

## Power without Glory: George Stigler's Market Leviathan

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No arts; no letters, no society; and which is worst of all, continual fear and danger of violent death; and the life of man, solitary, poor, nasty, brutish and short (Hobbes 1914, p. 65).

All but the hopelessly naïve or perennially romantic understand that Nobel prizes are not a simple recognition of merit. Often they reflect the result of intense lobbying campaigns (rent-seeking in economic terms) coupled with unstated political considerations (if not unsubtle and even blatant ideological concerns). Peace and sometimes literature awards are clearly prizes where such forces are identifiably at play. Even economics, replete with its own cast of rational self-seekers, is quite naturally tarred by the same brush<sup>1</sup>. A principled pillar of the profession like George Stigler, a Nobel laureate himself, could campaign unabashedly (though quite justifiably) on behalf of both Ronald Coase and Gary Becker.

Yet few amongst the far-flung tribe of economists would be so petty as to begrudge Stigler this particular award, even if the more cynical of us suspect that ideological considerations might have played a role in the actual choice. If the medal is intended to go to those who most influenced and changed the profession itself, then George Stigler would be automatically in the forefront for such honours, even when compared to his own remarkable postwar cohort.

Like many of that generation, Stigler used his rising status in the immediate postwar years to define and impose his vision of economics. He seldom passed up the chance, seizing any opportunity provided by an invitation to deliver a key address or particular set of lectures, to reinvent his beloved profession. A touch of missionary zeal often characterised such orations. Thus his 1964 AEA Presidential address (1982f) to the assembled foot soldiers huddled together on the cold plains of Chicago was a call for all true economists to redeem their professional faith by means of testing, measurement and quantification<sup>2</sup>. Empirical work rather than theoretical faith provided the one and only true path to salvation. But this ingrained reflex of rallying the troops at opportune moments had a long history for George Stigler. A key and too often overlooked instance of this occurred in a series of five compact lectures given at the London School of Economics (1949), home in the past to such luminaries as Robbins and von Hayek. In these lectures Stigler redefines the nature of economics and defines the direction that true faith must take during the postwar period<sup>3</sup>. This revealed credo remained remarkably constant throughout a long and fruitful career. The innermost heart of this vision is defined by a classic, if not austere, liberal philosophy. Stigler was a closet moralist, acting in much the same way as he conceptualised the motives and objectives of his early predecessors. 'The desire for better men, rather than for larger national incomes, was a main theme of classical economics' (Stigler 1949, p. 4).

Unfortunately, morality, while potentially an admirable quality, can permeate analysis in a less than desirable fashion if transformed into ideological imperatives. Despite his unquestioned skill as an economist and even as an original

thinker, his bred-in-the-bone classic liberalism ultimately left Stigler with a distinct blind spot. Not one that turned him into anything resembling a Homeric tragic figure, but perhaps someone more akin to Cervantes' Don Quixote, who needed to hold a few unvarying, if almost intentionally self-deceptive beliefs:

....most people will not be persuaded there ever were any knights-errant in the world. Now, sir, because I verily believe, that unless Heaven will work some miracle to convince them that there have been and still are knights-errant, those incredulous persons are too much wedded to their opinion to admit such a belief: I will not now lose time to endeavour to let you see how much you and they are mistaken. (Cervantes 1993, Part Two, p. 470)

It is this unyielding core, created by an unacknowledged ideology, which implicitly motivated the fierceness of his attacks on market critics. Yes, he viewed them as misguided and lacking in any substantial economic logic. But he chose to dismiss, rather than discuss, the issues these critics raised. In this he was more of a St. Augustine banishing heretical views than a scientist sifting through empirical evidence. He was a true believer in market processes, a belief that was essentially *a priori* and unreachable by either logic or facts<sup>4</sup>. This belief in both the equity and efficiency of markets rested upon something more fundamental than any economic objective. For Stigler, markets maximised freedom, at least freedom defined in terms of economic choice. They did so by removing economic power from the sphere of market decisions. Power, when exercised, limited choice and by doing so constrained liberty. Preserving liberty in the face of a constant threat of organised power required sacrifices, especially a determined resistance to government intervention<sup>5</sup>.

Stigler viewed markets as providing a Hobbesian<sup>6</sup> bargain to protect individuals from the excesses of Society, namely a misuse of economic power. In this sense a compact is formed between the market as an institution and individuals that compose that market. Individuals cede all economic power to the market and respond passively to market signals. They do so to avoid becoming a victim of unjustly applied economic power. Distribution is then no longer based on degrees of economic power but rather on one's contribution to the economy. Given this perspective, marginal productivity theory, as developed since the time of J.B. Clark, represents the objective solution to the age-old problem of distribution. Ricardo was amongst the first to raise the distributive issue of economic power when he focused on the question of which group retained property rights to key input factors. Clark's formulation essentially renders that question meaningless. Market forces determine outcomes and individuals respond to, instead of shaping, those issues. Rewards reflect individual efforts, leaving any fault residing firmly with the individual rather than with the governance system itself: 'it is of the essence of the good society that it permits individuals to behave as they wish provided they bear the consequences of their actions' (Stigler 1949, p. 10). Given Stigler's acolyte-like vision of liberty and the concomitant sacrifices due and demanded for its defence, any attacks that potentially undermined the legitimacy of this market compact required a response perhaps more frequently seen in the realm of knight errantry than in the more placid back alleys of academe. He was loath to admit error or back down from a deeply-held position, no matter how indefensible. As Paul Samuelson told me: 'But I think that he [Schumpeter] believed you go down in history books for what your ideas are. You don't admit a mistake, "let's go

down with all flags flying". And there was something of that, I think, in George.' (Conversation with Craig Freedman, October 1997)

