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THE SOCIAL CONTROL
OF
ECONOMIC POWER

By

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For nearly nine decades, antitrust policy has been our chief instrument of social control of private economic power outside the "natural" monopoly industries. I began my comments with my conclusion: antitrust policy has failed in the past and will likely fail in the future. True, things might have been worse had it not been for the antitrust laws. But this is little consolation. To persist in relying solely on policies that have failed is to give substance to critics' assertions that antitrust is a charade, an anachronism, an excuse to inaction, an apology for the status quo.

What, then, must we do to be saved? Must we abandon the field to powerful private holders of economic power? Must we embrace a comprehensive system of controls mandating that the holder of power perform in the public interest? Or, must we nationalize much of our economic system to insure that it performs as the "people" wish?

I find each of these alternatives unpalatable. Nor are they likely to be embraced by the American people in this century. Rather I am inclined toward an eclectic approach that continues policies that have worked, improves on those that show promise, and pursues new initiatives in areas where old ways have failed us.

But before suggesting any agenda for the social control of economic power, let us consider briefly the sources, magnitude, and consequences of excessive economic power.

The Power of the Modern Corporation

The economic power of the large modern corporation eclipses that of business enterprise familiar to the framers of the Sherman Act of 1890. Although the great merger movement around 1900 centralized control over much of manufacturing, at the time it was a much smaller part of the economy. Whereas in 1900 income originating in manufacturing and agriculture was about equal, today manufacturing is ten times larger. And relative to today's industrial giants, the "big" businesses around the turn of the century were as infants compared to adults. Today our two largest industrial corporations, alone, have greater sales (after adjusting for inflation) than did all manufacturing companies combined in 1900.

Moreover, the largest corporations have expanded rather steadily their share of an ever growing economy. Two hundred corporations control about two-thirds of all assets of corporations engaged primarily in manufacturing. Much of the expansion in the relative growth of the largest corporations was accomplished through mergers and acquisitions, especially during the merger movement of the 1920s and during the post-World War II movement that climaxed in 1966-1969, but continues today.

The typical large corporation is not simply big in absolute terms. It inhabits many industries, most of which are highly concentrated, and considers the world its marketplace. Although the pursuit of profit is still its major goal, this pursuit often takes the modern corporation into political affairs, both nationally and internationally.

In sum, the power of the large corporation is rooted in concentrated markets, its conglomerate and multinational make-up, and its huge size.

These characteristics permit the large conglomerate corporation to engage in strategies not open to smaller firms.^{1/} Among these strategies are cross-subsidization and business reciprocity.

Cross-subsidization involves the use of resources from one line of business to expand, if necessary at a loss, another product line. Relatively specialized firms have limited opportunities and capacity to engage in cross-subsidization because their resources come from a single line of business. Conglomerate firms, on the other hand, operate in many product lines, in some of which they generally enjoy excess profits. They thus have both the opportunity and capacity to engage in the practice.

Business reciprocity is the practice of buying from those who can buy from you. It becomes a potentially harmful competitive strategy when some firms in a market can make more sales on this basis than others. A single-line corporation has relatively few opportunities to pursue the practice, whereas a conglomerate firm that buys and sells a large variety and volume of products has the best opportunity to engage in reciprocal dealing.

Experience with reciprocal selling shows that it may be used successfully in a wide variety of market structures.^{2/} It adversely affects competition because it bypasses and distorts the competitive process. The result may be to increase the market position of reciprocity practitioners, raise entry barriers to would-be entrants, and discourage price rivalry when many market transactions are based on reciprocal agreements.

^{1/} W.F. Mueller, "Conglomerates: A Nonindustry," in W. Adams (ed.), The Structure of American Industry, 1977.

^{2/} Federal Trade Commission, Staff Report on Corporate Mergers, 1969, pp. 332-97.

As conglomeration becomes increasingly commonplace and the market is bypassed in large parts of the economy, "trade relations between the giant conglomerates tend to close a business circle. Left out are the firms with narrow product lines; as patterns of trade and trading partners emerge between particular groups of companies, entry by newcomers becomes more difficult."^{3/} The result, says Fortune, is that "the U.S. economy might end up completely dominated by conglomerates happily trading with each other in a new kind of cartel system."^{4/}

Reciprocal selling is a symptom of a larger problem involving the exchange of commercial favors among huge conglomerates that meet one another as competitors or are in buyer-seller relationships in many markets. Such multimarket contacts among conglomerates force them to recognize that their behavior in one market may have repercussions elsewhere. The result is that they tend to behave interdependently in many otherwise unrelated markets. We shall call this phenomenon conglomerate mutual interdependence and forbearance among actual and potential competitors. The result of such actions can affect market shares, entry, and pricing practices.

