

Herbert Dow, Monopoly Breaker Burton Folsom

Today, the Dow Chemical Company is an industrial giant, famous for its plastics, Styrofoam, and Saran Wrap. But when the company first went into business 100 years ago, in May 1897, almost no one took it seriously. The occasion of the company's centennial offers a timely opportunity to retell an important economics lesson.

Herbert Dow, the founder, had already started two other chemical companies: one went broke, and the other ousted him from control. "Crazy Dow" was what the folks in Midland, Michigan, called him, as he pursued his entrepreneurial vision of an American chemical industry. Like David fighting Goliath, he actually believed he could throw stones at the large German chemical monopolies and topple them from world dominance.

In the story of Herbert Dow, not only do we see the spirit of freedom that helped America become a world power, we also learn how a small company can overcome the "predatory price cutting" of a large cartel.

Dow invented a process to separate bromine from the sea of brine underneath much of Michigan. He then sold bromine to other firms, which made it into sedatives and photographic supplies. With gusto, Dow sold it inside the U.S., but not outside—at least not at first.

The Germans had been the dominant supplier of bromine since it first was mass-marketed in the mid-1800s. No American dared compete overseas with the powerful German cartel. Die Deutsche Bromkonvention, which fixed the world price for bromine at a lucrative 49 cents a pound. Customers either paid the 49

cents or they went without. Dow and other Americans sold bromine inside the U.S. for 36 cents. The Bromkonvention made it clear that if the American tried to sell elsewhere, the Germans would flood the American market with cheap bromine and drive them out of business.

By 1904, Dow was ready to break the unwritten rules: He was so strapped for cash that he decided to sell in Europe. Dow easily beat the cartel's 49 cent price and courageously sold America's first bromine in England. After a few months of this, Dow

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encountered an angry visitor in his office from Germany—Hermann Jacobsohn of the powerful Bromkonvention. Jacobsohn announced

he had "positive evidence that [Dow] had exported" bromine. "What of it?" Dow replied. "Don't you know that you can't sell abroad?" Jacobsohn asked. "I know nothing of the kind," Dow retorted. Jacobsohn was indignant and left in a huff.

Above all, Dow was stubborn and hated being bluffed by a bully. When Jacobsohn stormed out of his office, Dow continued to sell bromine to countries from England to Japan. Before long, the Bromkonvention went on a rampage: It poured bromine into America at 15 cents a pound, well below its fixed price of 49 cents, and also below Dow's 36 cent price.

The imaginative Dow worked out a daring strategy. He had his agent in New York discreetly buy hundreds of thousands of pounds of German bromine at the cartel's 15 cent price. Then Dow repackaged the German product and sold it in Europe—including Germany!—at 27 cents a pound. "When this 15-cent price was made over

here,” Dow said, “instead of meeting it, we pulled out of the American market altogether and used all our production to supply the foreign demand. This, as we afterward learned, was not what they anticipated we would do.”

Indeed, the Germans were befuddled. They expected to run Dow out of business, and this they thought they were doing. But why was U.S. demand for bromine so high? And where was this flow of cheap bromine into Europe coming from? Was one of the Bromkonvention members cheating and selling bromine in Europe below the fixed price? Powerful tensions surfaced from within the Bromkonvention. According to Dow, “the German producers got into trouble among themselves as to who was to supply the goods for the American market....”

The confused Germans kept cutting U.S. prices—first to 12 cents and then to 10.5 cents a pound. Dow meanwhile kept buying the stuff and reselling it in Europe for 27 cents. Even when the Bromkonvention finally caught on to what Dow was doing, it wasn't sure how to respond. As Dow said, “We are absolute dictators of the situation.” He also wrote, “One result of this fight has been to give us a standing all over the world...We are

in a much stronger position than we ever were....”

When Dow broke the German monopoly, all users of bromine around the world could celebrate. They now had lower prices and more companies to buy from. This victory propelled the remarkable Dow to challenge the German dye trust, and, after that, the German magnesium trust.

His successes in these industries again lowered prices and helped liberate the American chemical industry from its European stranglehold.

Those who value the spirit of freedom and the rise of America as a world power can thank Herbert Dow for what he started in Midland, Michigan, 100 years ago.

Burton Folsom is senior fellow in economic education at the Mackinac Center for Public Policy.

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