

Leland B. Yeager

## The "Incantations" of the Trustbusters

*Concentration, Mergers, and Public Policy*,  
by Yale Brozen, with the assistance of George Bittlingmayer.  
New York: Macmillan Publishing Co., Inc., 1982.

YALE BROZEN'S *Concentration, Mergers, and Public Policy* reinforces my long-held belief that monopoly and industrial concentration, unless actively supported by government, constitute no serious problems for the American economy. Brozen contends that even if a large share of the output of an industry comes (say) from its four largest firms, that fact in itself is no grounds for worry. Even less worrisome is the fact that  $x$  percent of the total value of U.S. manufacturing production comes from a few hundred of the largest firms. Concentration itself means neither monopoly power nor monopolistic collusion.

Even potential competition exerts a real force: the profit opportunities that monopolistic pricing would offer new entrants into a concentrated industry usually prevent monopolistic behavior from occurring. Following economist Harold Demsetz, Brozen answers worries about the extreme case of natural monopoly due to decisive economies of large-scale production. Competition is not confined to firms simultaneously in actual production; it can be effective even at the stage of bidding (and periodic rebidding) for the position of sole actual supplier. More generally, competition can take many forms besides price competition, the lone, abstract model of the textbooks. Multidimensional competition increases the difficulty of maintaining collusive agreements, in which the participants already have powerful incentives to chisel.

Big business and concentrated production serve technical and economic efficiency in those sectors of the economy where they

arise and survive, just as many small firms serve efficiency in other sectors where they pass the market test. In this way, as Brozen says, performance determines industrial structure; to infer poor performance from concentrated structure is the reverse of the truth.

Even bigness achieved through merger can serve efficiency. Some mergers will of course prove unwise. "But . . . to prevent mistakes government would have to prevent people from making decisions" (356). Brozen rejects the antitrust's belief that mergers impair potential competition, if not actual competition; that is, the belief that if a firm is barred from entering some industry by acquiring an existing firm, it will enter by constructing new productive capacity instead. Firms do not seek membership in specific industries; rather, they seek profitable uses for their assets and their expertise. If, implausibly, the theory about *de novo* entry in lieu of merger were correct, then barring merger might result in an inefficient amount of idle productive capacity. Furthermore, restricting mergers limits the marketability of productive assets, of whole firms, and of stockholders' investments. It impairs the market process of shifting control over assets into the relatively most competent hands. By narrowing the possibilities of subsequently selling out, it reduces investors' incentives to bear risk and create enterprises, and so impairs competition itself. In this case, as with other strands of antitrust doctrine, an in-

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tuitively appealing idea can be superficial and wrong.

Not only with regard to concentration and mergers but quite generally, Brozen swats down "the incantations and 'colorful characterizations' invoked in antitrust trials (leverage, foreclosure, predation, reciprocity, deep pockets, barriers to entry, differentiation, proliferation, dominance, concentration)" (392). Current antitrust policy, Brozen argues, works against the efficiency of American business firms and against their competitiveness on world markets. He repeatedly cites the decision of 1945 that ruled against the Aluminum Company of America for pursuing economies, cutting costs and prices, and cultivating and anticipating new markets for its product. If it had behaved like a stodgy restrictionist instead, content with high profit margins while losing a share of the market to more dynamic firms, it would have been a less appealing target for antitrust prosecutors. Brozen also cites the Antitrust Division's theory of "shared monopoly" in the breakfast-cereal industry, even though the "brand-proliferation" complained about turns out to be competitive behavior. Other countries, his brief survey suggests, have more reasonable policies.

Brozen's suggestions for reform of antitrust policy are brief. He takes it for granted that some sort of antitrust laws will remain on the books; he does not ask why there should be any at all. Although he would relax or drop restrictions on mergers, he apparently would still outlaw actual agreements on prices or markets among separate firms. Brozen may have good reasons for this judgment, but he does not say what they are.

Probably the broadest merit of his book is that Brozen feels free to perceive and make inferences from a sharp perception of reality. Unlike some economists, he does not start with preconceptions derived from textbook chapters on pure and perfect competition, expecting that reality should conform to such abstractions and denouncing it if it does not. In this respect his analytical stance is

similar to that of today's "Austrian" school of economic thought.