His fiercest battles with Sweezy, Galbraith, Means, Chamberlin or Leibenstein, though superficially unrelated to one another, share this one common trait. Acceptance of any one of their positions would open up economics to debates that focused on economic power, exactly the type of debates which George Stigler deemed he had helped banish permanently to the nether world of economic reasoning. In the moral world inhabited by Stigler, this Grendel-like monster of greed and passion had to be forcefully chained to allow individuals the dignity of their own choice. Ever vigilant to prevent potential professional validation of theories embodying economic power, no quarter could be given to any opponent of the truth, omnipotence and inevitability of market forces. In practical terms, Stigler envisioned the potential for using a hypothesised existence of economic power to justify various forms of governmental intervention. In essence, any threat posed by the chimera of economic power would allow the forces of social engineering to substitute effective governmental power as a necessary countervailing force. At the very least, liberty would be heavily constrained with the growth of government bringing with it a list of expected ills: 'for those of us who believe that the result of this growth has been a large reduction in aggregate output, quite possibly with a deterioration in the moral quality of society' (Stigler 1986, p. 337).

Only when George Stigler's long-dormant ideology is revealed can a full understanding of his critical work commence<sup>7</sup>. Stigler is of course not unique in opting for such an ideological, winner-take-all approach. Economists on all sides of any issue, and particularly some of those who constituted his chief opponents, tended to be similarly constrained. Stigler, however, was more skilled than most at conducting crusades and noticeably more successful. Ultimately his biggest conquest might have become his own objectivity as an economist. For these reasons alone, Stigler's almost forgotten battles deserve to be rediscovered. But before such evidence is provided I will need to sketch out briefly the long-running debate over economic power and distribution which Stigler was so keen to inter. This necessitates revisiting the often-debated economic framework so meticulously constructed by David Ricardo.

## 1 Ricardo's Wrong Track: Distribution and Power

Political Economy you think is an enquiry into the nature and causes of wealth – I think it should be called an enquiry into the laws which determine the division of the produce of industry amongst the classes who concur in its formation. No law can be laid down respecting quantity, but a tolerably correct one can be laid down respecting proportions. Every day I am more satisfied that the former enquiry is vain and delusive and the latter only the true object of the science. (Ricardo, quoted in Keynes 1964, p. 4)

Distribution, rather than the Smithian problem of economic growth, dominated much of nineteenth-century economics, but lingered on as only a partially recognised subtext in the twentieth century. The inevitable link between distribution and economic power goes back at least as far as Ricardo. It is not far-fetched to see Ricardo's concerns as a misguided focus that shunted economic analysis onto a rather unprofitable branch line<sup>8</sup>. His equally committed opponents largely responded to these distributional issues by diligently providing an efficiency

rationalisation for any existing state of market outcomes. Starting then with Ricardo, the battle lines were drawn. The marginalist revolution, particularly the triumph of marginal productivity theory during the 1890s, finally succeeded in substituting market efficiency as the core explanation for distributive outcomes. But, while the Ricardian tradition emphasising economic power subsequently weakened within the profession, it did so without completely losing hold of the public imagination. It seemingly survived deliberate attempts to push this approach to the very fringes of the economic profession.

#### A *Explaining Rent*

But in different stages of society, the proportions of the whole produce of the earth which will be allotted to each of these classes, under the names of rent, profit, and wages, will be essentially different .... To determine the laws which regulate this distribution is the principal problem in Political Economy. (Ricardo 1923, p. 1)

Rent was essentially a windfall return based on controlling some key economic input. In this way, market prices could deviate significantly from more efficient exchange prices, or what Ricardo would call the 'natural price' of a good or service. Under these circumstances, distribution need not be either efficient or equitable, depending instead on the historical circumstances surrounding that key resource. Moreover, the key input itself could, and most likely would, change over time<sup>9</sup>. Controlling this economic resource defined the idea of economic power. Given the somewhat arbitrary nature of these distributive outcomes, a justification for countervailing government or public power came readily to hand. The dynamic underlying this controlling input and the analysis it nurtured can be simply grasped in Ricardo's own work.

Ricardo introduces as one of his focal points the concept of a return due to owning a scarce resource. For him the controlling factor in the distributive process was land. The difference between the natural price (or value) of a good and its market price reflected the degree of economic power available. Under this framework, the landlord does no measurable work but receives this difference only to ensure access to his land<sup>10</sup>. The actual value of the corn raised on this land is its embodied labour<sup>11</sup>. For Ricardo, rent does not affect the value of a good. However, it definitely will change any distributive results.

Since land rent enters into the determination of the market price of food, the level of any required rental payments can to a degree determine and thus raise the natural price of labour, without necessarily raising the value of the good produced. Profit is squeezed between these two immovable grindstones – wages and rent. Rent will rise with a growing population as more land is put into cultivation and the productivity of the soil falls. Rising rents translate into rising food prices that in turn cause higher wages and falling profits<sup>12</sup>.

