Countervailing Egos - Stigler Versus Galbraith

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I am reluctant to reply to Professor Stigler for I could seem to be urging the claims of my book against those of a very great classic. And I could conceivably be missing the deeper cause of Professor Stigler's sorrow which may be not that so many read Galbraith and so few read Smith but that hardly anyone reads Stigler at all (Galbraith quoted in Hesson, 1972, p. 89).

In the fifties, only a colleague at Chicago would have placed their money on George Stigler to prevail in any future economic match-up against John Kenneth Galbraith. Stigler seemed to be the champion of a discredited theoretical framework, though this was only true if viewed from a popular, rather than professional standpoint. At the coal face where theoretical gnomes, like Stigler, toiled away at micro theory, perfectly competitive models had hardly vanished. Galbraith, policy advisor, ambassador, novelist, held sway in the court of public opinion. His domain never extended significantly into academic confines. Whatever limited influence Galbraith could command would dissipate as the Keynesian consensus broke apart upon the rocks of stagflation in the seventies. The Chicago School of economics would gain dominance during this period thanks in no small part to the multifaceted talents displayed by its eminence grise, George Stigler.

Throughout his career, Stigler kept up a relentless flow of sniper fire aimed squarely at any economic models which distanced themselves from the Chicago belief in a tight prior equilibrium (Reder 1982). That he did respond tenaciously is not remarkable. Despite a pose of academic detachment, theories reflect the economist as much as the problem investigated. A challenge, whether intended or not, is taken somewhat personally. One might say that much of the trench warfare Stigler engaged in was for the heart and soul of the profession. To those deeply engaged, this was no trivial matter. What separates Stigler from the rest of the combatants is neither his dedication nor his ferocity, though it is hard to imagine greater ferocity than he often displayed; nor was it his cleverness or skill in attacking opposing views, though here again his talents were great. What stands out is the way Stigler consistently misrepresented alternative arguments. Not due to any intentional resolve or lack of integrity, but rather the result of the tendentious nature of his criticism. The ability to distinguish what we want to perceive from what we actually perceive is rare. It seems to have skipped George Stigler completely.

For Stigler, a theory could never be a simple starting point for mutual enquiry. Economic arguments had to be fully articulated, each one encased in its own impregnable carapace. This made it relatively simple to find nothing of value in theories he identified as essentially opposed to his own. His misrepresentations attempted to shift the terms of debate on to more congenial territory where any further conversation would seem pointless. By dismissing critics like Galbraith, Stigler successfully helped to limit economic acceptability to a narrow range of topics and methods in which adversarial debate rather than the give and take of discussion prevailed. Stigler can be seen as pioneering a form of economic correctness, meaning the elimination of certain approaches, methods, and theories from the profession which he found distasteful. These he would damn as consisting of imprecise thinking based
on anecdotal evidence⁴. Allowing for the validity of such criticism, Stigler's insistence on precision in an ambiguous world moves dangerously close to preferring the precisely wrong to the approximately right. This clearly comes through in his obvious distaste for the work of John Kenneth Galbraith⁵. By examining an early but decisive clash between these two economists, we can gain a better understanding of Stigler's methods in undermining opposing views. By stubbornly refusing to entertain alternatives, by adopting an adversarial style of debate more suited to the court room⁶ than to the common rooms of economic discussion, Stigler did the profession he so loved a lasting disservice.

**Matter and Anti-Matter**

To many of us the notion that one individual shall be in position to control the real income of others remains more than slightly obscene. We react to it much as a Puritan to Professor Kinsey - adultery exists no doubt, but how much better not to talk about it (Galbraith 1954, p.5).

It seems strange that so much of our fears, hates and jealousies can sometime find a physical manifestation, something that would otherwise only exist in the alternative world of our imagination. Yet if we lived in a truly Hegelian world, we could find no better concrete embodiment of the logic of an underlying dialectic than Galbraith and Stigler. Without the one, the other could not have existed, so much did each help to define where and for what his opponent stood. As a result, it is hard to prevent a discussion of personality from creeping into any analysis of the long battle they fought from opposing trenches of the economics profession. It is of course a cliche to say that the acorn doesn't fall far from the tree. But it is hardly surprising that George Stigler and John Kenneth Galbraith consistently ended up on the opposite side of any issue. Genes may not be destiny nor environment alone conclusive, but taken together the two do seem to get the job done.

Economists, and certainly that includes George Stigler, like to sneer at what they call anecdotal evidence. But to do so is to willfully ignore the way we come to believe that something holds true. We have convincing experience only of the anecdotal. Deep down we believe fully only that which accords with our own experience. Battalions of statisticians are all unavailing when compared to a contrary personal encounter. Though Stigler explicitly rejected as half-baked, any theory that could not stand up to rigorous and detailed attack, it is his own intuition about markets that shaped his arguments over the years. What empirical evidence could ever convince Stigler to fundamentally change his mind, to find grievous faults with the working of the price system? In his autobiography Stigler (1988a, p.210) does cite a few noteworthy conversions, economists who changed their minds and embraced new ideas. A similar conversion by Stigler would have been no less likely to occur than the pope's public embrace of Islam⁷.

Stigler (1988a) was the only son of immigrant parents. Unlike most first generation children, Stigler was never forced to work. His only brush with manual labour was a three week stint picking apples. Galbraith (1981), one of four children, grew up on an Ontario farm that had been in his family's hands for several generations. Like any farm boy, he put in long hours doing chores. Stigler grew into a theorist who didn't believe in getting his hands dirty, who in a sense had no interest in finding out how things worked. His dislike of survey material, or the use of case studies in the style of Joe Bain, was pronounced⁸. The Chicago compulsion to look for unifying models which could apply generally, always prevailed. Details were applied more for their expositional convenience than for their evidence, to help in telling a likely story. Though Stigler wanted to be a businessman (1998a, p.15) and went so
far as to get a MBA from Northwestern, he displayed little real interest or particular knowledge of business. Industrial organisation, to which he devoted much of his career in the post war period, was for him simply applied price theory: "His method was to learn enough about the industry, and perhaps only just enough, to help fashion a statistical test" (Demsetz 1993, p.796). For all the stated passion he expended on measurement, his consistent and almost sole objective was to extend the reach of price theory. His tests were in a sense only rhetorical devices to support the a priori conclusions of his theory. Thus he was often given to claim more for his results than was empirically justified.

Stigler's concern was that of a classic liberal, one who valued individual choice over all else, believing that the market provided the best basis for individual self-realisation: "... we are persuaded that an economic system will not help us to move in the right direction unless it grants both opportunity and responsibility to the individual: the very uncertainty of our ultimate ethical goals dictates a wide area of individual self-determination" (Stigler 1949c, p.8). Galbraith, the farm boy, saw collective choice as complementing decentralised decision making. The sort of corporate and government planning which he regarded as a natural function of the growth and development of capitalism, Stigler found abhorrent and unnecessary. To say that these views are a mere reflection of their formative years would strike most economists as cheap pop psychology (assuming there is any other kind). Yet as Stigler himself admits (1982a, p.63), we all interpret abstract propositions in highly personal terms. It is hard to imagine how those personal terms can be divorced from our experiences.

Stigler's and Galbraith's were so totally opposed that it's hardly surprising that the theories which rang nearest the truth to one were incompatible with the predilections of the other. Stigler as a fervent Roosevelt New Dealer strikes one as an absurdity not only in retrospect, but also peering through the eyes of the teenage George Stigler.

In one decisive sense, these two long time sparring partners were nonetheless similar. They were both outsiders, provincial boys who scrambled their way out of obscurity. Perhaps as his long time associate says of George Stigler, shyness was ultimately at the heart of each one's abrasiveness: "George, on being introduced to an individual, a small group, or a large audience, would always make a joke. He never failed. I hardly dare suggest that there was a certain shyness behind this disarmament with wit" (Friedland 1993, p.783). They both had that touchiness of the somewhat gauche young man, afraid of being slighted or even worse ignored. Perhaps both provincial boys suffered from a certain self-conscious touch of inferiority, a fear of being overlooked. This might explain the tendency of both for showing off, for never refraining from the clever remark, regardless of the hurt it might cause:

I suffered from a problem in personal relations that I never quite overcame. This was not so much from being more versatile, more diligent or perhaps more able than my colleagues. Such can be tolerated. The damage arose from my fear, which I earlier indicated and which I never quite suppressed, that my superiority would not be recognised (Galbraith 1981, p.18).

Stigler found a home in the rough and tumble of Chicago's economics department, which for many years defined itself in terms of being the maverick of the profession, a place full of ambitious young economists on the make. Galbraith, for all his acquired charm, his ease with the movers and shakers of the world, never felt completely comfortable at tradition-bound Harvard. Given their combative natures and their beliefs, any meeting between the two could not possibly be amiable:

Not everyone enjoyed and appreciated George Stigler as much as all those who knew him well. Kenneth Galbraith, for instance, had the bad judgment to engage in public debate with George a couple of times. Thereafter Ken was quoted to the effect that he would not demean himself by appearing on the
same platform with a character so disreputable and contemptible as to have been mentioned favorably in the National Review, as Stigler had been. Later, to be sure, Galbraith apologized - to the editor, Bill Buckley (Wallis 1993, p.778).