Brozen cites the writings of formerly enthusiastic trustbusters whose analysis has since evolved in more realistic directions. He describes his book as "a partial report on a revolution in economics—in that part of the field called industrial organization—which is nearly complete in the professional journals," although its fruits have so far appeared only sporadically, if at all, in economics textbooks and books on antitrust law, the policies of antitrust agencies, and judges' decisions. This revolution, then, is a product of scholarship, not of shifts on the political scene. Nobel prize-winning economist George Stigler, whose change in position Brozen documents, is perhaps his prime example of a leader in the scholarly revolution.

Particular issues that Brozen addresses include economies of large scale in some industrial sectors, the multidimensional character of competition, and the important roles of innovation, entrepreneurship, and Schumpeterian "creative destruction." He recognizes that most markets are out of equilibrium most of the time. Realism like Brozen's is central to linking micro- and macroeconomics together through recognizing, for example, why price and wage levels and trends are inevitably sticky, and perceiving the attendant reasons why monetary disturbances are bound to affect production and employment as well as prices. (These particular applications of realism, however, are outside the scope of Brozen's book.)

How does Brozen establish his points? He does so partly by subjecting conventional "incantations" to logical analysis. He also questions the significance of the statistics conventionally trotted out, as in his chapter on "aggregate concentration." Another example is his discussion of why—contrary to superficial assumptions—collusion among an industry's dominant firms to maintain price would be evidenced by *decreasing* concentration. Brozen provides a lengthy review and extension of studies by other scholars of

relations among concentration and advertising, profitability, productivity, and wages. He offers many quotations from other writers, including one from Woodrow Wilson (1913) to the effect that "any large corporation built up by the legitimate processes of business, by economy, by efficiency, is natural. . . . It can stay big only by doing its work more efficiently than anybody else." Brozen's method also involves overwhelming the reader with lengthy tables of numbers whose very meaning is not clear without patient study. His tables bear such titles as "Average Annual Productivity Growth and Price Change by Degree of Change in Industry Concentration," "Movement of Average Accounting Rate of Return on Net Worth for 19 Selected Concentrated Industries Classified by Barriers to Entry, 1950-60 to 1961-66," and "Percentage of 163 Selected Four-Digit Industries Showing Rising, Stable, or Declining Concentration by Concentration Quartiles, 1947-72." Only sparingly does Brozen try to summarize the meaning of his many numbers by multiple-regression analysis. To be accessible to the laymen, Brozen says, he generally tries to avoid the "priestly" language and econometric techniques employed by the specialists.

On occasion, it seemed to me that Brozen was trying to justify every aspect of the business practices he discussed. For example, he holds that advertising lauding purely imaginary qualities of products or their users still offers something of value, even if only a chance for quite ordinary people to find a little distinction or excitement in their own lives (for example, "an image of what it meant to be a Lucky Strike smoker").

Brozen alludes only very briefly to the legal and bureaucratic aspects of antitrust: the vagueness of the law, the incentives working on ambitious young government lawyers and economists to invent new theories for interpreting and invoking the antitrust laws, the discretion that antitrust officials have about hauling companies into court and saddling them with legal expenses and wastes of valuable time, and the poten-

tialities for abuse that this discretion carries. It seems scandalous to me that the testimony of "expert" economists should be relevant to whether a defendant is guilty. The law should not leave behavior punishable according to whether its conjectured economic consequences are subsequently deemed good or bad according to novel economic theories. Ideally, the law should specify what objectively ascertainable behavior it forbids. A law incapable of being written in precise terms is in that respect a bad law. On the growing antitrust litigation, Brozen writes concerning eight particular antitrust cases: "If nothing else, these cases consume company resources, which might otherwise have gone into growth, plus imposing costs, which reduce profitability and, consequently, reduce the attractiveness of investment in these companies" (379).

Brozen has not made an airtight case for complacency about bigness, concentration, and mergers, and in favor of cutting back antitrust activity, but he has at least shown that the conventional wisdom on these topics and the supposed evidence in its favor are doubtful. That very doubtfulness indicates that presumptuousness of the professors, legislators, and bureaucrats who would nevertheless rush ahead, jeopardizing economic performance, wasting talent and resources in legal exercises, second-guessing many of the truly creative men and women in our country, and subverting the ideal of a government of laws rather than of men, all for the sake of implementing their theories and assuaging their resentments. Such people exhibit the mass-man attitude described by Ortega y Gasset in *The Revolt of the Masses*—the idea that the wonders of modern industrial civilization somehow just exist, like natural phenomena, quite apart from the dreams and exertions and sacrifices of creative people, and that government has the job of setting right any supposed imperfections of reality as perceived by self-appointed critics. More humility is called for, and Brozen's book is a powerful guide in helping us to understand why.