The Emergence of Oligopoly

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The Emergence of Oligopoly: Sugar Refining as a Case Study.

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ably broader objectives related to their growth as ongoing concerns, the elimination of price competition still remains a *sine qua non* for whatever else they do. Thus it should occasion little surprise when one of these firms is found to have engaged in an overt price-fixing conspiracy or to have joined with the other members of its industry in announcing simultaneously an identical increase in prices. These more obvious manifestations of interdependent behavior are but a small part of a continuing process, extending from the time of the Corporate Revolution to the present, by which price competition has been severely constrained if not eliminated altogether.

The second point that should be emphasized relates to the first. This is that the competitive structure of the American economy was undone, not simply because men willed it, but, more important, because the competitive structure was unviable. The breakdown of competition was inherent in the very conditions that made competition, as economists have defined the term, a reality. The same technology which enabled items of uniform quality to be mass produced also led to an increase in the capital-output ratio, and this in turn reduced the ability to adjust supply to demand. Since the capital represented primarily fixed plant and equipment rather than inventories of goods (as was true during an earlier period of commercial capitalism), it was no longer possible to liquidate one’s losses when the bottom fell out of the market simply by disposing of any unsold stock for whatever price it would bring. Certain costs could be avoided only by going out of business entirely, and if one did that, the plant and equipment would bring as scrap only a small fraction of their value as part of a going concern. Forced as a practical matter to remain in business as long as possible, manufacturing firms were left with little choice but to cut their prices in a vain effort to expand their sales and spread the fixed costs over a larger volume—the high capital-output ratio providing a substantial margin between variable and total costs within which the price cutting could take place.

At the same time that it was becoming more difficult to adjust the supply of manufactured goods to the demand, the very fact that the market structure of the economy was essentially competitive made the demand for those goods more volatile. With private investment and savings decisions effectively decentralized and the federal government committed to playing only an unwitting role in the economy, fluctuations in aggregate demand were all but inevitable, thus aggravating the adjustment problems of individual manufacturers. This state of affairs was untenable because it jeopardized the source of
the system's vitality— the willingness of private individuals to commit their wealth to long-term investments in particular industries.

The fact that the competitive structure of the American economy was unviable is an important point to remember because it explains why all attempts to re-create the Golden Age of Competition have been, and continue to be, doomed to failure. The efforts are as quixotic as attempts to revive feudalism. This is not to say that increasing the number of firms in an industry may not be beneficial. The larger the number of independent decision-making units in any given environment, the greater is the probability of useful innovation. Merely increasing the number of firms, however, is not the same as restoring competitive conditions to an industry or assuring the degree of social control implicit in competitive conditions. This leads to the third point that should be emphasized as one of the conclusions of this study.

Any program for re-establishing the social control lost when the competitive structure of the American economy was so dramatically altered at the turn of the century must take into account the real economic forces at work in the system. The failure to do this was one of the fatal shortcomings of the "trust-busting" program launched during the Progressive period, this country's first attempt to re-establish social control over pricing decisions in the manufacturing sector. By seeking a return to an earlier, misperceived Golden Age rather than accepting the impracticality of price competition under modern conditions of production, the Progressives, especially those in the Wilsonian or Brandeisian tradition, made inevitable their own eventual frustration. Their program was too radical in the sense that, if fully implemented, the workability of the economic system would have been too greatly impaired—not because, as their opponents argued, the advantages of large size would have been lost, but rather because the advantages of being able to control prices would have been sacrificed. The latter included more than the mere ability to better regulate production to demand. Investment was also facilitated, both because of the megacorp's power to generate internally virtually all of the investment funds it required and because of the greater security surrounding investment in an industry from which outside competitors were effectively excluded. At least equally important was the fact that it was possible to devote more managerial time and energy to other matters once price competition was eliminated. All of these are factors which can, and in fact subsequently did, contribute to a high rate of capital formation and technological change, and thus to a high rate of economic growth.
In this respect Theodore Roosevelt, for all his naiveté about "good" and "bad" trusts, emerges in retrospect as the political leader during the Progressive period with perhaps the best understanding of what needed to be done. His preference for regulation over "trust-busting" reflected an awareness that the large industrial concern was an institution concomitant with economic progress and that, this being the case, some alternative to the social control provided by competitive markets had to be devised. If it must be pointed out that the forms of regulation which he favored were inadequate to the task, it must also be noted that no subsequent political leader has been able to suggest, let alone implement, more appropriate forms. The most serious attempt to date to apply the regulatory approach to manufacturing, the experiment with government-sanctioned and government-supervised cartels carried out by Franklin Delano Roosevelt's National Recovery Administration, was abandoned after two years with few persons left who were still willing to champion that approach.1

Because of the political and economic difficulties raised by any attempt to deal realistically with the problem of social control over business pricing decisions, there has been an understandable tendency simply to ignore the question in the hope that market forces will somehow in the long run serve as a corrective force.2 Yet the problem of social control cannot be ignored without danger, as the persistent recurrence of non-demand-induced inflation and related maladjustments of the economic system attest.3 If the problem is ever to be solved, it will be by taking up where Theodore Roosevelt left off, that is, by seeking to establish a form of regulation which, while it recognizes that the large corporation or megacorp is a permanent fixture on the economic landscape, is nonetheless capable of assuring that the megacorp's actions, especially with respect to prices, are consistent with the public interest.4 This is the most important inference to be drawn from the historical experience of the Corporate Revolution.

1 Ellis W. Hawley, The New Deal and the Problem of Monopoly, pt. 1, esp. chaps. 6-7.
2 Intellectual support for this position derives primarily from the writings of Joseph Schumpeter and his emphasis on the dynamic characteristics of capitalism, particularly the process of creative destruction; see his Capitalism, Socialism and Democracy, pp. 59-110.
3 These related maladjustments are elaborated on in the present author's "Business Concentration and Its Significance," pp. 193-96.
4 This problem of social control is discussed in the present author's The Theory of Oligopoly (in preparation).