A Survey of Contemptible Economics

To be sure, for half a century economics has been a kind of trial of wits between those who sought to perfect this doctrine of ultimate harmony and those who-citing inequality and its perpetuation by inheritance, external economies, immobility of resources, and other inhibiting forces-sought to limit it. But the doctrine was only completely vulnerable at one point and that was where monopoly entered - the defenders and attackers entirely agreed that monopoly (cum oligopoly) was deeply subversive of the competitive model. And, since oligopoly was stubbornly resistant to incorporation in a new system, at least by the old methods, it destroyed without leaving anything in its place (Galbraith 1948, p.109).

In Westerns, the classic gunslinger remains Jack Palance in Shane. Hired by local ranchers to drive out newly arrived dirt farmers, impeccably dressed in black, he sneers at them, insulting their manhood, and defying them to fight back. He knows that not a single one is his match. Without pushing this analogy to the point of filling the other film roles, it is clear that whatever his sartorial proclivities might be, George Stigler was Chicago’s hired gun (employment more as a labour of love than motivated by strictly monetary rewards). Though physically at Columbia University during his major tussles with Galbraith, his heart and intellectual commitment never wandered far from Chicago. He had already savaged Lester (Stigler 1946, 1947b) and Sweezy (Stigler 1947a), beating back the attempts of those two Easterners to attack and replace Chicago doctrine. Underlining these two counter-attacks was a near compulsion to defend the theoretic and empirical validity of marginal productivity theory, the subject matter of his dissertation under Knight (1938), of his first major published paper (1939)11 and of his first book (1941). In much the same way, marginal productivity theory lay behind his savage dissection of a 1948 collection of essays A Survey of Contemporary Economics (see Appendix A).

The book itself seems innocent enough, an attempt by the American Economic Association to examine the field of economics over a fifteen year period from 1930-1945. There are thirteen surveys covering a variety of fields. The attempt was to give the non-specialist in those fields an idea of recent developments. (Even then, the dangers of economics becoming too narrowly specialised was apparent.) The coverage was not meant to be comprehensive:

Finally, the choice of contributors and, in turn, their selection of subjects and substance answer to no grand design for a unified method or philosophy of economic thinking. The purpose of the book is not to impose an artful scheme upon the interpretation of recent analysis and policy, nor to influence their future course, but to review their substance and appraise their significance (Ellis 1948, p.vii).

The selection of contributors does lean toward the liberal Harvard/Berkeley nexus of that era12. That may in part reflect the postwar composition of the profession, especially among its younger members. Yet their brief is to present rather than evaluate the work (though some do overstep this boundary in their enthusiasm for a particular line of investigation). Moreover, each survey was reviewed by two critics, as they are called in the volume. The published works supposedly reflect their authors’ response to those suggestions.
The critics include many conservative voices including a number from Chicago and even from Harvard (Schumpeter and Haberler).

For those at Chicago, the problem seems to be that in many key areas of price theory ("Value and Distribution", "Employment Theory and Business Cycles", "Monopoly and The Concentration of Economic Power", "Price and Production Policies", "Federal Budgeting and Fiscal Policy", "Economics of Labor") the survey challenges the orthodox view. Common to all these essays is an enthusiasm for the then popular Keynesian line, which in Chicago was equivalent to being wrong by definition. Harvard at this time embodied a source of conservative frustration. It served as the transmission centre for a heretical infestation that was devouring the sound foundations of economic science. Galbraith boasted that "the Keynesian revolution entered the United States and went on to Washington by way of Harvard." (1981, p.91). A doctrine which proclaimed non-clearing markets and which was scorned by his revered teachers (such as Knight and Viner), would hardly be given a fair hearing by Stigler: "Keynes produced a bundle of paradoxes and heresies in the General Theory of Employment, Interest, and Money." (Stigler 1988a, p.213).

Stigler's role in this context is clear. Review articles are usually commissioned. The Journal of Political Economy was Chicago's house journal. The article is the lead one for the April issue of 1949. For a review to be so featured is unusual. One can only conclude that the editor, Earl Hamilton, and the others connected with the journal at that time, felt that it was imperative to reply to this collection of heresies. Moreover, one does not normally choose George Stigler if the goal is simply to extol the virtues of a recent work. Stigler accordingly was commissioned not so much to simply review but to destroy this well publicised collection of surveys. That others, outside of the Chicago circle, recognised this is indicated by a 1952 AER companion volume. The new editor, Bernard Haley, one of the writers attacked by Stigler in the first volume, refers to reviews by Viner (1950) in the AER and by Robertson (1950) in the QJE. What sticks out is the absence of the other top US journal which is studiously ignored, the JPE issue containing Stigler's search and destroy mission. Yet in many ways this second volume is a reflection of Stigler's harsh demands for more conservative voices. The lesson learnt by those at Chicago was that such savagery worked.

Given Chicago's propensity for hand to hand combat, it is not surprising that Stigler took every opportunity available to undermine the value and even the integrity of that survey volume. The basic premises held by these two groups of contending economists were located at opposite ends of the economic spectrum. The majority of survey writers saw the fifteen years from 1930-1945 as a period of theoretical and empirical breakthroughs. Those whose hearts beat in rhythm with Chicago's saw these years as a detriment to the advancement of the economics profession: "The plain fact is that the economic theory of 1948 is much the same as that of 1930 - a little better here and a little worse there. If the contributors had taken Ellis' "main ideas" and "fifteen years" at all literally, the volume would have run to fewer pages" (Stigler 1949a, p.101).

Judged as a critical-review, Stigler's article fails. This is not to say that room for ample criticism does not exist. A case can be made that some of the authors of the surveys display an unnecessary bias and enthusiasm for the work they chose to review, even if the bias is a popular one of that era. They then can justly be accused of falling short of an ideal standard:

The ideal performance would call for a large measure of self-abnegation, of objective reporting of what was prevalent, even if what prevailed was not wholly approved of by the contributor, but with aid provided to the non-specialist so that he could reach some judgement of his own as to the merits of recent developments in the various fields (Viner 1950, p.650).
Stigler seems more concerned that they lack the proper bias. An even-handed approach would be unlikely to win Stigler’s plaudits:

He (Haley) has performed this summarising function with skill, and his essay is an excellent contribution to analytical bibliography. With such a purpose, however, the essay cannot rise much above the literature with which it deals.

Where the literature is wrong, Haley is wrong with it (Stigler 1949a, pp.93-94).

Stigler clearly signals his intention in his opening paragraphs. His aim is not so much to review the volume but to argue that it is a one sided look at the direction in which economics is headed: “I shall argue that, on the whole, the Survey has failed in its announced purpose of supplying informative summaries of the recent literature of economics but that it is a somber success in conveying the essential character of the literature” (Stigler 1949, p.93). Stigler is clearly claiming that the failings of the volume (the unscientific, vacuous nature of the discussion) are a reflection of the material which the authors insist on including and equally on that which they choose to exclude.

Stigler's deepest intuition was that markets delivered the goods. He took this to mean not only at a material but at an ethical level as well. Arguments starting from any other point of departure were dismissed rather than analysed. He deemed that allowing such heresies even a foothold into generally accepted discourse was unwise, unnecessary and unnerving. Though steadfastly insisting on empirical verification, rather than the sort of a priori reasoning which he describes as endemic to, as well as the defining measure of, Keynes and his cohorts, it is ironic that all of Stigler's statistical work merely confirmed his own preconceptions. While Keynes was known for his sometimes infuriating ability to change his opinion as available data changed, Stigler proved over the decades to be impervious to any set of facts.

Throughout his career, those he vociferously attacked were for the most part Harvard habitués. This is not so much a coincidence as a predictable response. In the post-war era, the dominant schools of industrial organisation, that of Edward Chamberlin and of Edward Mason, both were centred at Harvard. Both clearly deviated from standard price theory. Market outcomes under these approaches were not necessarily unique or efficient. The work of Sweezy, Means, and Galbraith, both before and after the war, tried whether explicitly or not to develop a microeconomics consistent with the growing Keynesian trend in macroeconomics, in each case relying on some form of oligopolistic industrial structure. This ran counter to Stigler's Chicago traditions as well as to the trend that price theory was taking there. In this respect, Harvard succeeded in defining itself as the enemy camp:

The emerging Chicago tradition challenged both of these ruling views. It proceeded from the assumption that modern price theory is a powerful weapon in the understanding of economic behavior, not simply a set of elegant theoretical exercises suitable for instruction and the demonstration of one's mental agility. In particular, primarily under the influence of Aaron Director, we moved away from the assumption that monopoly was almost ubiquitous in modern economies. This Chicago orientation had three main facets. The first was that the goal of efficiency is pervasive in economic life, where efficiency means producing and selling goods at the lowest possible cost (and therefore the largest possible profit). This goal is sought as vigorously by monopolists as by competitors, and monopoly power is of no value in explaining many phenomena which have efficiency explanations (Stigler 1988a, pp.162-163).