The landlord receives rent merely as the result of owning a piece of fertile land; the higher the fertility, the higher the rent. Ownership in and of itself affects the fertility of that land and thus the ultimate output not one whit<sup>13</sup>. Further, rent, by squeezing profits, seems to be a spoke in the wheel of accumulation. The solution for Ricardo is not of course the elimination of private property, but rather the removal of land from its position as the key scarce resource by importing tariff-free food from abroad.

Ricardian rent, as a return to a scarce resource, can easily be generalised to any key input. In each case, payment is not in return for value added (marginal

productivity) but simply for access. This viewpoint, in which certain property rights can earn 'something for nothing', can easily be extended to the role of the capitalist as well<sup>14</sup>. Since Ricardo accepts the three great classes as given, he feels no need to rationalise the rewards each receives. But the exact distribution to these classes that each possibility embodies must ultimately affect the process of accumulation. Capitalists act as the engine of investment. In Ricardo's era, the landed class, by controlling the key scarce resource, interfered with the growth of societal wealth by thwarting the objective of the capitalist class.

However, this analysis is quite consistent with a very different distribution, as Ricardo was willing to admit. Capitalists might be much like landlords. Both might be equally dispensed with. Writing to Francis Place he conceded:

I believe that under such a system [of equality] mankind would increase much faster than it now does, but so would food also. A large proportion of the whole capital of the country would be employed in the production of luxuries, and thus we might go on, even with an increase of capital, without any increased difficulty, till that distant time, which because of its distance, Mr. Malthus says should not damp our ardour.

Whether this would be a more happy state of society is another question which it is not now necessary to discuss. (Ricardo 1973, p. 50)

Understanding Ricardo's analysis of economic power pinpoints its potential danger. By not feeling obligated to justify the existing distribution amongst the three immutable classes, David Ricardo provided an unintentional point of leverage for critics, reformers, and revolutionaries.

#### *B What the Market has Wrought Let No Man Rent Asunder*

Labourers have been flattered and persuaded that they produce all. The Ricardo economists maintain that labour is the only source of wealth while others have even denied the right of capitalists to any share of the product. (Read 1829, p. 56)

In Ricardo's description of economic forces lay the potential basis for a theory of class conflict and exploitation. There were those who were not slow to recognise this possibility. As presented, the interests of these three classes are always directly or at least indirectly opposed (Ricardo's inverse relation between wages and profits). The landlord class appears to receive windfalls simply by existing (or, more precisely, due to prevailing property rights and the concomitant political structure). Given this groundwork, the egalitarian or Ricardian socialists felt justified in calling for a general redistribution. Since profits are the leavings of wages, what need could there be for any share to go to the owners of capital, let alone the landlords?

Ricardo's unintentionally insidious challenge to the economic status quo was unlikely to go unanswered. The owners of capital, for example, must also be shown to contribute something if a more radical agenda was not to dominate economic discussion. By accepting this Ricardian type of framework it then becomes insufficient simply to say that capitalists must be given something to induce them to leave go of their money. This would place the owners of capital on the same level with landlords, namely, unable to justify their own existence. The subsequent need to mount a compelling defence initially led to Nassau Senior's abstinence theory (otherwise known as a reward for waiting). Morality now makes its appearance on the opposing side as well, and we madly set sail on a sea defined

by virtue and vice. Profit must be received not as the result of mere ownership of capital but as a reward for demonstrating self-control.

These feints and justifications merely form a set of preliminary skirmishes by self-appointed champions on both sides of the issue. The nineteenth-century debate becomes full-blown with Mill entering the lists on the side of redistribution. However, the issue by this time has shifted away from the rents earned by landlords to the profits earned by capitalists. Notice that the Ricardian framework still dominates. The issue is whether returns are determined according to some measure of value added or are simply a measure of economic power (ownership):

If tools, buildings, and materials were the spontaneous gifts of nature, requiring no labour either in order to produce or to appropriate them; and if they were thus bestowed upon mankind in indefinite quantity, and without the possibility of being monopolized; they would still be as useful, as indispensable as they now are; but since they could, like air and the light of the sun, be obtained without cost or sacrifice, they would form no part of the expenses of production, and no portion of the produce would be required to be set aside in order to replace the outlay made for these purposes. The whole produce, therefore, after replacing the wages of labour, would be clear profit to the capitalist. (Mill 1968, p. 94)

Though the exact basis of indemnification for coordinating and overseeing production can be questioned, the nature of the division is clear. One part of profit can be viewed as earned for services rendered. Interest, however, in Mill's view, has no justification in the production process itself. Mill was never won over to Senior's 'waiting game' argument. If waiting itself was the chief determinant, misers, French peasants, and hoarders of all hues and scents should expect more than a lumpier mattress from socking away most of their earnings. Mill clearly is making a traditional nineteenth-century distinction between productive and unproductive returns.

Mill's approach, like Ricardo's, provides room to manoeuvre. There can be no logical reason for insisting on a unique distribution as corresponding to some unchanging prototype. Unlike the way in which goods are produced, which is rooted in technology, a distribution pattern can mutate with changes in economic power. This must be true since the entirety of profits, according to Mill, are not justifiable. The payment of interest is the result of property relations which will probably vary as societal organisations change. Here lies the potential political danger. A distribution scheme with indeterminate foundations provides an ideal wedge for attacking traditional market capitalism. 'Unlike the laws of production, those of distribution are partly of human institution: since the manner in which wealth is distributed in any society, depends on the statutes or usages therein prevalent' (Mill 1965, p. 21).

