George Stigler and Monopoly

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THE EXTENT AND BASES OF MONOPOLY
By George J. Stigler

I shall summarize and appraise in this paper material provided by the Temporary National Economic Committee in answer to two basic questions:

1. What are the relative roles of competition and monopoly in the American economy?
2. What are the leading bases of monopoly?

The discussion of these questions will be highly selective. Obviously no one need apologize for a lack of comprehensiveness in a discussion of approximately thirty-three thousand pages of hearings and monographs. I have gone much further and concentrated attention upon a very few topics in the conviction that an encyclopedic, running commentary would be of little value.

I.—The Competitiveness of the Economy

Although several specific T.N.E.C. studies are concerned directly with measures of monopoly or concentration, and although much of the entire investigation can be viewed as an unsystematic investigation of the extent of monopoly, the meaning of the search received little attention. It is not possible here to examine the problem in appropriate detail, but at least a cursory examination is in order.

We may begin by raising a point of terminology. If we mean by competition and monopoly perfect competition and perfect monopoly, then obviously neither has ever existed nor will ever either exist. (The frequent criticism of theoretical, and especially classical, economists that they are or were not aware of this fact reveals both a distressing ignorance and a facile failure to understand that the role of economists is to develop a generalized theory that can be used to explain empirical phenomena. If the theory has an inherent defect, it is no less invalid simply because an empirical phenomenon does not conform to it.)

In the President's Message of April 29, 1938, which led to the T.N.E.C., the recommendations begin, "To meet the situation I have described, there should be a thorough study of the concentration of economic power in American industry and the effect of that concentration upon the decline of competition." Investigation of Concentration of Economic Power, Hearings before Temporary National Economic Committee, December 1938, p. 319. See also Appendix A, infra, p. 127. The resolution establishing the committee was introduced by Congressman James A. Farley, the committee's chairman, and it was entitled "To investigate the causes of the decline of competition in the United States in the last years and to make recommendations for the promotion of competition and fair trade practices." These recommendations are contained in the report of the committee. The report was published in nine volumes and was completed in 1942.

For much too long a time, students of the history of the American antitrust policy have been at least mildly perplexed by the coolness with which American economists greeted the Sherman Act. Was not the nineteenth century the period in which the benevolent effects of competition were most widely expounded? Should not a profession praise a Congress which seeks to legislate its textbook assumptions into universal practice? And with even modest foresight, should not the economists have seen that the Sherman Act would put more into economists' purses than perhaps any other law ever passed?

Of course there were partial explanations. The coolness of the economists sometimes rested more on disbelief in the efficacy of the Sherman Act than on hostility to its purpose. The route of regulation was preferred although this preference hardly restores the reputations of those economists as prophets. One might even point out that there were not many good American economists at the time, although an undeniable giant such as Irving Fisher shared the common view.

I intend on this occasion to review the attitudes of economists toward monopoly as a problem in public policy. My subject, however, is a good deal broader than the Sherman Act and its reception: the last two centuries of the economic writings on monopoly policy, particularly in England and the United States, will be surveyed. Thereafter I shall examine the reciprocal effects of economics and antitrust policy.

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RICHARD T. ELY LECTURE
The Economists and the Problem of Monopoly
By George J. Stigler

I. From Smith to Sherman

Adam Smith, that great manufacturer of traditions, did not fail us in the area of monopoly, for he created or rendered authoritative three traditions that were faithfully followed in English economics for almost 100 years. The first tradition was to pay no attention to the formal theory of monopoly, a tradition first challenged in 1830 by Dionysius Lardner in dealing with railway rates. How fortunate was Smith! even by neglect of a subject he could create a tradition! It is the one area where many of us, however, are his equal or superior.

The second tradition was to identify the serious monopolies of his time with the grants of exclusive power by the state. For Smith the two leading instances were the guild corporations and the great joint stock trading companies. He could not have been unmindful of the existence of many other examples—one would be the Highland village which could support only one or two enterprisers in one trade. But almost by definition they were of small importance: economic monopolies collecting their drop of blood from the body economic.

Smith's third tradition-setting view was that nothing could be done about the instances of monopoly and collection of small numbers of rivals. Actual prohibition of exclusive meetings could not be achieved by "any law which either could be executed, or would be consistent with liberty and justice." (Vol. I, p. 140). Those meetings of business men which he made famous would seldom...
Stigler’s contributions

1. Documenting extent of monopoly
2. Public policy toward monopoly (antitrust)
3. Origins and impact of antitrust policy
Inspiration?

Henry Simons
PROBLEMS OF COMPETITION.

Public Interest in Our Economic System Regarded as Encouraging.

To the Editor of The New York Times:

Economists have almost become resigned to the fact that in the 158 years which have passed since Adam Smith's "Wealth of Nations" appeared the general public has remained unaware of the fact that technical economic theory offers a practical approach to economic problems.