The selection of surveys, out of a possible total of thirteen, that Stigler chooses to evaluate is hardly a matter of chance given his agenda and his in-bred aversion to Harvard-style doctrine. It is best then to discount his claims of expediency and his ready professions of
limited knowledge. These are rhetorical devices to avoid any discussion of selection bias. Six of the seven articles reviewed are linked by their common violation of core Chicago price theory.

His treatment of Galbraith's own effort (his is one of the seven stigmatised selections) exemplifies Stigler's approach and allows us a useful insight into the emerging conflict between these two figures. Galbraith's survey concentrates on oligopoly theory. The emphasis is on the way in which such market structures affect market outcomes. It can be seen as a warm up exercise for his 1952 book on countervailing power. While in other cases Stigler damns the survey writers with faint praise, when it comes to Galbraith, Stigler foregoes the faint praise. But the volley Stigler fires across Galbraith's bow doesn't speak to the points Galbraith makes. Stigler uses the formal devices of a lawyer to reframe and destroy his arguments. Galbraith himself inadvertently sums up the point of contention between the two:

To concede that a businessman should orient his price policy to social norms is to assert that the single-minded pursuit of profit is presumptively anti-social. It admits of a rule of private collectivism that accords important legislative functions to the private entrepreneur. Conservatives and liberals alike found the idea unappetizing. The implied alternative, namely that price behavior had become a fit area for state intervention, also had disagreeable overtones (Galbraith 1948, p.112).

As Galbraith points out, critical theory, starting with Sraffa's 1926 paper, opens the way for economic models lacking a determinate solution. The claims then for market efficiency fall to the ground. The issue between Galbraith and Stigler becomes whether or not the US economy is dominated by competitive markets with flexible prices or oligopolistic markets with administered prices. Stigler is not so naive to claim that the US economy actually consists of the classic "large number of independent firms, none dominant in size." (Stigler 1949b, p.47). "The frequent criticism of theoretical, and especially classical, economists that they are or were not aware of this fact reveals both a distressing ignorance of the literature and a lack of understanding of scientific methodology." (Stigler 1942, pp.1-2). Stigler however clearly sees, as does Galbraith, that the real issue is not literally one of industrial structure but of price and output.

For Galbraith, industries where a few firms produce the bulk of market output (high concentration ratios) have interdependent choices to make. Once an individual firm's decisions affect market price, it would be ingenious to suppose that firms make those decisions without giving thought to the decisions of rival large firms. Such interdependence may or may not lead to competitive market prices. But it does seem obvious that collusion is far more likely the fewer the firms there are to collude. Supported by, what is to him, convincing studies on the price behaviour of such firms, Galbraith sees this issue as settled and obvious.

Oligopoly is a structural problem that Stigler had to struggle with before finding a solution conducive to his own ends. Stigler would eventually tackle the problem of interdependent decisions by focussing on collusion and particularly the costs of cheating on a collusive arrangement. If one combines his work on the economics of information (1961) with his work on collusion amongst oligopolies (1962), the solution is evident. Given that collusive agreements are difficult to maintain, competitive prices should be the rule rather than the exception. Stigler would wait until 1970 to empirically demonstrate that prices were indeed flexible rather than rigid. Following this string of logic backward from the established
frequency of flexible prices, one could then safely conclude that the problem of interdependent decisions has no serious consequences for economic analysis:

In Stigler's confrontation with the oligopoly problem, he avoids the very aspect of it that others saw as its central feature and that neoclassical economics fails to deal with: interdependence of decision making. He does this by assuming that this problem, in some unspecified way, is solved simply because it is in the interest of firms in the industry to solve it (Demsetz 1993, p.805).

Stigler starts to change his views on the issue of monopolisation between the years of 1942 and 1949. It is not that his basic belief in the competitive nature of most industries changes, but rather his reading of the evidence does. His 1942 piece is open ended, explaining the limitations of available techniques and data. By 1949 his use of many of the same studies becomes a battering ram applied to the views of rival theorists. Something does happen in the post-war era to George Stigler's professional approach. Whatever generosity he might once have wished to extend to his opponents vanishes. There is a parallel here with the rising Cold War tensions of the late forties and early fifties. Certainly Stigler as a founding member of the Mt. Pelerin Society would consider classic liberalism to be under serious threat from collectivist doctrine. When taken in combination with the prevailing political environment, any concession yielded by the proponents of neoclassical price theory would have been the equivalent of an ignominious surrender.

In 1942 the question of how competitive an economy as a whole might be, held no real meaning for Stigler. Certainly it was not a question that could be quantitatively answered:

The second major problem is concerned with the much discussed question: How competitive is the economy as a whole? Despite the frequency with which dogmatic answers are given to this question, it is doubtful whether any meaningful answer is attainable ... it is difficult to find any important purpose in asking how competitive an economy is (Stigler 1942, p.4).

For this reason, though he considers Wilcox' (1940) efforts at classification to be admirable, it yields no definitive answers. Certainly to Stigler (1942), concentration ratios are ambiguous since there is no established relationship between any such ratio and a level of competitiveness.

Stigler in his 1949 Lecture on "Competition In The United States" repeats his belief that these estimates have little if any scientific value. He does however let the proverbial cat out of the theoretical bag by admitting that such figures seem to have an unfortunate effect on social policy. This is what distinguishes his 1942 remarks from those of 1949. By 1949 he is engaged in an open battle with an opposing blueprint for the economics profession as well as for consequent policy:

There is no necessary relationship between one's views on the extent of competition and on the type of economic policy that should be pursued. One can believe that the economy is 99 per cent. monopolized, and still argue for policies designed to revive competition and private enterprise; or one can believe that the economy is 99 per cent. competitive and still argue for syndicalism or socialism. Such positions, however, are not popular ... Most economists would probably change their policy views if they were convinced that their appraisal of the relative roles of competition and monopoly was fundamentally wrong (Stigler 1949b, p.46).
Given the role that he is assuming in this lecture, as well as that played in his review article (1949a), he has no trouble leaning on the very same Wilcox (1940) study he previously regarded with scepticism. When battling for leverage, nuances serve only as self-imposed hindrances to one's argument. Can we then take the accusation that Stigler makes against Galbraith seriously? "He [Galbraith] possesses a view of industrial organization that seems to me independent of the empirical studies which he cites; I have used the same studies, and in more detail, to derive the opposite view of our industrial organization" (Stigler 1949a, p.96). Stigler had previously viewed the Wilcox (1940) study as highly ambiguous. The nature of ambiguous data is that investigators are likely to draw whatever conclusions they want from it. It is not surprising that Galbraith and Stigler reach opposite ideas given their initial opposite preconceptions. This is no more a cardinal sin on Galbraith's part than on Stigler's.

The rest of Stigler's indictments are of much the same character. Stigler picks items out of context to facilitate his attack. At no time is there an attempt to judge Galbraith's survey on it's own merits, the objective the author sets for himself. He mocks Galbraith's claim that the US economy is dominated by oligopolistic markets: "... he turns to the low-quality literature on giant corporations and concentration ratios, with which he is much more satisfied" (Stigler 1949a, p.95). One mustn't forget that Galbraith is surveying the recent literature on the subject. Much of the work of that time, starting with the effort by Berle and Means (1934), leaned heavily on the non-competitive nature of the US economy. Part of this involved the sort of concentration ratios that is the object of Stigler's scorn. While non-competitive pricing may be more likely given fewer firms involved in the market, there is, as previously stated, no conclusive evidence of a strong relationship between industry concentration and a lack of price competition. But Galbraith doesn't merely focus on this one structural aspect. Stigler misleads the reader by emphasizing this issue. What is at stake is not simply whether an industry is highly concentrated but whether competitive pricing does or does not prevail in the given market. Galbraith cites Gardiner Means' (1939) work on inflexible or administered prices as well as the work of Mason (1938), Humphrey (1937), Wallace (1936) and Galbraith (1936). Stigler fails to mention this aspect but instead hoots at the more dismissible work on concentration ratios. This is not the crux of Galbraith's contentions. Galbraith clearly supports the view that oligopoly is the dominant market structure. But given the available research on the subject, this predilection is at least equally as plausible as a strongly held, but opposite, belief in competitive markets. It is reasonable to chide Galbraith for presenting this as a settled issue. There is little basis for deriding such a conclusion as purely spurious.