Although generally ignored by economists preoccupied with oligopoly problems, there are many examples of this phenomenon.^{5/} Even the Wall Street Journal recognized the problem when, at the height of merger activity in the late 1960s, it editorialized, "When ties among large corporations get too widespread and too involved, it seems to us they will impede the free movement of prices and capital even if the merged corporations

^{3/} Fortune, June 1965, p. 194.

^{4/} Ibid.

^{5/} FTC Report, op. cit., pp. 458-72.

are not in the same fields. Certainly the consolidation of various corporations into conglomerates could invite a vastly increased concentration of power, which gives us pause on both economic and social grounds."^{6/}

The national and international omnipresence of the huge corporation may best be visualized by an example. My favorite for this purpose is ITT, which I have come to know better than most.^{7/}

Like many other conglomerates, ITT is a leading defense-space company. But unlike most others, it is also a vast international organization which, according to its annual report, "is constantly at work around the clock--in 67 nations on six continents," in activities extending "from the Arctic to the Antarctic and quite literally from the bottom of the sea to the moon...."

In 1961, ITT embarked on a major diversification-through-merger program. During 1961-68 it acquired 52 domestic and 55 foreign corporations, with the acquired domestic companies alone holding combined assets of about \$1.5 billion. During 1969 ITT's board of directors approved 22 domestic and 11 foreign acquisitions. The three largest--Hartford Fire Insurance Co., Grinnell Corp., and Canteen Corp.--added over \$2 billion, which brought its acquisitions total for the decade to near \$4 billion, far ahead of any other company. Since 1969 it has acquired over 50 domestic and foreign firms.

Before engaging in this massive merger program in 1960, ITT ranked 34th among America's manufacturing companies and 43rd among the industrials of the world. In 1975, it ranked 11th among America's industrial companies

^{6/} Wall Street Journal, March 26, 1969.

^{7/} The author was an economic expert in the government's merger cases involving ITT. See also, Willard F. Mueller, "The ITT Settlement: A Deal with Justice," The Industrial Organization Review, Spring 1973, pp. 68-86

and, with 376,000 employees, was the fourth largest private industrial employer of the world.

ITT has retained its telecommunications leadership, ranking as the world's second largest manufacturer of such products and the largest outside the United States. Most of its other operations originated in acquisitions of leading firms in such diverse businesses as industrial and consumer electrical, electronic and other industrial products, life insurance, consumer finance, car rentals, hotels, baking, chemical cellulose and lumber, residential construction and silica for the glass, chemical, metallurgical, ceramic and building industries.

If another merger of major dimensions with American Broadcasting Co. had not been abandoned in January 1968 after a challenge by the Department of Justice, ITT would have been established also as a leader in U.S. radio and television broadcasting. It also would have been engaged in the operation of motion picture theaters and amusement centers, the manufacture and sale of phonograph records and publishing.

Significantly, most of ITT's acquired assets came not from small, ailing companies, but from profitable corporations that were already leaders in their field: Rayonier Corp. had assets of \$292 million and was the world's leading producer of chemical cellulose; Continental Baking Co. had assets of \$186 million and was the world's largest baking and cake company; Avis, Inc., had assets of \$49 million and was the world's second largest car rental system; Sheraton Corp. of America, with assets of \$286 million, was the world's largest hotel and motel system; Levitt & Sons, Inc., assets of \$91 million, was the leading builder of single-family dwellings; Grinnell Corp., assets of \$184 million, was the largest producer of automatic fire protection systems; Canteen Corp. had assets of \$140 million and operated one of the largest vending machine systems;

Hartford Fire Insurance Corp. was one of the oldest and largest property and casualty insurance writers, with assets of \$1.9 billion.

Although ITT is primarily a manufacturing corporation, selling to and from thousands of other businesses, it also touches directly the lives of millions of consumers who can buy furnishings for their homes with personal loans from one of ITT's finance subsidiaries; buy radios, phonographs, tape recorders, and TV sets made by ITT in Germany and England; insure their homes at ITT-Hartford Fire Insurance; buy their life insurance from one of ITT's life insurance subsidiaries; invest their savings in ITT-Hamilton Management mutual funds; munch on ITT-Continental bakery products; savor an ITT-Smithfield ham; stay at hotels or motels owned by ITT-Sheraton; buy books from ITT's Bobs-Merrill publishing division or attend one of ITT's technical and business schools. Finally, had the ABC-ITT merger not been blocked by the Justice Department, Americans could have been ITT's guest for an evening of TV viewing.