We should not be surprised to find that the synthesis of these two contrasting strands of British economic thought awaits only the deft hand and agile wrist of the great ameliorist, Alfred Marshall. By this time the rules of the game had been fairly well laid out. The labour process itself was beyond debate. Analysis of the distribution question had fallen into a predictable ritual. Once it was agreed as to how the pie was currently to be dealt out to the various economic players, the focus shifted to justifying such arrangements and determining how variable they might be. Marshall's major contribution here is a more careful delineation of the economic meaning of profit. In his analysis, a distinct cleavage appears. A trinity

transmutes into four discernable classes. Not only land, labour and capital are allotted their shares of total output, but business ability, taken as a separate entity, demands recognition<sup>15</sup>.

Entrepreneurs move to centre stage as the motive force behind any industrial system. If only implicitly, a drama filled with Ricardian passive players has now gained a hero in the historical sense of that word. Marshall unfortunately fails to defuse in any definitive way the issue of economic power that he surreptitiously must confront, if only in his attempts to refute its importance. Given the chance to fudge or make a clear-cut statement, Marshall's inborn cautiousness comes to the fore<sup>16</sup>. He employs a two-step strategy, starting with a more easily defensible position of economically justifying the entrepreneur. If business ability is now the key resource, and thus the controlling factor, owners of this talent should be expected to exert themselves to insure a continuance of returns. To the extent that rewards are linked to the competitive market process, we escape any variation of the Ricardian windfall profit argument.

Marshall must employ a delicate piece of surgery to remove intact the return to capital from the realm of pure rent. Labelling a return as a rent is inordinately constraining, as rents act as a force without a corresponding counterforce. They can be bestowed without requiring an equivalent sacrifice, not unlike an inheritance descending upon the first-born. As such, there can be no justification of such arrangements without recourse to the theology of political theory. Positive interest rates and equivalent returns exist because capital is a scarce resource. Capital need not be the focal scarce resource in the Ricardian sense. The issue still arises, since it remains a scarce resource that does earn a return. For Marshall, unlike some of his predecessors, capital constrained by these limitations does not grant automatic economic control in the market place. This creates the initial desired distance from Ricardo's insistence on rents paid to core inputs: 'Every attempt to establish this premise [the labour theory of value] has necessarily assumed that the service performed by capital is a "free" good, rendered without sacrifice, and therefore needing no interest as a reward to induce its continuance' (Marshall 1982, p. 587).

Marshall forces himself to envision a future where the ownership of capital is more dispersed, with society inevitably shifting more indisputably into middle-class comfort. In an unstoppable manner, old fortunes decay, while the working class moves up the ladder with increasing education, frugality, and the acquisition of other commendable beliefs. The interest rate and similar pure returns to capital fall as this habit of restraint becomes more widespread. True to form, Marshall cannot resist the urge to have his cake and eat it simultaneously. Interest is justified as a reward for the positive sacrifice of waiting. This promotion links Marshall to a familiar strand of British economic thought. But his own twist attempts to sidestep the inherent distributional disputes by assuming that this share of output, though justified, would steadily tend to become insignificant. In a practical sense, an abstinence effort eventually would go unrewarded but its existence and theoretical validation would not logically disappear. Accepting this premise entirely marginalises economic power as a useful analytic tool.

Moreover, education, better opportunity, and a growing economy would eventually 'diminish the toll which has to be paid by the working classes to those who organize the work of the community' (Marshall 1982, p. 225). Thus entrepreneurship loses its special quality of a property right, transforming instead into a characteristic that appears with increasing regularity throughout the general

public. This is of course Marshall's ultimately egalitarian social solution, a vision of a society composed entirely of the middle class.

We now have seen, via a fast-forward tour through the musty attics of the history of economics, that there exists a forged link between seemingly distinct economic frameworks. Stigler's crusades all have this common denominator. They defend against any analysis that undermines a distributive market system based on marginal productivity factor shares. These alternative approaches all share the potential to provide a theoretical foundation for government intervention that can supplant individual choice.

### C *Stigler Slices the Gordian Knot of Economic Power*

What do I care about the law? Hain't I got the power (Vanderbilt, quoted in Josephson 1934, p. 72).

In his first substantial work, Stigler looks critically at the triumph of marginal productivity theory which completed the work started in the 1870s by the marginal value revolution. With it comes the solution to the distribution problem, in much the same way as the earlier contribution resolved the problem of price. The issue of economic power is not so much addressed as banished:

The branch of economics which was in most urgent need of reformulation was, in fact, distribution. In 1870 there was no *theory* of distribution. Most English economists after Smith devoted separate chapters to rent, wages, and profits, but without important exception such chapters were only descriptive of the returns to the three most important social classes of contemporary England. Rent went to the landowners, wages to the labouring masses, and capitalists secured the 'profits of stock'. This type of analysis may have had its uses in the England of Ricardo and Mill, but its analytical shortcomings are obvious. Extended criticism is unnecessary at this point; the fundamental defect was clearly the failure to develop a theory of prices of productive services. (Stigler 1941, pp. 2-3)

This claim would not be quite so self-evident to either Ricardo himself or to others of the classical era. On closer reading it turns out that Stigler does not mean simply that Ricardo merely described existing distributions rather than explaining them. The key is that Ricardo never independently determined the basis for each reward, rather than having some payment fall out as a simple residual. As shown previously, this implied that distribution seemed to depend on property rights, namely, who gained control over the key resource and could extract rents. Such relationships are by nature historical. If, then, economic power could be exerted, government would have a rationale to limit through its own coercive power the worst of these imbalances. But power, no matter who exerts it, must by definition reduce choice. Limiting choice remained, for Stigler, the ultimate challenge to freedom and liberty.