Taking a more dispassionate view, it seems fair to suggest that neither side of this debate supported their claims with compelling evidence. Concentration ratios, no matter how tailored, fail to compel belief. The work on price flexibility was not conclusive except to hardened partisans. One thing only is clear. Neither side of the debate sufficiently distinguished how an oligopolistic as opposed to a competitive market would look and operate. Until such a standard could be firmly agreed upon, many of these arguments, whether empirical or theoretical by nature, would continue to have a, 'your mother wears army boots,' tone about them. Claire Wilcox (1950), reiterating his 1940 monograph, may think only twenty percent (at most) of the economy is not price competitive. The fair-minded must tend to agree with Stigler's 1942 claim that this is a rhetorical rather than an empirical point. We can look at specific markets but the aggregation process conveys insufficient information. Ideally what we need to know is whether firms in a particular market deviate significantly from marginal cost pricing. Even a rough approximation would be difficult.
Demsetz claims that Stigler "wore his passion for measurement on his sleeve" (1993, p.795). The one common thread running throughout Stigler's work is that economic questions are basically questions of fact. Issues that were meaningful could be decided empirically. If this is not the case, economics is reduced to so much talk. Stigler in fact castigates the economics of the thirties and forties for taking the easy road of empty theorising:

Thus the dominant characteristic of the dominant type of economic theorizing in the period under review is well brought out by the essay: this has been the period of the clever gadget and the plausible surmise - the age of the easy answer. The tedious and difficult work of testing theories by a comparison of their predictions with evidence not incorporated in the formulation of the theory - that is, by noncircular tests - and careful interpretation and generalization of inductive studies have been deemed unnecessarily circuitous paths to knowledge and to social welfare (Stigler 1949a, p.104).

This is a ringing condemnation but one applicable to any period of economics. The idea that empirical findings are unlikely to be disputed reveals either an ingenuous nature or one which finds ambiguity to be uncongenial26: "An inconvenient a priori argument can always be eroded by challenging its exclusion or inclusion of some assumption, but economists find it difficult to resist well-established empirical findings" (Stigler 1982, p.23). The problem is that it is hard to think of one case where empirical findings convinced Stigler to change his mind. He often quoted studies which he found to be convincing, but these were findings which agreed with his preconceived ideas and opinions.

Galbraith's survey became the occasion for these two opponents to clearly stake out their positions, foreshadowing the offensive weapons they were wont to employ. It represents one out of many preliminary rounds in which the Chicago School attempted to rescue economics from those who had shaped the dominant view of the subject in the thirties and forties. It was to be expected that Stigler would be the point man for the attack on Galbraith's first major work. This time the confrontation would be face to face at the 1953 AEA convention.

An Economist Plays With Blocs

At the end of 1953, the American Economic Association scheduled a special session to consider it. A newspaper reporter covering the meeting heard one young scholar tell another, "It's time to go and hear them destroy Galbraith."

The effort was undertaken with enthusiasm and competence by David McCord Wright, then of the University of Virginia, and George Stigler of the University of Chicago. Neither approved new thought, however plausible (Galbraith 1981, p.283)37.

Galbraith gained economic notoriety through his first popular work28. In many ways, American Capitalism forms a natural progression from the ideas expressed in Galbraith's 1948 survey article. Though still known for its theory of countervailing power, the persistent reader confronts that particular idea only in the last half of the book. Galbraith first lays out his understanding of post-war American capitalism, both how it works and how it had changed. The book can best be described as an extended meditation on the nature of private economic power since the turn of the century. According to Galbraith's view, oligopolies have shaped American markets rather than vice versa. As a consequence, an economist's traditional lullabies were out of tune with the reality of current industrial structure.
In standard analysis, power could not enter as an issue since the core neoclassical model assumed that firms were too small to affect market prices\textsuperscript{29}. They were forced to adapt to market dictates as best as they could. In the absence of private power, the check of government intervention is unneeded. Consumers exercising their right to choose can effectively meet their needs and in so doing force firms to strive for efficient operation. Galbraith sees this reign of price competition as belonging to times long past. Firms had hijacked pricing power by regulating competition. As evidence, Galbraith cites available studies based on the best existing data:

The critics of the figures [industry concentration figures] have, with a few exceptions, been men who are deeply devoted to the economic and political system identified with the competitive model as an economic and political goal. They have been in the always equivocal position of the man who must testify to the virtue of a well-loved mistress (Galbraith 1954, p.37).

Yet, despite the prevalence of monopoly power, despite the automatic links between saving and investment turning out to be a mirage, the post-war economy, for all the widespread foreboding which greeted it, had performed effectively. According to Galbraith, it maintained and promoted a desperately required level of social harmony\textsuperscript{30} largely without government assistance: "The task of this and the chapters following is to examine in turn the circumstances which have kept social inefficiency, private power, government intervention and unemployment from ruining us in the recent past" (Galbraith 1957, p.85).

Galbraith, like Stigler, is convinced of the need for decentralised and rapid decision making in the productive sector\textsuperscript{31}. Galbraith suggests that even in the absence of competition the existing set of dominant market structures are still self-regulating. Using a Newtonian analogy, he concludes that the rise of concentrated market power eventually generates an opposing power structure which checks abuse. In this way, gains are shared and social harmony maintained. The only role left to the government is one of promoting the formation of opposing blocs in those cases in which transaction costs otherwise might hinder them (labour and farmers are a case in point). This is not far removed from the basic Smithian idea that given the proper environment, markets will operate effectively. However these environments may sometimes need to be created, they will not necessarily create themselves. But once in place, continuing intervention is minimal. There is unfortunately an inherent danger as well\textsuperscript{32}. If one accepts Galbraith's reconceptualisation of the market as power blocs, then the potential for a wage/price spiral seems obvious. Linking himself to Keynes, Galbraith sees the inbuilt inflationary tendency of this market structure as being more of a political problem than anything else.

Once saving and the certainty of its utilisation in investment became suspect, Galbraith, like so many others of that era, saw the necessity of providing a macro founded microeconomics reflecting both the reality of the existing industry structure as well as the new Keynesian understanding of the economy. The doctrine Keynes presented raised uncomfortable questions about income distribution and profits. Galbraith's response was to provide an answer based on relative bargaining power. Extending his 1948 analysis, Galbraith concluded that the need for government intervention, in terms of anti-trust actions, was rapidly dwindling. Removing government from performing this pivotal function should have found favour with Stigler's own penchant for such a limited role. But Stigler isn't so easily lured by this particular prospect of a self-adjusting market based economy. Accepting Galbraith's simple proposal is equivalent to defining power as the basis of economic analysis.

An analytic core so defined is antithetical to the sort of market faith commonly held in Chicago\textsuperscript{33}. Power relationships have the distinct disadvantage of yielding no unique
equilibrium. They are consequently at odds with Stigler's unwavering adherence to the lasting validity and general applicability of marginal productivity theory\textsuperscript{24}. Where power relations dominate economic activity, factors of production are rewarded with their marginal product only by chance. Relative power, not market forces, determines income distribution. This remains the compelling problem at the heart of any oligopoly theory. Whatever else its virtues may be, capitalism, defined by market power, is not synonymous with economic efficiency. Faced with this alternative, Stigler must forcefully reiterate the dominance of competition. His first step is to aggressively attack the opposing hypothesis of industrial concentration.

Galbraith's book cavalierly dismissed the hardcore price theory forming the basis of George Stigler's intellectual life. In effect, Galbraith was presenting Chicago, and Stigler, with a black bordered condolence card. In doing so he appears to shed the same sort of sympathetic tears over the demise of standard price theory that the Walrus spared for his esteemed oyster friends: "The comparative importance of a small number of great corporations ... cannot be denied except by those who have a singular immunity to statistical evidence or striking capacity to manipulate it" (Galbraith 1957, p.109). Given their earlier exchange (1948-49), and the nature of Galbraith's hypothesis, Stigler has no option, but to slash and burn in his well honed and familiar fashion. This he proceeds to do at the 1953 AEA meetings despite the incongruity of Stigler taking an ostensibly more interventionist approach than Galbraith\textsuperscript{25}.

A book like American Capitalism that was an avowedly popular work was for Stigler a sufficient self-confession of guilt. 'Popular' was a shorthand for a lazy piece of journalism peppered with assertions rather than reasoned arguments backed by empirical evidence. It is true that Galbraith's arguments are far from tightly reasoned and his evidence more impressionistic than overwhelming, but that in a sense is part and parcel of most popular writing. The point of such writing is to focus and stir debate rather than rivet each element of a model firmly in place. By appealing to the public at large, Galbraith hoped that the ensuing debate would be one that professional economists could not avoid.

In Stigler's eyes a populariser was no better than a witty entertainer, plying a trade which had more to do with the art of a novelist than the science of a practising economist\textsuperscript{26}. This narrowing down of debate, provides a rationale to exclude those whose rhetoric strays from the established norm. Galbraith, like Veblen before him, would gradually be marginalised for this as well as for other sins. Stigler then needs no prodding to go into action. The nature of his response is telegraphed by the title chosen ("The Economist Plays with Blocs"). Clearly Stigler has no intention of restraining himself.