Moreover, part of each tax dollars spent on defense and space programs goes to ITT, which is one of the nation's leading prime defense contractors. ITT maintains Washington's "hot line" to Moscow, mans the Air Force Distant Early Warning (DEW) system and the giant Ballistic Missile Early Warning System (BMEWS) sites in Greenland and Alaska.

With its numerous foreign operations, ITT is an important force in international economic affairs. Some ITT employees are better known in circles of international diplomacy than in business. They have included such notables as former UN Secretary General Trygve Lie as director of ITT-Norway and one-time Belgium Premier Paul-Henry Spaak as a director of ITT-Belgium; two members of the British House of Lords; a member of the French National assembly; and at home John A. McCone, former Director of

the CIA and Eugene R. Black, a prominent figure in international economic and political circles. It is not unfair to ask whether such men are on ITT's board because of their business acumen or their prestige in international politics.

The growing multinational character of huge conglomerates raises important issues concerning their national allegiances. Their multinational make-up inevitably creates dual loyalties that make it difficult to perceive how their dealings at home and abroad serve the American national interest. This problem is well illustrated by ITT's involvement in the internal affairs of Chile and elsewhere.^{8/}

Quite clearly, massive conglomerate corporations like ITT have dimensions of economic and political power extending beyond that held by the traditional large corporations which, while large in absolute terms, are more narrowly specialized in relatively few lines of industry.

An Agenda for Reform

There is no single, simple policy for dealing with excessive corporate power, domestically or internationally. I underline the word excessive lest the reader infer I believe our entire economic system is so infested with market power as to make any treatment an act in futility. All industries are not highly concentrated. Indeed, most industries are still quite competitive, and those that are not could be made more competitive if we had the desire and will to make them so. ITT is not the typical multinational corporation; nor do all holders of great power corrupt our political process.

^{8/} The International Telephone and Telegraph Company and Chile, 1970-71, Report to the Committee on Foreign Relations, United States Senate by the Subcommittee on Multinational Corporations, Committee Print, June 21, 1973; Anthony Sampson, The Sovereign State of ITT, Stein & Day, New York, 1973.

Simply put, the market is not dead; nor are all large corporations peopled by mischievous evil doers indifferent to the public interest. We must acknowledge, however, the reality that we have become heavily dependent upon large corporations for running our economy. Whether you like it or not, you must agree with ITT Chairman Harold Geneen's view that, "Increasingly, the larger corporations have become the primary custodians of making our entire system work." But acknowledging this reality also raises questions of legitimacy: are the holders of power wielding it in the public interest, and if not, what can and should be done about it?

One of the chief problems blocking social reform is that too many citizens believe that because reform has failed in the past, it is doomed to fail in the future. They have become cynical and feel politically impotent, believing that nothing can be done to insure that the holders of power can be required to work in harmony with the broader public interest. Perhaps they are right. But we will never know unless they are provided with alternatives upon which they can express their views. What I propose is a modest beginning. If Americans can accomplish some of these reforms, an adequate constituency exists to accomplish other needed steps not mentioned here. Time permits covering only three areas.

- Improving the Effectiveness of Antitrust
- The Role of Competition Policy in Incomes Policy
- Regulating the Multinational Corporation

New Antitrust Initiatives

The antitrust laws are potentially powerful instruments for insuring the maintenance or achievement of an effectively competitive economy.

And they have had some outstanding victories in recent decades, most notably in controlling illegal mergers. The Sherman Act of 1890 and the Clayton Act of 1914 prohibited certain types of mergers, but subsequent Supreme Court decisions rendered them virtually meaningless policy instruments. This changed with the passage of the Celler-Kefauver Act of 1950. During the first 25 years of the Act the antitrust agencies challenged over 1,000 acquisitions in over 400 complaints.^{9/} This effort has not involved an assault largely on small companies, as some have claimed. Practically all challenged acquisitions (measured by assets) involved large acquiring companies.^{10/} Indeed, most industrial corporations with assets exceeding \$1 billion have been challenged one or more times.

Even more important than the actual relief resulting from these numerous challenges has been the deterrent effect of the resulting rules of law on other corporations contemplating mergers.^{11/} Enforcement has not, however, been an unqualified success. The belated assault on conglomerate mergers in 1969 foundered on what Henry Simons called "the orderly process of democratic corruption." The complaints challenging three large mergers by ITT were aborted by an ignominious consent settlement that prevented the Supreme Court from spelling out the rules of law in this important area.^{12/}

^{9/} Unpublished study updating W.F. Mueller, The Celler-Kefauver Act: Sixteen Years of Enforcement, Report to the Antitrust Subcommittee, Committee on the Judiciary, House of Representatives, October 16, 1967.