This is the miraculous beauty of marginal productivity theory. If, by giving each factor its contribution to output, the total product is exhausted, no residual thus remains. Lacking a residual, the exercise of private economic power is impossible. Market competition, under a given set of conditions, almost magically eliminates the core Ricardian problem. In other words, the closer that markets resemble the conditions of perfect competition, the nearer one comes to dismissing problems of economic power:

The completion of the marginal productivity theory of distribution was achieved only with the development of the proof that if all productive agents are rewarded in accord with their marginal products, then the total product will be exactly exhausted. This exhaustion-of-product problem is of course unique to the general marginal productivity theory. (Stigler 1941, p. 320)

However, as Stigler acknowledges, once the need is granted for an entrepreneur<sup>17</sup>, residual payments once again must be introduced into economic analysis:

Once uncertainty is introduced, the theory of distribution is altered greatly. Anticipations rule economic activity, and many of the anticipations must be erroneous because of the very fact of uncertainty. The entrepreneur becomes a residual claimant, and the exhaustion-of-product problem disappears. Anticipated marginal productivity becomes the basis for remunerating all productive services except entrepreneurship. (Stigler 1941, p. 386)

The focus here on uncertainty does represent Knight's influence. Stigler himself would dismiss its importance in less than a decade's time<sup>18</sup>. But even with the entrepreneur's residual payment, it is clearly possible to avoid the Ricardian morass of economic power. The residual increase in productivity is due to entrepreneurial activity. Thus the return to the entrepreneur has a basis that is not simply dependent on the application of pure property rights. As long as such rewards are open to competitive forces, with residuals unsustainable over time, no threat to individual liberty can derive from private economic activity. The slippery slope that justifies government intervention and the subsequent limitation of choice is effectively salted down. Over the years, explicit concern for the entrepreneurial function would fade. Stigler, along with his colleagues and associates, would dramatically push the applicability boundaries of perfect competition theory. The importance of this progression lies not only in its analytical usefulness but also in its implicit support of individual choice.

## 2 Freedom as Choice

The proximate reasons that the darkly pessimistic predictions of conservatives have not been fulfilled are two. First, the predictions were based on their special view of freedom: Freedom as consisting only of the lack of coercion by the state, so that the widening range of choices due to the growth of income and education is not an effective increase in freedom in Hayek's view, although it is in mine. (Stigler 1988, p. 147)

There is more, however, than the mere accumulation of empirical evidence driving Stigler's life-long insistence on marginal productivity as the underlying basis for distribution. As pointed out before, such an approach eliminates the vexing issue of economic power. If markets are perfectly competitive, no one is able to influence or, more precisely, coerce another person's choice. Individuals simply respond to market signals. This is at the heart of Stigler's orthodox liberal beliefs. Freedom, and by extension liberty, is for him the freedom of choice. It is not coincidental that his closest friend and colleague would entitle his most popular book, *Free to Choose* (Friedman and Friedman 1980).

Contrast the freedom that flows from perfect competition with its alternative. Distribution as envisaged by Ricardo and his descendents depends on

economic power. Given the indefiniteness that flows from the strategic employment of this power, governments can rationalise redistributive impositions as creating greater efficiency and/or equity. For Stigler such interventions were no more than the coercive use of state power motivated by rent-seeking constituencies<sup>19</sup>: 'Income redistribution is the hall-mark of any special interest group: gains in aggregate output will usually be shared with everyone, so the efficient use of political power usually involves income redistribution' (Stigler 1982b, p. 63). In this sense the debate over marginalist ideas, the defence of the perfectly competitive model, is not a simple matter of economics but strikes at Stigler's core beliefs concerning a dearly-bought freedom almost uniquely enjoyed by the American public. (George Stigler's enduring parochialism was hardly a well-kept secret).<sup>20</sup> In an exaggerated sense, these designated opponents of economic orthodoxy represent the thin edge of the wedge leading irresistibly down Hayek's (1944) *Road to Serfdom*<sup>21</sup>.

The idea of consumer sovereignty is more accurately seen as a presentation of market sovereignty. All must respond to the dictates of the market, which is only the aggregate determination of a multitude of individual choices. In this sense, Stigler's joint paper with Becker (1977) is in its way a striking response to the increasingly critical stance to consumer sovereignty developed by John Kenneth Galbraith, amongst others. In this critical approach, successful advertising produces market power by changing existing preferences and developing new ones, specifically those which redistribute income to corporate sellers. If instead, corporations appeal only to existing preferences, trying to convince potential customers that the flow of services provided will match inherent individual preferences, we return to a model where economic participants respond to market dictates. These markets neutrally represent no more than the resultant manifestation of individual choices. The possibility of market power is removed, as well as possible arbitrary redistributions of income due to any associated economic power.