Galbraith's popular appeal seemingly had its desired effect. Organisers of the 1953 AEA meetings scheduled a session devoted to discussing, or more accurately eviscerating, this new theory of countervailing power. Stigler rose in response to Galbraith's opening remarks. Galbraith had taken the opportunity to respond to a number of objections raised since the publication of his work. Stigler proceeded to raise all the same objections as though Galbraith had spent the last thirty minutes discussing the novels of Jane Austen. There is no recognition of Galbraith's remarks, no change in his set critique. This adds something sour and carping, an unnecessary note of petulance, to what would otherwise be legitimate objections. Despite speaking so soon after Christmas there is a want of generosity in Stigler's approach\textsuperscript{27}. It is an unrefomed, grinch like, George Stigler that faces the audience: "To sum up this stage of our analysis, we may say that Galbraith's notion of countervailing power is a dogma, not a theory. It lacks a rational development and must be accepted or rejected without reference to its unstated logical antecedents" (Stigler 1954, p.10).
These rough remarks could equally be applied to Stigler's own efforts. Neither ironic self-recognition or even-handedness has a place when the aim is demolishing rather than evaluating a theory. Galbraith did not sufficiently detail the conditions under which countervailing power would arise. This does not imply that the work is fundamentally wrong and should simply be discarded. What Stigler was hoping to do is not to force Galbraith or possibly other supporters of countervailing power to clarify their ideas but rather to close off the discussion before it became too widespread. As pointed out previously, the session itself was a response by the mainstream of the profession to the popular interest Galbraith's book generated. The very speakers at the session seem to have been chosen for their varying ability to overwhelmingly reject rather than discuss the work.

Stigler starts, as always, from a non-controversial premise. He lists three bases of Galbraith's theory, all of which, he concedes, are commonly held by a number of economists: the American economy is currently efficient and progressive; the American economy is dominated by large business concerns; and the American economy is characterised by powerful sellers faced by powerful buyers. Stigler does raise the quibble that there is a seeming contradiction between the first two points. Monopolised economies, he declares to be necessarily inefficient. In doing so, he ignores his implicit assumption that resources are equally employed in both cases. In the post-Keynes era, many economists would not be willing to accept this assumption at face value. Galbraith chooses to advance instead a Schumpeterian line that large firms, being capable of devoting more resources to R&D, produce more innovative economies. Considered dynamically, a monopolised economy can in this sense be more efficient. Stigler ignores this possibility. Instead, he resolves his own hand-crafted contradiction by pointing out that the US economy is superior to those of Britain, France and Germany. These countries have more concentrated industry. Hence he concludes that the US economy is ahead because it has more competitive markets. Stigler here seems to accept what he has so vociferously rejected before, the link between concentration ratios and competition. By doing so he allows his audience to make a natural extension of his reasoning by implicitly suggesting that the US economy would be even more vibrant were concentration ratios to fall further. Galbraith's logic is set on it's head. This though is a parlour trick not a reasoned argument. To hone in on concentration ratios as the sole basis for explaining growth rates cannot be taken seriously.

This is merely a warm up for Stigler. He is ready to attack the Achilles heel of Galbraith's position, the rather striking claim that countervailing power leads to the sort of competitive result familiar from welfare economics. It is understandable how one might think that Galbraith is referring to the standard maximisation of surplus (consumers and producers) familiar to all practising economists. Galbraith makes a muddle of this. Careful reading however indicates that for the most part, he is referring to a state of social stability where rewards are shared somewhat equitably. It is doubtful, in the absence of competitive markets, that oligopolies would be willing to respond to consumers' demands at the lowest possible price. Galbraith however assumes that the mutual tolerance between different economic sectors makes it worthwhile to pay a bit more for one's purchases. It would be possible to argue that the absence of such disruptions may even make this approach more cost effective. Whatever may be the case, Galbraith acknowledges his original lack of clarity on this point. Stigler responds by ignoring this confession. Galbraith further admits that competition must be assumed somewhere down the line if, for example, a supermarket's countervailing power vis á vis suppliers is to produce tangible consumer benefits: "I suspect they are right. I am sure that I was more than a little reluctant, at this particular stage in my argument, to confess a reliance on competition. After all, it is a bit embarrassing after one has just murdered his
mother-in-law to disinter the lady and ask her to help do the cooking” (Galbraith 1954, p.4). Stigler again gives little indication that he has heard these remarks.

Galbraith’s failure to explain why countervailing power comes into existence is Stigler’s most telling criticism. This leads him to claim that Galbraith eschews rational explanation. But in fact Galbraith’s brief explanation is no more irrational than the explanation of self-generating competition. No one likes to be on the losing end of a power struggle. Once you grant that markets are dominated by oligopolies it is logical to wonder what the response would be of those on the receiving end of oligopoly power. If possible, provided the costs are not too great, some attempt will be made to respond by gaining a better bargaining position. Franchisees form organisations to better negotiate with the franchiser. Increased concentration amongst car part suppliers shifts the nature of negotiations between them and the large car companies. Relative bargaining strengths determine income distribution. The motivation to develop opposing blocs is clearly present. Since Galbraith posits substantial barriers to entry (first mover advantage, learning by doing, firm specific knowledge) it is not surprising that he doesn’t see these shared profits as bringing new competitors into the field. The real issue is whether arrangements of this type do occur⁴. This is where, by Stigler’s own empirical methodology, the work of an economist must lay. Stigler turns to the evidence at hand.

Stigler sees two potentially testable areas in Galbraith’s proposition: (i) Power begets offsetting power and (ii) Bilateral monopoly of this sort yields beneficial results. He begins by constructing a multi-pronged attack on the first issue. Stigler’s approach is flawed from the start. Galbraith never implies that power necessarily begets offsetting power. Finding a few counter-examples won’t do. Ideally, playing according to Galbraith’s rules, Stigler must demonstrate that countervailing power has only a trivial impact on observed economic outcomes. This is exactly what Stigler does not do. He instead opts to craft a counter-example. Ironically even this highly limited case fails to convince. Stigler contends that labour unions were incapable of achieving any degree of countervailing power without distinct government assistance. As evidence of this claim, he looks at unionisation in 1929 prior to the Great Depression. As all would agree this was “... a year in which government was not particularly favorable to unions and so the natural emergence of countervailing power might be better displayed.” (Stigler 1954, p.11). Contrary to Galbraith’s supposition, the largest unions of that time (those most capable of exerting countervailing power) were not located in industries that were recognisably concentrated. Stigler concludes that in this instance, power clearly didn’t beget power. Does this undermine Galbraith’s contentions?

Unfortunately, Stigler’s argument will not bear weight. A little knowledge of the US labour movement is sufficient to dismiss it. The period chosen represents a low water mark for the American labour movement during the first half of the twentieth century, the least conducive environment for countervailing power to be displayed. Industry-wide unions had faded and would not be revived until the thirties when the CIO under John Lewis and the UAW under Walter Reuther gained strength. In 1929 the surviving large unions were all craft unions. They were only large relative to those existing at that time, not in any absolute sense. Craft unions by definition tend to be organised in industries where very little if any market power holds sway. Stigler must know that even the smallest slice of historical information is sufficient to undermine his example. One can only suppose that Stigler makes the attempt for its rhetorical effect, rather than as a means of clarifying any inherent weakness in Galbraith’s argument.

It is true that the government’s intervention in the thirties would make it more feasible for labour to oppose large oligopolies. But since the time of Adam Smith, economists have
recognised that attempts by labour to organise and bargain were apt to fail, given the intrinsic balance of power between employer and employed. The New Deal government stepped in to even up the odds, motivated as much by a desire to reduce the ongoing strife between the new industry-wide labour unions and big business. As stated before, a one-off assistance by the government to boost a group over a difficult barrier is contained within Galbraith’s elucidation of his theory. By itself, such a necessity doesn’t prevent a system from subsequently becoming self-regulating. Stigler is on firmer ground when he questions the supermarket and department store as arising in response to the concentrated power of the producers of that era. There are probably other reasons, including transaction cost explanations, that better account for their initial success and latter expansion. Yet countervailing power should not be entirely dismissed. It can provide insight into the ongoing relations between supermarkets and their suppliers. Imagine an alternative market where Proctor and Gamble, Nestles and Lever Brothers sold to small corner stores43.

Stigler’s second point is more important. It is the hardest question to respond to of any in his scattershot attack. This is the ‘so what?’ question. Countervailing power may redistribute income, but why should this be desirable? No obvious answer can be advanced. Galbraith’s defence is more political than economic in nature. One sided power would in the US inevitably bring forth a call for increased government intervention to rectify the imbalance. This would in turn produce decreased economic performance. Ironically this is not inconsistent with the type of political economy reasoning Stigler himself favoured44. As Stigler very correctly points out, all of these organised groups will not gain equal bargaining power. The problem is that Galbraith makes no such claim. He merely suggests that individuals in these groups will do better for themselves, on average, than if they remained unorganised. Each and every participant may not gain financially. A few might have bargained more effectively on their own. For the vast majority, this will not be the case.

In his autobiography, Galbraith (1981) considers that he had been overly optimistic in seeing countervailing power as a widespread solution45. In the years to come it would not prove to be a defining economic mechanism. Countervailing power would in many cases fail to develop. Balances of power (between labour and big business) would shift. Galbraith, as he would in his later writing, suffered here from what Schumpeter (1951) termed the English disease, extrapolating from a time and place specific case to an all encompassing theory. However, useful discussion was not promoted by Stigler’s remarks since they only attempted to focus attention away from the issues Galbraith actually raised. That is exactly the problem with Stigler’s approach. Seeking to shut down debate only leads to an intellectual dead end.