^{10/} Ibid.

^{11/} Ibid.

^{12/} Mueller, "The ITT Settlement," op. cit.

Since then the antitrust agencies have become even more timid. They have shied away from challenging conglomerate mergers, as well as assuming a weaker stance toward other types of mergers.^{13/}

While the antitrust authorities have earned at least a "B" in their enforcement of the merger law, they deserve a failing grade in dealing with existing market power. Not only have they failed to attack the citadels of entrenched market power, but they have seldom even unlimbered their heavy artillery. And on the infrequent occasions they venture into battle, their gunners soon grow weary, and ultimately abandon the field after signing a peace treaty that leaves the boundaries of power virtually unchanged.

Though economists may quibble about the precise degree and trends of market power, few will deny that in many industries concentration already is too high and will not be eroded absent public action. Virtually nothing has been done to make these industries more competitive. Fewer big Sherman Act monopoly cases have been initiated and brought to successful conclusion in the last two decades than in the first two decades of the century. This, despite the fact that contemporary antitrusters have many more resources than during Theodore Roosevelt's day when the Antitrust Division "sallied out against the combined might of great corporations with a staff of five lawyers and four stenographers."^{14/}

Something clearly is amiss. It is not merely a matter of will, although since Thurmond Arnold's day, few antitrust officials deserve citation in that thin book, "Profiles in Courage in the Pursuit of Competition."

^{13/} See testimony of Bruce W. Marion and Willard F. Mueller before the Joint Economic Committee, March 30, 1977.

^{14/} Richard Hofstadter, "What Happened to the Antitrust Movement?" in The Business Establishment, Early F. Cheit (ed.), New York: John Wiley & Sons, 1966, p. 114.

Perhaps even more important than the absence of the will to act is the virtual impossibility of antitrusters waging a successful legal battle with today's industrial giants. In recent years, the antitrust agencies have brought four big monopoly (or shared-monopoly) cases. The FTC brought shared-monopoly cases against the leading breakfast cereal corporations and eight leading petroleum companies. After over four years, these cases remain hopelessly bogged down in the early stages of legal proceedings. Nor has the Department of Justice fared better in its eight-year-old case against IBM and three-year-old suit against AT&T. Both are far from resolution.

The chief problem is that the participants in these legal battles are so unevenly matched. The public often views government as a "big," omnipotent force, and it certainly is when pitted against the lone citizen or small business. But this is a false image when it comes to antitrust litigation. For example, AT&T is committed to spend \$60 million defending itself, which is thrice the total annual budget of the Antitrust Division. Let there be no mistake about it: the Antitrust Division is no match for "Mother Bell."

New approaches are required if antitrust is to be more than "an occasional legal ceremony," as Thurmond Arnold put it, perpetuating the myth that we actually have effective public policies to maintain competition. I have three modest proposals to make antitrust a more viable force: (1) the antitrust laws should be amended to simplify the industrial restructuring process; (2) the legislative route should be used to bring about selective restructuring; and (3) the Federal Trade Commission should change its ways and pursue the mission originally assigned it by Congress in 1914.

Strengthening the Antitrust Laws

New legislation would accomplish more than merely strengthening the Sherman Act. By debating the issues and enacting new legislation, the Congress and President would give the antitrust agencies a new mandate reaffirming a vigorous procompetition policy through judicious industrial restructuring. Two new antitrust laws are needed.

One would involve the general approach embraced by the late Senator Philip Hart's proposed "Industrial Reorganization Act." The act articulated standards focusing on the possession of market power in contrast to existing case law preoccupied with issues of competitive intent and abuse of market power.^{15/} It provided for a "rebuttable presumption that monopoly power is possessed" if certain structural and performance criteria were met. This approach would greatly simplify the legal standards, thereby enabling the Antitrust Division to act more effectively and expeditiously.

There is also need for a new antimerger law. There is mounting evidence that conglomerate mergers not only adversely affect the competitive process in many subtle ways difficult to reach under existing laws; they also are unnecessarily and irrevocably contributing to an enormous centralization of economic resources in a few hands. Americans have long recognized that the centralization of economic power is inimical to our political institutions as well as to our economy. Former Justice William O. Douglas articulated well the reasons why such unnecessary centralization should not be tolerated:

^{15/} See W.F. Mueller, Testimony on "The Industrial Restructuring Act," before the Senate Subcommittee on Antitrust and Monopoly, U.S. Senate, March 27, 1973.