What flows from such a defence of consumer sovereignty is a parallel insistence on a marketplace for ideas<sup>22</sup>. But, taking the work of Stigler and Becker as our benchmark, the successful idea, like the successful product, is the one best suited to the existing set of consumers' preferences. Ideas, like other goods, are associated with flows of services and user costs. In this vision, ideas are marketed much like any good or service. Stigler's aim would be to persuade his targeted audience (other economists) that the ideas he presents provide the greatest service flows at the lowest associated user cost. The ideas that dominate are those which best appeal to existing consumer preferences<sup>23</sup>. Marketing, particularly selling one's ideas in a winner-take-all fashion, must inevitably gain the upper hand. But this need not lead to the adoption of the best or even most correct views no matter what the objective measure chosen:

I remember when I was a young person, George Stigler wired and said 'Selling is very important in your research. So write better. Work on writing because that is important. You've got to sell what you are doing.' I think he's exactly right. You've got to sell what you are doing. It may be that in the long run good ideas do surface but they surface faster, if written in a persuasive fashion. Moreover, bad ideas may be put persuasively. And they may gain the necessary threshold. However, taking that same analogy in competition among ideas, there is a presumption, although not a certainty, that in the longer run, the good ideas are going to compete out the bad ideas. But that may take a long time and may not even always operate. There's nothing necessary about

that. Nothing guaranteed about that. (Gary Becker, conversation with Craig Freedman, October 1997)

The problem with a hard-sell approach is the need to simplify, and not only in such landmark popular works like Milton Friedman's *Free to Choose* (1980). Identifying liberty with commercial choice (or the institution of private property) is at best sloppy analysis and at worst substitutes ideology for economics. Consumers inevitably make choices, no matter what the institutional framework, no matter what role government assumes in the economic process.

In the case of George Stigler, this brings us directly to the question of income distribution. He is quite correct in pointing out that discussions of this topic tend to be based on ethical considerations rather than positive economics: 'Such a positive theory would explain how the size distribution of income affected, and was affected by, developments such as rising wealth and education, the roles of taxation and other forms of political action, the institutions of inheritance, and the changing nature of the family' (Stigler 1982e, p. 13). However, it is at this point in a distribution discussion that admirable beliefs in freedom of choice can produce dilemmas. Stigler would have economists be what he sees as scientists, providing positive (non-ideological) analysis. Yet his own work with Becker tries to demonstrate the importance of selling one's ideas. Marketing by its very nature attempts to persuade others that a given flow of services meets fixed preferences, rather than directly attempting to alter a set of those pre-existing ones. This inconsistent categorical imperative would have economists rise above their economic motives while ruled by those same everyday incentives<sup>24</sup>. Stigler would have them lead in this manner despite granting them precious little impact on public choices. Inasmuch as economists remain scientists they are doomed to be ineffective (at least in Stigler's view). Using this same logic, the degree to which economists are effective measures the strength of their ideological objectives<sup>25</sup>:

The degree of popularity of a preacher does not necessarily measure his influence as a preacher, let alone as a scholar. In fact one could perhaps argue that unpopular sermons are the more influential – certainly if the opposite is true, and preachers simply confirm their listeners' beliefs, pulpits should be at the rear of congregations, to make clearer who is leading. Whether economic preachers lead or follow, they need an ethical system to guide their recommendations. (Stigler 1982e, p. 13)

The need to resolve these fundamental incompatibilities ultimately leads him to stand ideology on its head and turn assumptions and beliefs into testable hypotheses, an attempt made with varying degrees of success in his Tanner Lectures on Human Values, presented at Harvard University, April 24, 25, and 28, 1980:

Man is eternally a utility-maximizer, in his home, in his office – be it public or private – in his church, in his scientific work, in short, everywhere....I believe it is a feasible and orthodox scientific problem to ascertain a set of widely and anciently accepted precepts of ethical personal behavior and to test their correspondence with utility-maximizing behavior for the preponderance of individuals. My confidence that the test would yield this result will be disputed by many people of distinction, and that argues all the more for making the test. (Stigler 1982c, pp. 35-7)

### 3 The Problem of Ideological Blinders

The simplest way to test the role of ideology as a nonutility-maximizing goal is to ascertain whether the supporters of such an ideology incur costs in supporting it. If on average and over substantial periods of time we find (say) that the proponents of ‘small is beautiful’ earn less than comparable talents devoted to urging the National Association of Manufacturers to new glories, I will accept the evidence. But first let us see it. (Stigler 1982c, p. 35)

Ideology is dangerous in at least two manifestations. In the first, an economist knows the answer he or she desires to find and then puzzles out the most efficient and convincing way to reach that conclusion:

It seems to me that when you get to his [Stigler’s] later work, say with Becker, you know what the conclusion is going to be before you start the argument. In a sense, you’re assembling arguments to support a conclusion. I mean that may be unkind and untrue but it’s an impression. (Ronald Coase, conversation with Craig Freedman, October 1997)

At first glance the second approach appears to be indistinguishable from the first. Pick up research by a specific author. Given the topic, the reader knows the result beforehand. The only suspense comes from finding out exactly how the author reaches that pre-ordained end. The difference from the first case lies in the degree of consciousness present. The researcher will claim that the facts speak for themselves even though the tune presented is always remarkably similar. Though it was almost inconceivable that George Stigler ever would reach a conclusion that undermined neoclassical theory, he would never deliberately (and consciously) fudge his analysis to reach a given result. He might overstate, or push a conclusion to an unwarranted extent, but this was more due to the need to market than any dishonourable impulse. (Whether marketing an idea in a strong-arm manner is or is not dishonourable is quite another question).