The Blocs Come Tumbling Down

The stiletto concealed in his humor was reserved for ideas or policies and was never ad hominem - unless “An Economist Plays with Blocs,” his brilliant title for an article on John Kenneth Galbraith’s theory of countervailing power, can be so interpreted (Friedman 1993, p.771).

Most of Galbraith’s constructive work has fallen out of favour these days, though some of his populist notions remain. You hear echoes in the recent debate over corporate callousness. For the most part, the reality remains that barring the coining of a few terms (technostructure, countervailing power) Galbraith has bequeathed little of lasting value, at least as judged by the economics profession. Ironically, neither Stigler’s nor Galbraith’s position on oligopoly has triumphed, judging by published work in the leading journals. Game theory takes into account the interdependence of corporate decisions. The work of
transaction cost analysis focuses on the inner working of the firm. Stigler never felt either one was a useful approach to economic analysis.

On the other hand, Galbraith's contribution as a critic is similar to that of the one economist he most resembles. Thorstein Veblen also railed at mainstream economics and wrote for a larger audience than his fellow economists. But without a rigorous system of easily digested models, the mainstream who he rejected, in turn rejected him. Galbraith might have been indulging in self description when he said of Veblen,

He was not a constructive figure; no alternative economic system and no penetrating reforms are associated with his name. There was danger here. Veblen was a skeptic and an enemy of pretense. Those who drank too deeply could be in doubt about everything and everybody; they could believe that all effort at reform was humbug. I've fought to resist this tendency, but in other respects Veblen's influence on me has lasted long (Galbraith 1981, p.30).

What remains in looking back at the battles staged by these long time opponents is that Stigler misrepresented Galbraith as he misrepresented all those who took up the cudgels of oligopoly and interdependence. His vision of the classic liberal society, where individual self-realisation through market choice is prized above all else, relied on the precise distribution of income represented by the tenets of marginal productivity theory. Bargaining indicated a realm of private power and a subsequent limiting of choice. It invited government intervention to rectify or at least counterpoise that exercise of unregulated power. Stigler (1949c), early in his career, quotes de Toqueville on the tendency of government to continually encroach individual liberties in the name of protecting the equal rights of its citizens:

"Every central power, which follows its natural tendencies, courts and encourages the principle of equality; for equality singularly facilitates, extends, and secures the influence of a central power" (de Toqueville quoted in Stigler 1949c, p.11).

Whatever the validity of Stigler's views, the real issue here is how we go about reading an article or listening to a fellow economist speak. Do we read and listen only to find something wrong? To do so we zero in on loose details or badly represented links of a model and ignore the idea itself. Do we ridicule what others have put forward in good faith, or do we treat opposing views with due respect? By stamping on a partially nourished idea we may lose much that is valuable. Do we try to shut off debate, to silence opponents, or do we search for possible common ground? The adversarial approach of the courtroom remains the wrong model for economists to embrace. This is not a question of being nice. Niceness has absolutely nothing to do with this. The issue is a respect for ideas, even those which may clash with one's own.

Many economists, not only those influenced by the combative nature of the Chicago seminar, defend this quasi-legal approach by speaking of a 'market place of ideas' which somehow tests the truth of ideas on the anvil of reason, or some metaphor to that effect. Stigler obviously believed in such a marketplace. In the continual struggle between contending camps, the soundest ideas, in this view, ultimately prevail. Starting from this assumption, it can only follow that current ideas must inevitably be superior to those of the past. Given his deeply held belief in market competition and the versatility of the price mechanism, what else could Stigler believe and advocate? Though we may be no more than midgets standing on the shoulders of giants, the working theorist need only keep his gaze focused upward. This struggle however, with its emphasis on ongoing and inherent progress, owes more to the Social Darwinism propounded by Herbert Spencer than to anything that Darwin himself cared to claim. There is no random and impersonal mechanism at work which can match environment to idea in the way indicated by evolutionary struggle. The various
sellers of those ideas are simultaneously active in attempting to construct an environment entirely conducive to their own particular merchandise. An assumption of objective progress in the march of ideas must be ingenious at best. As always, the victors get to write the accepted historical accounts and define the terms of progress.

It is highly debateable whether faulty economic ideas eventually, under the extreme scrutiny of ambitious academics, are swept into deserved oblivion. Arguments prevail which best respond to what listeners want to hear. Perhaps economists are essentially conservative as Stigler (1959) long claimed, leaving them vulnerable to more powerful methods for restating their core beliefs. Stigler's emphasis on precision accompanied by empirical verification seemed to promise more than the discursive method traditionally favoured by English economists or by American economists like Veblen. It seemed in tune with the idea of adopting scientific methods and approaches that was sweeping the post-war US.

Stigler was a master of the hard sell, manipulating his opponents views to turn them to his own advantage⁴⁷. Though he conquered, his compulsion to shut down rather than encourage debate, caste a pall over the profession which has in no way lessened. Stigler's revered teacher Frank Knight claimed that the "basic principle of science - truth or objectivity - is essentially a moral principle, in opposition to any form of self-interest. The presuppositions of objectivity are integrity, competence and humility." (Knight 1947, p.244). Though most if not all economists would grant Stigler a high degree of integrity and competence, how many would extend humility to that list⁴⁸? We are all, in our own way, fools. Those who so pointedly refuse to suffer fools lightly⁴⁹, who by doing so indulge their own sense of importance, are at some level rejecting only themselves. We need to tolerate the shortcomings of one another, not excoriate them:

Never did they [ideas] arrive, he said with the hard edges that later critics came to attribute to them when trying to define their terms. Ideas were apt to be like fluffy balls of wool with no fixed outline and the relationship between concepts when first perceived was likely to be equally woolly. Keynes mistrusted intellectual rigour of the Ricardian type as likely to get in the way of original thinking and saw that it was not uncommon to hit on a valid conclusion before finding a logical path to it (Cairncross 1996, p.87).

APPENDIX A

CONTENTS OF A SURVEY OF CONTEMPORARY ECONOMICS

"Value and Distribution"
Author: Bernard F. Haley (Stanford)
J.M. Clark (Columbia)

"Employment Theory and Business Cycles"
Author: William Fellner (UC Berkeley)
Critics: Gottfried Haberler (Harvard)
Alvin Hansen (Harvard)

"Monopoly and the Concentration of Economic Power"
Author: J.K. Galbraith (Harvard)
Critics: R.A. Gordon (UC Berkeley)
A.D.H. Kaplan (Brookings Institute)
“Price and Production Policies”
Author: Joe S. Bain (UC Berkeley)
Critics: Joel P. Dean (Columbia)
Donald H. Wallace (Princeton)

“Federal Budgeting and Fiscal Policy”
Author: Arthur Smithies (Harvard)
Critics: James K. Hall (University of Washington)
Lawrence H. Seltzer (Wayne University)

“The Theory of International Trade”
Author: Lloyd A. Metzler (Chicago)
Critics: James W. Angell (Columbia)
Jacob Viner (Princeton)

“Economics of Labor”
Author: Lloyd G. Reynolds
Critics: Clark Kerr (UC Berkeley)
Sumner H. Slichter (Harvard)

“Development and Use of National Income Data”
Author: Carl S. Shoup (Columbia)
Critics: M.A. Copeland (Cornell)
E.E. Hagen (Bureau of the Budget)

“Monetary Theory”
Author: Henry H. Villard (Hofstra College)
Critics: Edward S. Shaw (Stanford)
Elmer Wood (Missouri)

“Dynamic Process Analysis”
Author: Paul A. Samuelson (MIT)
Critics: Friedrich A. Lutz (Princeton)
Fritz Machlup (Johns Hopkins)

“Econometrics”
Author: Wassily Leontief (Harvard)
Critics: Joseph A. Schumpeter (Harvard)
W. Allen Wallis (Chicago)

“Socialist Economics”
Author: Abram Bergson (Harvard)
Critics: Frank D. Graham (Princeton)
A.P. Lerner (Roosevelt College)

“The Prospects For Capitalism”
Author: David McC. Wright (Virginia)
Critics: Frank H. Knight (Chicago)
Paul M. Sweezy (Wilton Centre, N.H.)

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Notes

1 This paper focuses on the rhetorical skills of George Stigler and his propensity to misrepresent the ideas of his opponents. He was not of course the only economist of his generation adept at savaging his adversaries and misrepresented opposing views. From opposite sides of the economic spectrum, both Milton Friedman (conversation with the author 28 August 1997) and Geoffrey Harcourt (conversation with the author 27 September 1995) note that no one could be as devastating as Joan Robinson. Galbraith himself matched Stigler in both ferocity, ego and height. But Stigler was ultimately more influential in shaping the economics profession than all his opponents combined.

2 It is far from uncommon for economists to find in a work exactly what they expect. Prejudgement is a widespread vice. What I am interested in is not Stigler’s intentions but the consequences of the approach he adopted.

3 “Evidence of Stigler’s attachment to neoclassical price theory is also given by that part of his work mainly critical of the work of others. Price rigidity, administered price inflation, the theory of monopolistic competition, and X-efficiency were prominent targets, and each of them denied the efficacy of the neoclassical analytical framework” (Demsetz 1993, p.800). See Friedman (1995a and 1995b) for an in depth discussion of the way in which Stigler misrepresented the work of Sweezy (1939) and Berle and Means (1932).