Power that controls the economy should be in the hands of elected representatives of the people, not in the hands of an industrial oligarchy. Industrial power should be decentralized. It should be scattered into many hands so that the fortunes of the people will not be dependent on the whim or caprice, the political prejudices, the emotional stability of a few self-appointed men. The fact that they are not vicious men but respectable and social-minded is irrelevant.

Because growing industrial conglomeration poses threats transcending economists' narrow view of a merger's impact on individual markets, a higher standard should be used in judging large conglomerate mergers. Such legislation could require that before a large conglomerate merger is permitted, the Federal Trade Commission make an affirmative finding that: (1) the merger did not have the effect of substantially lessening competition under existing law; and (2) the merger was in the public interest because it promised to increase competition, efficiency, or provide other positive economic benefits in which the public would share. A large conglomerate merger might be defined as one where the acquiring firm had assets exceeding \$250 million and the acquired exceeded \$50 million. The FTC would also be required to hold a public hearing at which the Department of Justice and third parties could present evidence on the likely effects of such mergers. Such a law would establish special standards for very large mergers and require antitrust authorities to account publicly for their decisions to permit or reject such mergers.

Legislatively Mandated Industrial Restructuring

Even with a new antitrust law, the antitrust agencies will still be ill-equipped to tackle certain big tasks. In these cases, history proves the advantages of direct legislative action to bring about industrial

restructuring. Although not used for over three decades, this approach has accomplished much more restructuring than has the Sherman Act. The Public Utilities Holding Company Act of 1935 required massive divestiture. Less well known is the far reaching divestiture required by the Banking Act of 1933, which divorced investment banking and commercial banking. Likewise, the McKellar-Black Air Mail Act of 1934 forced General Motors to relinquish its interests in various airlines and aircraft manufacturers.

Areas where the legislative route may prove essential are the divorcement of large petroleum companies from other energy sources, the prohibition of certain kinds of joint ventures in the petroleum industry, and the divestiture of Western Electric from AT&T. These are matters that likely will never be accomplished by antitrust actions. The time seems ripe for the Congress once again to take direct action in bringing about a more competitive and decentralized economy.

Redirecting the FTC's Mission

The kindest thing many commentators often say about the FTC is that it's good to have some competition in antitrust enforcement. But this is more a criticism of the Antitrust Division than a justification for the FTC. To justify its existence (outside the consumer protection area) the FTC must do more than compete with and duplicate the Justice Department; it must return to its original mission.

Unhappily, the FTC has strayed afar from its original Congressional mandate, which included carrying on the job of the Bureau of Corporations, formed in 1903. The Congress had given the Commissioner of the Bureau power to investigate the organization and competitive behavior of corporations and to publish reports for the Congress, the President, and the

public.^{16/} A premise underlying the Bureau was that the public was entitled to know the facts of business affairs, because as Theodore Roosevelt declared in his first inaugural, "The first requisite [of corporate accountability] is knowledge, full and complete; knowledge which may be made public to the world."

During 1913-1914 the Congress debated heatedly alternative ways of dealing with the increasing centralization of power that the Sherman Act had failed to stop. Out of this debate came the FTC Act of 1914 that created a new regulatory commission with enforcement and investigative missions. Its enforcement mandate required it to prohibit specific anti-competitive practices spelled out in the Clayton Act of 1914, as well as other practices that the FTC in its expertise judged to be "unfair methods of competition" under authority of Section 5 of the Federal Trade Commission Act.

Its investigative responsibilities were to be an extension of those of the Bureau of Corporations.^{17/} Although it had the power to adjudicate practices its investigations found to be anticompetitive, the Commission was fundamentally a fact finding body. To accomplish this, Section 6 of the FTC Act granted broad authority for undertaking investigations requested by the President and the Congress, or at the Commission's own initiative.^{18/} Section 7 of the Act provided that, upon direction of

^{16/} George Rublee, The Original Plan and Early History of the Federal Trade Commission, 11 Proceedings, Academy of Political Science, January 1926, pp. 666-67.

^{17/} The bill originally introduced in the House of Representatives gave the FTC no regulatory authority, it was "hardly more than an amplification of the existing Bureau of Corporations," Rublee, op. cit., p. 667.

^{18/} Additional broad investigative authority was provided by Section 9 of the Act.

the courts, the Commission serve as "a master in chancery, to ascertain and report an appropriate form of decree" in cases tried by the Department of Justice. Clearly, the Congress perceived a different role for the FTC than the one it plays today.