It’s not that he [George Stigler] ignored all the empirical work in making his decisions. He would come across empirical work which was contradictory to other empirical work. Somehow it always seemed to him that the empirical work which favoured his side was done better than the empirical work which didn’t. But this is rampant in our profession. (James Kindahl, conversation with Craig Freedman, October 1997)

For someone who insisted so strongly that ideology played little if no role in economic analysis, his strongest defence rested not on the revered Adam Smith of *The Wealth of Nations* but on the less congenial (to George Stigler) Adam Smith of *The Moral Sentiments*<sup>26</sup>. Ultimately, a strong sense of professionalism kept economists from degenerating into a morass of partisan arguments that was ideological by both nature and intent<sup>27</sup>. Only this countervailing imperative kept economists from being ruled by narrow self-interest. Without such an escape route, it is difficult to imagine how one could analyse a profession composed of self-interested individuals that was not ruled in turn by those self-same passions<sup>28</sup>.

Yet Stigler’s insistence on the absence of ideology contrasts sharply with many of his actions and positions throughout his career<sup>29</sup>. His need to combat what he saw as the forces of collectivism arrayed against individual liberty brings a certain consistency to the paths he pursued and the strategies chosen to achieve his

objectives<sup>30</sup>. That he took ideological stances in less formal arenas seems undeniable. If his statement in a debate with Paul Samuelson about the price of freedom cannot be categorised this way, it is hard to imagine what could:

My basic answer to this painful problem is: In order to preserve the dignity and freedom of the individual in my society, I shall if I must pay the price of having some fail wholly to meet the challenge of freedom. I find it odd that a society which once a generation will send most of its young men against enemy bullets to defend freedom, will capitulate to a small handful of citizens unequal to its challenge. (Stigler 1963, p. 19)

In place of academic exchange (a positive-sum game), ideology offers only the adversarial combat of the courtroom (a zero-sum game)<sup>31</sup>. No empirical evidence, and certainly no logical argument, could conceivably induce either one of these samurai paper warriors to make any but the smallest concessions to the opposing camp:

Now, what you have to understand with somebody like Allen Wallis, and so to a degree those people who were in his circle [like George Stigler], is that Allen Wallis had the sharpest priors – I'm using the language of Bayesian probability – of anybody I ever knew. Almost no new data could change his view for this reason. (Paul Samuelson, conversation with Craig Freedman, October 1997)

With most of his opponents, however, Stigler adopted a basic hit-and-run policy. A devastating attack might then be followed up in an irregular fashion over the years with an occasional offhanded slap, as if he was chasing away a particularly annoying mosquito<sup>32</sup>. This reflected the level of irritation that a given contending theory, created as well as the longevity of an opponent's ideas. Gardiner Means represented one of the few (if not only) cases where Stigler was forced to hold his fire solely by the refusal of the *American Economic Review*<sup>33</sup> to continue the debate in print. Neither Stigler nor Means were capable of mounting a convincing attack upon one another since the debate revolved around articles of faith rather than empirically verifiable suppositions. Galbraith, though enjoying a similarly sustained debate with Stigler, developed a different pattern despite its ideological motivation. What at first was an intellectual struggle quickly transformed itself into something approaching a comedy routine, each new Galbraith book finding itself comfortably in range of Stigler's withering wit.

Ideology, then, continued to play a determining motivation behind George Stigler's work despite his explicit denials to the contrary. No other rationale makes such consistent sense of his critical work<sup>34</sup>. Otherwise the range and intensity of his battles remain merely rooted in his personality. In Stigler's case, the debates of the postwar era remain more revealing than any extensive excavation of his childhood. The exact nature of Stigler's underlying ideology can best be represented by three distinct but interconnected aspects. Taken together, they form something of a *Reader's Digest* history of economics in the last half of the twentieth century.

#### 4 Stigler and Postwar Economics: The Three Pillars of Wisdom

Lack of conviction has no inner connection with scientific objectivity.  
(Max Weber, quoted in Stigler 1941, p. v)

Never has it been any less than true that the current generation of economists stands on the shoulders of giants, or at least hyperactive dwarfs<sup>35</sup>. The remarkable postwar generation set the foundations for a modern discipline of economics as we now

know it. The Keynesian revolution initiated a struggle for the very soul of the subject. Though the reaction against the new normative model of macroeconomics is more familiar, the accompanying struggle over the corresponding micro basis of economic analysis was at least as important. Debate here, starting with the marginalist controversies in the immediate aftermath of the war, focused on the future role to be played by the model of perfect competition. Given the seeming triumph of the Keynesian approach to macroeconomics, a parallel microeconomic revolution, focused on some model of imperfect competition, seemed inevitable. The failure of this micro alternative to take firm root led to a disparity between the dominant micro and macro paradigms. We can see this as eventually contributing to the micro-foundations debates of the seventies and the years to follow.

The postwar microeconomics debates came to define much of Stigler's approach to economics. Filtered through Stigler, these issues formed what could be seen as the three pillars of postwar economics.