4 This is particularly ironic given his own casual approach to empirical work. A reader comes away from tasting Stigler’s particular pudding well aware of a basic disregard for its ingredients. See Friedman (1995b) for an account of his rather cavalier approach to statistical analysis.

5 One suspects that this distaste filtered down to a personal level. Both are given short shrift in each others’ autobiographies. In a letter to Gardner Means, Galbraith describes Stigler as: “...a superficial man who regrets his inability to command any general interest and attention for his work. If somebody gets satisfaction defending past error, I don’t think it should be denied to him” (Galbraith 1970).

6 Delirdre McCloskey has remarked that given Stigler’s temperament, his interest in Law and Economics was hardly surprising (conversation with McCloskey, 5 July 1996).

7 “A second and related trait of scholars is that they seldom change their minds. We must remember that we are discussing scholars with good minds, and they would usually lose in a swap of minds. It was most unusual when Keynes’s General Theory led Alvin Hansen, a hitherto conservative economist of mature years, to abandon his previous scientific position and become a vigorous exponent of Keynesian doctrine” (Stigler 1988a, p.210). Notice the subtle undertone of incredulity here as if the aged and respected local vicar had suddenly converted to sientology after reading Dianetics by L. Ron Hubbard. It might also be added that not only was Stigler predictably consistent, but that throughout his life he refused to ever admit an error no matter what the evidence. Galbraith, despite his evident egotism, admits in his autobiography (1981, pp.284-85) that history judges and finds economic theory, including parts of his own, wanting. When his facts changed he was, no matter how grudgingly, willing to admit error. Not only did Stigler not concede error, he was still intent on castagiting his opponents decades after the battles had been fought and won. He used the occasion of a Nobel prize to deliver a few parting shots (Stigler 1983, p.536).

8 See Stigler (1988a, p.162) for his own thoughts of the Mason group at Harvard.

9 Given his agenda it is easy to see why Coase’s 1937 article on the firm had no interest for him. The internal organisation of the firm was largely irrelevant, in his mind, when compared to his concentration on markets: “The omission, I believe, was due to Stigler’s disinterest in the internal organization of the firm” (Demsetz 1993, p.798).

10 Schumpeter, less concerned with the polite conventions of the economics profession knew this. Though even he felt at times embarrassed in bringing sociological concerns into his work, pursuits only appropriate for economists past their glory days: “Could we confine ourselves to Pareto’s contributions to pure theory, there would be little need for glancing at the man and his social background and location. But into everything that was not a theorem in the pure logic of economics the whole man and all the forces that conditioned him entered so unmistakably that it is more necessary than it usually is in an appraisal of scientific performance to convey an idea of that man and of those forces” (Schumpeter quoted in Smithies 1950, p.634).
To concede to oligopoly theory a degree of legitimacy would be to undermine the basis for marginal productivity theory. See Friedman (1959a and 1959b). “At a more sophisticated level, the new work did strike a blow at the concept of inherent order in capitalist behavior: the doctrines of imperfect and monopolistic competition ran sharply counter to what Professor Roll has called the "optimal distribution of resources prejudice."” (Galbraith 1948, pp.99-128).

A second volume published four years later, dealing with topics not covered in the first, corrects the liberal/conservative balance, perhaps reflecting the criticism evidenced by reviewers of the earlier book. Moreover the reviewers (or critics) of each survey are allowed a short comment compared to this absence in the first volume (supposedly due to limitations of space). The reviewers are referred to by Robertson as, “self-effacing prenatal critics.” (Robertson 1950, p.1). In contrast to Stigler, it is interesting to note that Jacob Viner (1950), in his review of the volume, while also judging the range of views presented as being too narrow, saw these views as representing a consensus of the profession as it then existed: “The contributors, moreover, were chosen predominantly, perhaps wholly and deliberately, from among the safe, middle-of-the-road members of the profession, with respect both to their policy-attitudes and their methodological predilections. The result is that the volume is representative only of the patterns of value-judgment and the methods of analysis adhered to by the “center” portion of our profession” (Viner 1950, p.651).

See Viner (1936) and Knight (1937). Both are particularly critical reviews of Keynes’ General Theory. This indicates something of the importance with which the volume was received. A quite different review article (in spirit and approach) by Dennis Robertson led the February 1950 issue of the Quarterly Journal of Economics.

Those who like to believe that people mellow as they age will do well to peruse Stigler’s (1988b) incisive demolition of Palgrave’s Dictionary of Economics.

Though scathing about this period in his 1949 review article, he applies quite another characterization to this same era when addressing a University of Chicago Trustee dinner in 1962: ‘Economics, for example, has had two golden ages in the last century, from 1870 to 1900, and from 1935 to 1950, in the latter case with time out for a war” (Stigler 1963b, p.40). Stigler seems to be tailoring his statements according to the point he wishes to make and the audience he wishes to persuade. There is nothing remarkable about making strategic evaluations. But such an approach does tend to produce far from helpful exaggerations.

Compare Dennis Robertson’s (1950) critical but more thoughtful and amiable QJE article. Robertson is of course of an older generation and brought up in the Cambridge tradition. Perhaps though the difference that counts most is that Stigler professes to be a Marshallian, Robertson is.

This is most evident in his evaluation of Reynolds’ look at the labour literature (Reynolds 1948). He savages Reynolds for arguing that wage differentials (at least their upper limits) are largely a matter of custom. Such a statement is in direct conflict with marginal productivity theory. As such, a hypothesis of this sort should, in Stigler’s usual formulation, simply be a matter of fact which can be empirically verified. Stigler however simply dismisses it as so self evidently wrong as to need no comment. This is a rhetorical trick that Stigler would learn to perfect during his career (see Friedman 1959a, 1959b). By heaping scorn on an idea, he shifts the terms of inquiry to a level where asking for an explanation would amount to a self-confession of ignorance of the most woeful sort (failing to see the obvious). Such rhetorical flourishes are meant to stop further questioning rather than encourage discussion: “I do not wish to digress on an appraisal of this particular view, which simply defies credulity. I do wish to emphasize that this is dogmatic theorizing and that it is at the unscientific, not the “prescientific,” level at which one does not bother to verify his theory” (Stigler 1949, p.99).

See Stigler (1949c), (1982b) and (1982c) for his ethical views.

Typically his statistical work tends toward the expedient rather than toward painstaking analysis. He consistently claims more from his analysis then is justified. A good early example of this approach is clearly shown in his 1947 attack on Sweezy’s kinked demand curve. Throughout his career, Stigler claimed that his arguments demolished any rationale to take Sweezy’s model seriously. See however Friedman (1959a) for an alternative view.

“I do not think it is any more economic law that wages should go down easily than that they should not. It is a question of facts. Economic law does not lay down the facts, it tells you what the consequences are.” (Keynes quoted in Skidelsky 1992, p.349).

See Friedman (1995b).
For those who have forgotten, the relevant six essays are: "Value and Distribution", "Employment Theory and Business Cycles", "Monopoly and The Concentration of Economic Power", "Price and Production Policies", "Federal Budgeting and Fiscal Policy", "Economics of Labor". (See Appendix A for further details.) The odd man out is Paul Samuelson. His quarrel here has more to do with methodology or perhaps the subject matter of economics itself. In a sense it is a more basic argument but one that is peripheral to his real target: "On Samuelson's definition, I suppose, one writes an essay on mathematics; on the conventional definition, one writes an essay on economics" (Stigler 1949a, p.100).

See Hartwell (1995) for an account of the reasons behind the founding of the Mont Pelerin Society. He would reassert much the same argument at the AEA convention of the same year: "Free entry ... may be defined as the condition that long-run costs of new firms if they enter the industry will be equal to those of firms already in the industry ... With this understanding, free entry seems a valid characterization of most American industries. One may concede this and still argue that, because of the large capital requirements necessary to establish a new company of minimum efficient size, free entry is often difficult, and firms in industries with (absolutely) large capital requirements have a sheltered position. I have as little basis for my skepticism of this argument as its many adherent have given for supporting it" (Stigler 1950, p.27). This concession to monopoly would cease once Demsetz (1968) provided an argument allowing competition to rule despite long-run costs. One might remark that Stigler did not need empirical evidence to find such an argument convincing. In fact Stigler would also ignore elements in this work that sounded suspiciously similar to Galbraith's hypothesis of countervailing power: "If we allow buyers access to the same technology of collusion, the market will be characterized by bilateral negotiations between organized buyers and organized sellers" (Demsetz 1968, p.271).

Coase (1996) argues against the standard Stigler/Friedman methodological approach in which empirical evidence is assumed to be conclusive: "Some articles, of course, involve the testing of alternative theories, and this means that some theories are bound to come out worse. But I doubt whether such studies have often led to a change in the views of the authors. My impression is that these quantitative studies are almost invariably guided by a theory and that they may most aptly be described as explorations with the aid of a theory. In almost all cases, the theory exists before the statistical investigation is made and is not derived from the investigation" (Coase 1994, p.26).