In 1915 the staff of the Bureau of Corporations was transferred to the FTC, which in its first years was composed predominantly of economists and accountants. During its first two decades the Commission initiated and completed many broad investigations, often at the request of the Congress, which frequently used the Commission's investigative inquiries in framing legislation such as the Packers and Stockyards Act of 1921, the Grain Futures Act of 1922, the Radio Act of 1927 and the Communications Act of 1934, the Security Act of 1933, the Public Utility Holding Company Act of 1935, the Federal Power Act of 1935, and the Robinson-Patman Act of 1938.

The Commission's investigative function has assumed declining significance since the late 1930s. This was not because its legal authority was diluted. On the contrary, whereas the courts initially were hostile to the Commission's authority to require special reports under Section 6, in 1950 the Supreme Court settled the matter in the Commission's favor.^{19/}

Why, then, the relative inaction of recent decades? Although various factors are responsible, a major reason has been the Commission's preoccupation with legal matters. Much of its antitrust work has paralleled that of the Antitrust Division. Perhaps more fundamental has been the Commission's weakening ties with the Congress and the President. Although the Commission may have remained an independent agency, it also has become an ignored one. Neither Congress nor the President relies extensively

^{19/} U.S. v. Morton Salt, 338 U.S. 632 (1950).

on the Commission for expertise about questions of market power and conduct.

A great potential exists, however, for the Commission to return to its original mission. There seems to be a new mood in the White House and the Congress, as they struggle with complex questions of market power in the fields of energy and elsewhere.

The Commission must do more than provide testimony concerning bills before the Congress. It must also conduct inquiries useful in framing new legislation. It should on its own initiative, or at the request of the Congress, launch large-scale inquiries into matters that are simply too big and complex for Congressional staffs to undertake. It should also complement the Justice Department's enforcement policy, not duplicate it.

Such inquiries will require creating investigative groups consisting of economists, accountants and lawyers. They must be of sufficient size and expertise both to conduct a large-scale inquiry and to do legal battle, where necessary, with those who would resist investigation.

Success requires the support of the Congress, whose arm the FTC is supposed to be. It can be done with effective leadership and a Commission courageous enough to support such leadership.

Complementing Incomes Policy with Procompetition Policies

At best, industrial restructuring and other procompetition efforts are long-run policies. There is a growing consensus among economists that one of the major costs of market power is that it worsens the trade-off between unemployment and inflation.^{20/} The historical evidence is growing and--to me--is very persuasive.

^{20/} For the author's views, see Willard F. Mueller, "Industrial Concentration: An Important Inflationary Force," in H.J. Goldschmid, ed., Industrial Concentration: The New Learning. 1974. pp. 280-306

The Kennedy and early Johnson years taught us that semi-voluntary wage-price controls could be moderately successful in pushing toward full employment without triggering inflation. They could not, of course, cope with the Viet Nam-caused inflation which they were not designed or able to prevent.

President Nixon taught us additional lessons about the market power-inflation problem. Flush with victory, he embraced lustily an anti-inflation policy based on the free market. The result: simultaneous inflation and unemployment, climaxing in the adoption of a hastily contrived wage-price control system. After this system was phased out, President Ford reaffirmed his faith in free markets by pursuing the time-honored laissez-faire policy of relying exclusively on monetary contraction to control inflation. The result was an even worse disaster. Despite the conscious and purposeful contraction of the economy resulting in the highest unemployment rate since the 1930s, inflation lingered on.

What went awry? Did not orthodox economics teach that prices and wages would stop rising when factories and workers were idled as aggregate demand was contracted?

The trouble was not inelegance of economic theory. Rather, a theory assuming the competitive world of Adam Smith does not serve well an economy where market power will not yield to restrictive monetary policies. The fatal flaw in most macroeconomic planning since World War II has been the assumption that free markets are sufficiently pervasive to discipline key price and wage decision makers. Had market forces been keenly competitive in all industries, as they are in many, the inflation would have moderated quickly in response to the monetary and fiscal restraints imposed in 1969 and again in 1974.

Though economists still debate these matters heatedly in the academic journals, those forced to cope with the problem increasingly have come to recognize that unless market power is dissipated or harnessed, it is impossible to achieve full employment without inflation. Even that steadfast disciple of laissez faire economics and an architect of President Nixon's disastrous 1969-70 experiment with free markets, Dr. Arthur F. Burns, Chairman of the Federal Reserve System, has come to recognize that market power makes it impossible to rely solely on macro policies. "Not a few of our corporations and trade unions," he has said, "now have the power to exact rewards that exceed what could be achieved under conditions of active competition. As a result, substantial upward pressure on costs and prices may emerge long before excess aggregate demand has become a problem." He therefore confesses that "managing aggregate demand," alone, "will not suffice to assure prosperity without inflation."

