appointed to inquire into the coal trade in 1800, the Corporation of the City of London took over the Coal Exchange building by paying off the interest of the proprietors in 1803-1807, putting it under their own control, and thus making it again a public market.

But the Commons' Committee of 1800 had another and more important object. It directed public attention to an agreement of the coal-owners of the North, called 'Limitation of the Vends,' as being the cause of the high price of coals.

A witness explained to the Committee the nature and origin of that agreement in the following manner :—

In 1771 I found great irregularities in the coal trade, particularly with respect to the measure. I communicated my sentiments to two or three respectable agents for the owners, and we said it was a pity but the coal-owners had a meeting to regulate those abuses, for the owners of Washington coals, where I was (manager), had expended near £15,000, and had very small returns, and I thought it highly expedient that a certain price be fixed; upon which it was agreed that a meeting should be held of the coal-owners at Newcastle, and we had three or four meetings more, and I was appointed secretary. Since that time the coal-owners had frequent meetings for stipulating the vends—that is, that five of the collieries of the best coal are permitted to vend the greatest proportion, and at the best price; after that there is a second class which sells at one shilling lower per chaldron, and also less in proportion as to quantity; after that there is a third class, etc.

About 1786 or 1787 (in the words of the Report of the Committee of 1800) a particular species of compact was resorted to, which, with temporary interruptions, your Committee believe to

have existed ever since. Its avowed object was to apply a remedy to a heavy depression in the price of certain kinds of coals, and so avert the danger of the abandonment of certain collieries. This compact appears (with occasional alterations in its conditions affecting particular pits) to have been annually renewed. The coal-owners and coal-workers meet and take an account of the whole vend of coals for the preceding year; they add to this a large imaginary quantity, and divide the whole among the different collieries, proportioning the allotment of each to its respective powers; this is called the 'Basis.' When the vend of the year subsequent to this regulation is afterwards ascertained, the aggregate of it is also divided and distributed amongst the collieries in proportion to the allotted Basis. The object of the arrangement is to give a right to each colliery to furnish, if possible, a certain proportion of the general yearly sale; and, when any colliery falls short of this proportion, the collieries which exceed are bound to make a compensation for the deficiency at a certain rate per chaldron. As the amount paid in compensation does not amount to the profit of the excess, to prevent any mines from transgressing too much their allotted limit and the influx into the market becoming too large, the respective proportion of each is settled by a superintending committee, at the beginning of every month, according to the vend of the previous month and to the circumstances of the market. Various instances have been stated of ships subjected to detention at Newcastle by waiting for the best coals, owing in part to the greater demand for best coals, but an additional reason was that when the appointed vend of the coals happened to be exhausted, no more could be supplied till the commencement of the ensuing month, and detentions therefore frequently occurred.

Such were the regulations for the coal-pits of the River Tyne. The regulations for those of the Wear were similar, but not with the same restrictions. Besides, there was a general compact between all collieries of the Tyne and the Wear, by which the whole of the estimated vend of both rivers was divided after the proportion of three-fifths for the Tyne and two-fifths for the Wear.

Overleaf there is a copy of the agreement for 1799 for the River Tyne.

The Committee of 1800 'felt it their duty to observe that the agreement itself and the detention of ships appeared to have contributed to the augmented price of coal so severely felt by

several coal-owners in the Court of King's Bench because they did

illegally, wickedly, and oppressively confederate, conspire, and agree among themselves . . . acting as a committee to regulate, settle, and ascertain the quantity of coals that should be vended.¹

The cause was to have been tried at York, but was never proceeded with. The 'Limitation of Vends' was yearly renewed before and after the Committee of 1800, except some interruptions when the agreement did not succeed for the time. This was shown by the Committees (first of the Lords, then of the Commons) in the years 1829 and 1830. The persistence of this agreement was the more remarkable, as the evidence of the president of the compact, Mr. Brandling himself, given to the Lords' Committee, declared the prevailing opinion among the public to be that the Limitation of Vends was an infamous combination for extorting exorbitant prices.

Here is the table of the Limitation of Vends for 1828, as presented to the Committee of 1830 :—

TYNE VEND, SHOWING BASIS, ISSUES EACH MONTH AND GIVING OVERS AND SHORTS FOR THE PORT OF NEWCASTLE FOR 1828.