Because competent, realistic treatment of the problem of imperfect competition necessitates the use of analytical tools, the rigorous application of which requires intellectual equipment and training equivalent to that of higher mathematics, it had been feared that the existence of the newer advances of economic science would not become better known than the existence of Kepler's laws or Lagrange's multipliers.

By means of such analysis as that at present being rapidly developed, economics enables us to formulate (instead of pious hopes that "through cooperative action by government, labor and owners of capital" we will be able "to make our economic activities more effective") concrete and practical proposals for social policies, such, for example, as that contained in Professor Henry Simon's brilliant and suggestive "A Positive Program for Laissez Faire."

The real determination of whether "a better working of democracy and greater freedom of enterprise" can be attained will depend upon the ability of the public to discriminate between sound economics, which it cannot hope to understand, and exhortations of the type which can combine in a single phrase such essentially antithetical terms as "economy" and "abundance," and which are likely to be quite plausible.

PROFESSOR SIMONE'S BOOK.

To the Editor of The New York Times:

In our letter which appeared in The Times of Dec. 7 under the heading "Problems of Competition" we mentioned Professor Henry Simon's brilliant and suggestive "A Positive Program for Laissez Faire: Some Proposals for a Liberal Economic Policy" as containing practical proposals for social policy which had been worked out by means of technical economic theory.

Each mail since the appearance of this letter has brought us several requests for information as to where a copy of this plan could be obtained. You would be doing a real service to us and to your readers if you would publish the information that the work referred to is the University of Chicago's Public Policy Pamphlet 15, and may be obtained from the University of Chicago Press at 25 cents a copy.

ALLEN WALLIS.
GEORGE STIGLER.
University of Chicago, Dec. 16, 1934.
At dinner before George Stigler's Henry Simons Lecture, left to right, Robert Zener, Editor-in-Chief of the University of Chicago Law Review, Professor Stigler, and Aaron Director, Professor of Economics in the Law School, who introduced Professor Stigler.
Simons Lecture, February 1958
The Case Against Big Business
by George J. Stigler

Until the Korean hostilities began, bigness in business was in a fair way to becoming an important issue in America. For almost two years now, however, it has been overshadowed by the economic and political problems growing out of rearmament at home and abroad, and few antitrust actions have been initiated in industries important to rearmament.

Perhaps our traditional suspension of antitrust laws in war, or our natural aversion to the high cost of enforcement, are partly responsible for the tendency to seize the armament industries as a protected monopoly, shielded from competition by the need for secrecy. But what is the normal competitive market in which the armament industries will operate in peacetime, and what will be its significance as a competitive force?
Stigler’s contributions

1. Documenting extent of monopoly
2. Public policy toward monopoly (antitrust)
3. Origins and impact of antitrust policy
Extent of monopoly

• Stigler the Skeptic
  • 1942 review of TNEC monographs
  • 1949 “Five Lectures on Economic Problems” at LSE

• Stigler the Concerned
  • 1964 *Challenge* interview:
  • “That we have a good deal of monopoly and oligopoly in the American economy seems to me beyond dispute and should be a source of serious concern for public policy.”
  • But: “We have every reason to believe that the normal form of behavior will be essentially competitive, and that the departures from competitive behavior will be relatively short run and of very little consequence.”
Public policy toward monopoly

• 1950s: active use of antitrust, including dissolution
• 1964: dissolution “only in the most extreme occasions”

• Also worried about mergers, “highly desirable” to limit (1965)

• Always supported Sherman Act
• Always skeptical or opposed to Clayton Act, Robinson-Patman, etc.
“In 1950 I believed that monopoly posed a major problem in public policy in the United States, and that it should be dealt with boldly by breaking up dominant firms and severely punishing businesses engaged in collusion. . . . I held this position for perhaps another decade, and then my fears of monopoly began to recede.”
Why change?

1. Concentration → lack of competition

2. Aaron Director: many business practices not anticompetitive

3. Own research on oligopoly
   - Hard to sustain collusion
   - “competition is a tough weed, not a delicate flower”
Antitrust laws

• Impact
  • 1966 JLE study:
    • “very modest effect in reducing concentration”
    • “reduced the amount and effects of collusion”

• Origins
  • 1985 J Legal Studies
    • the antitrust laws are a “public-interest law in the same sense in which I think having private property, enforcement of contracts, and suppression of crime are public-interest phenomena.”
Monopoly and Government

• Another Simons theme

• 1942: “the major factor in the decline of competition has been governmental support of monopoly”

• 1964: business efforts to suppress competition “ineffective” unless supported by government

• 1967: “The problem of oligopoly will be increasingly the problem of industry in politics, not the problem of the monopoly in market.”
• “I am no longer a faithful follower, although I am still an admirer, of Frank Knight and Henry Simons” (1985)