The nexus between corporate power and inflation is complex. It is rooted in the structural characteristics and performance of modern capitalism. Perhaps as much as \$50 billion of excess profits will be redistributed in 1977 from consumers to the holders of market power.^{21/} I agree with the growing number of economists and public policy officials who believe there exists a behavioral link between high profits of corporations with market power and the wage demands of organized labor. Simply put, the inflation problem is intensified by a struggle over income distribution. This view is held by many economists of varying

^{21/} This estimate is based on Scherer's estimate that about 3 percent of GNP would be redistributed in the form of monopoly profits in 1966. F.M. Scherer, Industrial Market Structure and Economic Performance, Rand McNally & Co., 1971, p. 409.

political persuasion who have been forced to deal with the problem of economic power outside the classroom.

Gardiner Ackley, a member of the Council of Economic Advisors during 1962-1968, sums up his position as follows:

My vision of the type of inflationary process which now concerns us sees it as essentially the byproduct of a struggle over income distribution, occurring in a society in which most sellers of goods and services possess some degree of market power over their own wages or prices (in money terms). The extent of each firm's or union's power at any given time is affected by structural and market factors; the manner in which the power is used is affected by perceptions of what is happening, and by political attitudes and social norms.... In my view, this model of an inflation-generating struggle to increase or protect income shares...provides a substantially meaningful description of wage and price behavior in a modern industrial economy.^{22/}

Murry L. Weidenbaum, Assistant Secretary of the Treasury in the Nixon administration, expresses a similar theme:

The concern with income distribution can be a powerful mechanism for motivating greater use of potential influence over wage and price decisions. After all, why should a blue collar worker really worry about his wage increases exceeding the growth of productivity...when he believes that management is being overpaid, that white collar workers "loaf," and that stockholders are obtaining too large a share of the proceeds both of current income and capital gains?^{23/}

If these interpretations are correct, and I think they are, the entire market power-inflation problem is much more complex than that explained by simple economic models. I am always amazed that those who see with great clarity how powerful labor unions may contribute to an

^{22/} G. Ackley, "An Incomes Policy for the 1970's," Review of Economics and Statistics, 54 (August 1972), p. 218.

^{23/} M.L. Weidenbaum, "New Initiatives in National Wage and Price Policy," Review of Economics and Statistics, 54 (August 1972), p. 213.

inflationary spiral by demanding wage settlements outstripping productivity increases (even when such settlements are designed entirely to catch up with inflation) are blind to the role excess corporate power plays in the inflationary process. Such economists fail to recognize how the corporate power problem may influence the perceptions of labor as to what is fair and just. So long as some corporations are permitted to enjoy persistently excessive profits, labor unions cannot be expected to exercise restraint in the use of their power. It misses the point to argue that eliminating monopoly profits in a particular industry is not important in fighting inflation because it will not affect significantly the consumer price index. This ignores the reality that it is unreasonable, and in a democracy perhaps impossible, to expect some persons to exercise restraint unless there exists a national policy to place limits on market power in all segments of the economy. Thus, procompetition policies play the dual role of reducing the power of those holding it and encouraging other holders of power to use it responsibly. For these reasons, antitrust and other procompetition policies are essential ingredients of any program that expects other holders of power not to abuse their power.

Given our current industrial structure, we need some form of incomes policy that involves voluntary or mandatory price, profit and wage restraints in industries where business and labor hold considerable power. I emphasize, however, that procompetition policies can play an important role in determining both the scope and effectiveness of such programs. They are, therefore, complements and not substitutes for effective macroeconomic planning to achieve full employment. To a degree we have a choice: either

enlarge the area of effective competition or enlarge the amount of government involvement in business pricing decisions.

The Multinational Corporation

The social control of corporate power is no longer a purely domestic affair. The large modern corporation has become a key mechanism for transferring technology, capital resources and managerial know-how. Its operations transcend national boundaries and, often, even ideology, in the pursuit of profits on a global scale. The huge modern corporation has become a multinational enterprise often larger than many sovereign states, and may show allegiance to none.

The emergence of the multinational corporation (MNC) as the dominant force in international affairs is altering the structure of world markets, often in the image of the capital exporting countries.^{24/} For example, the market structures of Brazil and Mexico in many ways reflect the structures of the home markets of U.S. multinational corporations.^{25/}

Wherever it operates in market economies, corporate power has the same structural origins. Research conducted for the Senate Foreign Relations Committee supports "the proposition that the sources and fruits of market power are universal phenomena, displaying remarkable similarities in different nations despite variations in the cultural and institutional environment in which private corporations operate."^{26/}

^{24/} See John M. Connor and Willard F. Mueller, Market Power and Profitability of Multinational Corporations, Report to the Subcommittee on Multinational Corporations, Committee on Foreign Relations, U.S. Senate (forthcoming).