To be more exact, his two inquisitors were George Stigler, then of Columbia University and John Perry Miller of Yale University. David McCord appeared as a discussant of these three presentations.

His attempt to write a book for his fellow economists was less than a total success: "I have always thought A Theory of Price Control one of my more important books. No other combines such technical competence as I possess in economics with such experience in the subject. It was so regarded by its reviewers. But there were few of these and, initially, few readers of any kind. The experience persuaded me that one could spend one's life producing professionally well-regarded books that would go extensively unread. And one could be even less fortunate. In the natural course of events, one's books come to those reviewers, the established specialists in the field, who are the strongest defenders of the established view. It is a system that selects an adverse jury for all inclined to innovation. I decided that henceforth I would submit myself to a wider audience, a decision that, in contrast with some others, I have not regretted" (Galbraith 1981, p.175).

"Competition mitigates economic power by making the behaviour of any participant in the market contingent on the behaviour of other and like participants. It makes sellers subject to the independent actions of other sellers, and buyers subject to the independent action of other buyers. The undoubted effect is to limit or dissolve the opportunity for arbitrary, or self interested, or perhaps any effective use of market power which would limit or lower the real income of others" (Galbraith 1954, pp.1-2).

It is easy to forget the turbulence of the thirties. The sustained depression years did threaten the social fabric of many countries as both extreme right and left wings of the political spectrum offered their own particular solutions to these problems. Sporadic violence was not uncommon. In the immediate postwar period the fear of another deep depression was wide spread. Memories of those unsettled times were still quite fresh: "In accordance with a surprisingly well-observed convention, the American Business spokesman does not often express his fear of depression in public. To express the fear is, perhaps, to invite the fact - and perhaps also to inspire the interest of the state in measures to counter the threat. Few others have been under such a ban. Farmers, workers and intellectuals, in the years since the war, have made no secret of their fear of depression. Before World War II ended it was
taken as accepted that there would be a postwar collapse with unemployment ranging upward from seven, eight or ten millions” (Galbraith 1957, p.6). Robertson’s 1950 review of A Survey of Contemporary Economics (1948) anticipates Galbraith’s emphasis on this issue: “Perhaps the consumers of the United States can now afford to pay a good deal of ransom to insure the stability of her free enterprise system - a stability which has become of outstanding importance to us all. Poorer nations, under pressure to earn their overseas bread, may be called upon to face the risks of instability involved in taking a tougher line with the spirit of “live and let live.”” (Robertson 1950, p.10).

This is not the case for bureaucratic structures, like government agencies. For Galbraith, it is questionable whether it should be the case. Governmental objectives, and the best means for accomplishing them, necessarily differ from those of the private sector: “The process of decision-making has two dimensions, timing and quality. For relatively simple and undifferentiated types of production - the production of electric power, for example - the quality of the decision is normally more important than its timeliness. There the administrative problems of public management can be solved. Quite the reverse is true of consumers goods. A poor decision is normally to be preferred to a late one” (Galbraith 1957, p.171).

None of the book is couched in the deadly serious, formal, come rigorous manner beloved by economists. This is after all a book deliberately aimed at a broad public audience. Its goal is not to repel or to bore. We also need to remember that the push for economically correct rhetoric was only slowly gathering steam for its eventual triumph. A look through the journals of that era sees a number of different styles and procedures coexisting quite comfortably. See Friedman (1958a) for an exploration of this issue.

One sees this clearly in the 1972 paper by Alchian and Demsetz. Their core proposition is that authority has no role to play even within the confines of the firm. The sphere of voluntary exchange is extended to embrace labour relations.

See Yordon (1992) for a very useful discussion of Stigler’s unshakeable belief in productivity theory, the basis of his doctoral dissertation (Stigler 1938).

Stigler’s enthusiasm for vigorous antitrust enforcement flagged under the influence of Aaron Director and convincingly ended when Demsetz (1968) indicated that even supposedly natural monopolies could be shown responsive to competitive forces.

The fact that Galbraith would go on to write a novel as well as numerous literary essays only confirmed the suspicions of most economists: “… a gifted satirist seeking to penetrate our complacency and force us to re-examine long accepted views and using the long-accepted methods of exaggeration, caricature and gross omission appropriate to this jester role” (Stigler quoted in Hession 1972, p.159).

“I want to close with an apology for the consistently negative attitude I have felt compelled to take with respect to Galbraith’s theory. One would like to speak well of so urbane and witty a presentation. Especially at this season one would like to avoid expressing doubts that a mysterious, benevolent being will crawl down each and every chimney and leave a large income as well as directions to the nearest cut-rate outlet. Yet even at this season, Galbraith cannot persuade us that we should turn our economic problems over to Santa” (Stigler 1954, p.14).

In his autobiography, Galbraith recalls this session as an attempt to demolish his work. Stigler’s efforts are not described. He is instead mis-identified as being affiliated with Chicago. Though that might remain his spiritual home, in 1953 he was a staff member of Columbia University and wouldn’t return to Chicago until 1958. Galbraith’s lack of comment may be symptomatic of the mauling received at those hands.

Charges of theology and dogma are swapped equally between Galbraith and Stigler. To an extent it is true about both. Stigler is determined to see competition as the dominant market structure while Galbraith stands steadfastly for market power as his prevailing doctrine. It is nearly impossible to think of any evidence that would change their respective stands. Stigler is intent on measuring percentages of dominated markets. Galbraith allows that many markets are competitive but a number of key markets are dominated by a few firms. There is no common ground of debate nor any effort to reach such shared terms of discussion: “Men cannot live without an economic theology - without some rationalization of the abstract and seemingly inchoate arrangements which provide him with his livelihood. For this purpose the competitive or classical model had many advantages. It was
comprehensive and internally consistent. By asserting that it was a description of reality the conservative could use it as the justification of the existing order. For the reformer it could be a goal, a beacon to mark the path of needed change. Both could be united in the central faith at least so long as nothing happened to strain unduly their capacity for belief” (Galbraith 1957, p.17).

Stigler conveniently overlooks the war damage these European countries had suffered. One then wonders what response Stigler made when both France and Germany, with no change in market structure, charged ahead of the US growth figures in the latter part of the fifties. Perhaps by that time he had characteristically forgotten those earlier claims. Stigler’s remarks here are largely gratuitous, reflecting a debating strategy rather than a point of discussion.

In many ways Galbraith’s emphasis on social stability seems more in the Japanese than US tradition. Certainly the sort of balance of power that Galbraith sees as the definitive nature of a modern economy seems a better fit with how the Japanese market structure would evolve in the post war period.

Stigler makes a rather curious criticism of Galbraith’s explanation that excess aggregate demand will undermine the stability derived from countervailing power by igniting inflation. In such a case pricing power isn’t blocked but rather augmented by the ability of each bloc to pass on increased costs. That countervailing power fails to hold under these circumstances doesn’t destroy the logic of the argument. Galbraith isn’t claiming the sort of universality for his approach that Chicago academicians would put forward for price competition: “... as the demand functions become generally inelastic, there is an opportunity for coalitions between those whose interests are otherwise opposed in bargaining, and the inflationary process is accelerated ... In conceding the imperfections or malfunctioning of countervailing power I am apparently made responsible for it. Such criticism, in effect, requires that the social phenomenon described be both universal in application and socially benign in effect. This is silly” (Galbraith 1954, p.5).

Until very recently this accurately described Japanese distribution channels and the subsequent high prices of consumer goods.

The problems of rent seeking described by Stigler (1971) in his own seminal work on regulation arise only due to some particular government intervention. Stigler’s solution is implicitly to downsize government to prevent such possible intrusions.

“... in 1952, carried away by the idea, I made it far more inevitable and rather more equalizing than, in practice, it ever is. Countervailing power often does not emerge” (Galbraith 1981, p.284).

Income redistribution allows a dominant group, like the middle classes, to use the coercive power of the state for its own benefit. See Stigler (1970).

Whether Stigler saw himself as unfairly representing others’ work is another matter, but one unfortunately that must remain a mystery given the lack of any reported deathbed confession. It is both more convenient and equally likely that Stigler saw himself as playing hard but fair. Even academicians generally justify what they do in order to live with themselves. Evidence that Stigler ever acted dishonourably is absent, nor is there any reason to suspect that he did.

Stigler was not alone in resorting to tendentious arguments to shut off opposing views. Whether Stigler’s point of view was ultimately correct or at least more correct than his opponents is not at issue here. But Stigler did set the tone for the profession by his acknowledged skills and his deadlines in any debate. This is true even if Stigler himself had moments of self-doubt: “When we strive to solve a scientific problem, is ambition for our own professional status completely overshadowed by our love of knowledge? ... When we write an article to demonstrate the fallacies of someone else’s work, is our hatred for error never mixed with a tiny bit of glee at the display of our own cleverness” (Stigler 1963, p.92).

"As Milton Friedman so eloquently stated, Stigler’s attitude was ‘Let the chips fall where they may, my task is to be objective, accurate, and interesting’ (McCan and Perlman 1993, p.1012). Stigler was undoubtedly interesting. Objective and accurate are a bit harder to accept.

References