Basis.	Name [35 Collieries.]	Allowed Chaldrons.	Vended Chaldrons.	Over Chaldrons.	Short Chaldrons.
27½	Backworth	22,323	22,036	—	287
42½	Burradon and Killingworth	34,499	32,907	—	1,592
30	Coxlodge	24,352½	23,137	—	1,215½
29	Fawdon... ..	23,541	23,325½	—	215½
28	Heaton... ..	22,729	22,729	—	—
28	Hebburn	22,729	21,246	—	1,483
23	Holywell	18,670	18,683	18	—
26	Hotspur	21,105½	20,875	—	230½
27	Jarrow	21,917	21,917	—	—
42½	Percy Main	34,499	34,347	—	152
33	Wallsend	26,788	26,788	—	—
25½	Walker... ..	20,699½	21,712	1,012½	—
27	Wideopen	21,917	20,969½	—	947½
32½	Willington	26,382	25,535	—	847
17	Benwell	13,800	13,804	4	—
25	Collingwood Main	20,294	20,794	500	—
18	Cramlington	14,611½	14,588	—	23½
20	Elswick	16,235	16,275	40	—
16	Felling... ..	12,988	12,795	—	193
20	Heworth	16,235	16,191	—	44
22	Low Moor and South Moor	17,858½	17,471	—	387½
25	Manor Wallsend	20,294	19,545	—	749
21	Pelaw Main	17,047	17,128½	81½	—
23	Pontop and Garesfield	18,670	17,860	—	810
23½	Seghill	19,076	19,102	26	—
10½	Sheriff Hill	13,394	13,410	16	—
21	Springwell	17,047	16,308	—	739
18	Tanfield Moor	14,611½	15,251	639½	—
22	Team	17,858½	20,132	2,273½	—
17	Townley Main	13,800	13,551	—	249
25½	Tyne Main	20,699½	20,710	10½	—
11	Usworth	8,929½	8,847	—	82½
18½	Walbottle	15,017	15,125	108	—
12	Whiteley	9,741	9,413	—	328
16	Wylam	12,988	12,977	—	11
829½		673,346½	667,484½	4,724½	10,586½

¹ A copy of the document is in the Appendix to the Report, pp. 152-7.

But this time the appointment of a Parliamentary Committee of Inquiry was made upon the request of the coal-owners themselves. And, in fact, the proposals of the Report of the Committee of 1830 were different from those of 1800. They quote the words of the former Report, expressing the apprehension that a power arising from mutual compact may enable them to enhance the price to the oppression of the public.

But in deciding [they say] on the course which it is now wise to pursue with respect to this compact, your Committee are inclined to believe that the trade had better be left to the control of that competition which appears already to have affected it; and so long as the districts we have named are not included in this regulation (which we trust will not happen) the effect upon the market of the supply they are capable of affording cannot fail to be felt.

Instead then of recommending the control of Parliament, as did the Committee of 1800 and the Committees of the eighteenth century, the Committee of 1830 recommended the control of competition.

IV.

The control of what competition ?

The Commons' Committee of 1800 had stated that nearly an inexhaustible supply of coal might be drawn from the counties of Stafford, Worcester, Warwick, Salop, Leicester, Glamorgan, from Wales and Yorkshire. It was the same Committee therefore, which made it an object of their inquiry, how inland navigation and tramways might be developed for the purpose of bringing that new supply to the metropolis. The Committee also suggested abolishing the legal difficulties of canal navigation. And by several statutes of 1805, 1806, 1807, the companies of the Grand Junction Canal and of the Paddington Canal obtained permission to bring certain quantities of coal to the London market. And notwithstanding the exportation of coal from the ports of Newcastle and Sunderland having nearly doubled between 1800 and 1830, the president of the Newcastle Coal Committee, as witness of the Select Committee of the House of Commons in 1830, is found complaining of the advantages of inland navigation for coal. Those advantages were chiefly the exemption from the coal duty paid for seaborne coal coming to London. He even promised that the Limitation of the Vends would cease as soon as the coal duty was abolished, because the consumption of coal as consequence of the exemption from duty would increase to such a degree that it would nearly be equal to the utmost capacity of the yearly output of coal from those pits. When the coal duty was abolished

in 1831, this consequence did not take place. The report of the Commons' Committee of the year 1836 states that the Limitation of Vends is still in existence, and the well-known witnesses are again pleading its necessity.