^{25/} Ibid.

^{26/} Ibid.

When MNCs hold great power and reap rich rewards, social control of such power inevitably becomes the legitimate concern of host nations. Because they are American based and often are viewed as the chief American presence in a foreign land, they become intimately tied to our public interest. Any friction between them and foreign governments may ultimately affect American foreign policy.

New solutions to resolve conflict must be found. Just as the large corporation is here to stay within our boundaries, so is the MNC a permanent fixture on the international scene. The public policy issue, therefore, is not whether or not to have MNCs but rather how to insure they work in harmony with our international interests.

We only dimly perceive what public policy should be toward MNCs because they have grown so vast and complex that public policy makers do not possess sufficient reliable knowledge to fashion appropriate policies. Traditional antitrust policy can play an even more limited role in controlling MNC power than it can corporate power in domestic markets.

Although I have no grand agenda for dealing with MNCs, I believe an essential first step in redressing the balance in public vs. private authority is to require that all large corporations be federally chartered, as opposed to current policy of state chartering, thereby explicitly recognizing the special public character of these corporations and imposing special responsibilities on them.^{27/} I shall not attempt here to

^{27/} For the author's views on corporate chartering, see W.F. Mueller, "Corporate Secrecy vs. Corporate Disclosure," in R. Nader and M. Green (eds.), Corporate Power in America, Grossman, 1972, pp. 111-130, and testimony on "Corporate Secrecy," before the Monopoly Subcommittee on Antitrust and Monopoly, Committee on Small Business, U.S. Senate, Washington, D.C., March 8, 1973.

spell out the provisions of such charters. One of the chief goals, however, is to provide a window into MNC affairs by requiring greater disclosure of their operations and, perhaps, by having publicly appointed members on their boards. Some may view this as an unwarranted intrusion of the domain of private corporations. They have come to this view because in recent times many Americans have been taught to equate rights of the private corporation with those guaranteed the individual. Too many people have forgotten what was self-evident to our forebears. Theodore Roosevelt summed it up well when he said, "Great corporations exist only because they are created and safeguarded by our institutions; it is therefore our right and our duty to see that they work in harmony with these institutions."

The Time for Reform is Now

Although these are modest proposals--some will even say an apology for the status quo--many who consider themselves "practical" men will dismiss them as being politically unrealistic, arguing that this is not the day of reform.

Many economists will be among these "practical" men. When called for counsel on matters of reform, economists generally are a very cautious and conservative lot, an establishment of prudent and respectable persons seeking the applause of the established holders of political and economic power. Economists enjoy sharing the limelight with men of high office asking for advice. They soon learn that those most likely asked back for return engagements are those appearing respectable because their advice reduces to a consensus departing little from the preconceptions of those being advised.

But I submit that the "practical" politician and the "prudent" economists are out of touch with the views of the American people. There is a great, and growing, concern with the problems of economic power. Listen to what the people say when they are asked to express their views on these issues:^{28/}

- "In many of our largest industries, one or two companies have too much control of the industry." Agree: 58% in 1965; 82% in 1975.
- "There's too much power concentrated in the hands of a few large companies for the good of the nation." Agree: 52% in 1965; 78% in 1975.
- "For the good of the country, many of our largest companies ought to be broken up into smaller companies." Agree: 37% in 1965; 57% in 1975.

Although the people have expressed increasing concern with centralization of economic power, they have lost confidence in their government's ability to cope with the problem. Whereas in 1973, 60 percent of the people said "government regulation is a good way of making business more responsive to people's needs," by 1975 only 53 percent believed the government could do the job.^{29/} This may reflect the post-Watergate loss of confidence in government's ability to do anything right. But more likely it reflects the common belief that government is controlled by and run for special interest groups, especially large corporations. Whereas in 1964, 27 percent of the people believed that the "government is pretty well run by a few big interests," by 1972 fully 53 percent of

^{28/} The following are based on the findings of the Opinion Research Corporation, which prepares a "public opinion index" for its corporate clients. These findings were reported by Harry W. O'Neill, Executive Vice President, Opinion Research Corporation, to the Wisconsin Association of Manufacturers and Commerce, September 24, 1976.

^{29/} Ibid.

the people held this view.^{30/} Given the mood of the people, a constituency for reform does exist. What is needed is a workable program and enough courageous private citizens and public officials determined to make this the generation of reform.

^{30/} University of Michigan Center for Political Studies, "Election Surveys," as reported in The Crisis of Democracy, report of the Trilateral Commission (New York University Press, 1975).