But another thing happened. A joint stock company for carrying on the coal trade in London had been projected in 1836, promising to sell coals at a price of 4s. per ton below current prices. However, it was found that the Statute of 28 Geo. III. stood in the way of such a company, by enacting that 'any number of persons united in covenants or partnerships, consisting of more than five persons, for the purchasing of coals for sale, . . . shall be deemed an unlawful combination to advance the price of coals.' Now it is most remarkable that that kind of combination, which was prohibited by the statute of the year 1788 (sect. 2) as being a monopoly for advancing the price of coals, was recommended by the Report of the Commons' Committee of the year 1836, saying that 'by all the Acts which have been passed for the regulation of the coal trade of London, there has been an evident intention on the part of the legislature to prevent combination and monopoly; and to ensure to the consumer, as far as possible, an ample supply of that article at a reasonable price.' Indeed, by 6 and 7 Will. IV. (an Act to repeal certain provisions respecting the coal trade), section 2 of the Act of 1788 was abolished 'so as to leave the coal free in the port of London to the competition of capital and enterprise.'

And another new power set in. The Committee of 1836 called the particular attention of the House to the fate of the Durham South-West Junction and South Durham Railway Bills, introduced with the view of opening an increased supply of coals for the London market. Mr. Fenwick, an experienced coal viewer, had given evidence before the Committee on the South Durham Railway, in respect to the increased and cheaper supply which might be procured by the opening of that and other railways, for which bills were introduced into Parliament. When the Stockton and Darlington Railroad was at first projected, the coal-owners of Newcastle and the Wear petitioned against it, on the ground that it exonerated the coal proprietors of that railroad from way-leave rents, which were paid on the Tyne and Wear. Mr. Brandling declared in 1830, and again in 1836, before the two Committees, that it was not a legitimate object of Government to enable proprietors to bring coals to market at a cheaper rate by railroads without way-leaves, to enable them to compete with their old collieries. We complain, said he, that Government should assist the proprietors of inland collieries to enable

them to compete with us in markets we were formerly in possession of. The coal-owners at Newcastle considered it an interference with private property to allow coals to pass at a reduced expense for transit. A great meeting of them on April 2nd, 1836, resolved that the 'South Durham Railway Bill' was not required on the ground of there being any public necessity for such a measure, that it was in direct violation of the acknowledged rights of the landed proprietor, subversive of the long-established customs of the country, and unjust as regards the lessors and lessees of existing collieries. The Commons' Committee of 1836, however, recommended that every means of promoting a new supply be encouraged, as furnishing the most effectual mode of counteracting the combination of the coal-owners in the North and of the coal-factors in London.

This recommendation had the fullest effect. The combination of the coal-owners of the North broke down a few years after. In the whole mass of blue books, of parliamentary inquiries, debates, &c., there is not to be found a trace up to the present moment of that or another combination of coal-owners having existed or being formed during the last half of the century. In 1873 the House of Commons appointed a select Committee to inquire into the causes of the dearness and scarcity of coal. The Report of this Committee contains the following words:—

Considering the great extent in the coal-fields in Great Britain, the number of collieries at work, and the variety of coals produced, your Committee, notwithstanding intermittent and startling fluctuations in price due to temporary causes, do not believe that any combination, either of employers or workmen, can by artificial means succeed in permanently affecting the ordinary results of the relations of demand and supply in adjusting the quantity of coal produced to the demand, or can permanently affect the price resulting from the state of the market.

There was an amendment proposed to the Report to insert the following paragraph:—

The nature of the interest and production of coal is exceptional and limited. It is comparatively in the hands of a few proprietors; as an interest it is not so extensive as the railways or telegraph companies; it is unaffected by foreign competition, and in such respect constitutes a monopoly which, unlike similar commodities in France, Belgium, Norway, and Sweden, is subjected to no imperial control or regulation. Under these circumstances a great facility exists for common action, and a rise of prices at all centres will be uniform and contemporaneous. To produce this result no combination is required, or would be effectual under ordinary circumstances.

This amendment was rejected by the majority of the Committee.

GUSTAV COHN