First, redistribution (economic power) versus market competition (marginal productivity theory): 'I guess he didn't like redistribution. He feels this down in his gut. That's all I can tell you'. (Sam Peltzman, conversation with Craig Freedman, October 1997) This holds the key to understanding Stigler's critical work. In his gut he knew that rationalising redistribution posed a threat to individual choice and hence to individual liberty. However, his drive for consistency within his own theoretical position meant that he could not attack redistribution as inefficient. If it was, then over time incentives would exist for it to change. A given distribution would lose its political viability. Yet he felt compelled to find some basis to undermine redistributive arguments which served only as a persistent abrasive to his liberal disposition<sup>36</sup>.

For this reason, he reserved his most scathing attacks for those economists offering frameworks that detoured from the orthodoxy of perfect competition. In particular, he focused on those alternatives that offered multiple equilibria or non-equilibrium solutions. This is the common thread running through the analysis offered by such a diverse group as Sweezy, Chamberlin, Galbraith, Means and Leibenstein. At first glance these economists seem more distinguished by their differences than their similarities. However, each championed an economic approach which signalled the demise of unique equilibrium market solutions.

This becomes important only when examined in light of Stigler's core beliefs. Each alternative placed in peril the marginal productivity approach to distribution long championed by Stigler. The focus starts with his dissertation under Knight<sup>37</sup>. I would contend that this remained the driving force behind his defence of orthodoxy. Not only is a reward proportional to marginal productivity the most efficient form of income distribution, but it is ethical as well: 'I wish only to assert that the appeal of productivity ethics for income distribution commands wide support not only from the public but also from the economists when they are watching their sentiments rather than their words' (Stigler 1982d, p 19). Ethics, like everything else, becomes driven by utility-maximising behaviour. For Stigler this had to be a testable hypothesis rather than the sort of convenient assumption typically employed by most economists: 'I believe that it is a feasible and even an orthodox scientific problem to ascertain a set of widely and anciently accepted precepts of ethical personal behaviour, and to test their concordance with utility-maximizing behaviour for the preponderance of individuals' (Stigler 1982c, p. 36).

As Stigler characterises the postwar period, questions of distribution had come to dominate policy and economic questions as they had never done before:

Most recently the desire for greater equality has grown strong. Every policy is scrutinized for its effects on the distribution of income, and the results of this scrutiny weigh heavily in the final judgment of the desirability of the policy. A growing number of economists, indeed, implicitly argue that no other injustice equals in enormity that of large differences in income. (Stigler 1949, p. 1)

It is just this insistence on equality of results that causes Stigler's unbending liberal heart the most anxiety. The moralist buried deep within sees this type of redistribution as undermining the soul of a good society:

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.... On the liberal philosophy, it is necessary that all contestants begin the race at the same point, but it is fatal to require that they reach the finish line simultaneously. (Stigler 1949, pp. 8-9)

Second, market efficiency (exemplified by Koopman's (1957) essays) versus economic growth (Beveridge and Galbraith): "Well, I'll eat it," said Alice, "and if it makes me grow larger, I can reach the key – and if it makes me grow smaller, I can creep under the door: so either way I'll get into the garden, and I don't care which happens!" (Carroll 1956, pp. 9-10) In the immediate postwar period, public memory retained the images of market failure generated by the Great Depression. These contrasted sharply with the collective triumph that government had achieved in waging and winning World War II, an intervention verging well into the neighbourhood of social engineering. Growth became the prime imperative, ensuring employment and economic stability. Given these requirements, issues of efficiency took a decided backseat. Trade-offs of efficiency for growth were seen as necessary sacrifices to prevent the collapse of postwar economies (and keep them insulated from the collective vision of communism). The manifestation of this, articulated industry policy, became attached to a variety of programmes with varying objectives often justified by convenient, if not always rigorous, economic thinking.

In all cases, however, such proposed policies have been connected directly or indirectly with the concept of economic growth. The fact that discussions of industry policy are to some degree another way of discussing growth policy explains where the core of the problem is. Growth, as a subject to be tackled, has long been an issue assiduously avoided by many well-known economists. Growth and the reasons for it were the motivation behind Smith's *Wealth of Nations*<sup>38</sup>. His was a prescriptive policy for unshackling the potential of the English economy. Ricardo successfully deflected the focus of economics onto issues of distribution, a direction that economists found difficult to abandon entirely. This position continued to dominate, in spite of a general recognition that explaining economic growth, particularly insofar as it reduced poverty, remained the chief duty of any economist<sup>39</sup>.

Modern growth theory, in the immediate postwar period, did not find its roots in a rediscovery of Smith's questions, but in one of market coordination. It raised the Keynesian question in a dynamic framework. In their work, Harrod (1948) and Domar (1947) point to the lack of any fundamental endogenous mechanism which might prevent recurrent large swings in unemployment and capacity utilisation. Given the assumptions of their model, steady-state growth was

unlikely. The model suggested that growth could be boosted by increasing the investment-to-output ratio. But this was hardly the point of the work done by Harrod and Domar. Solow's (1956) solution spoke to the coordination difficulty, since the policy implications were not at the forefront of the debate<sup>40</sup>. Given the nature of the questions raised it hardly comes as a surprise that after an initial flurry of interest in the early and mid-1960s interest in growth models largely waned. The questions that naturally follow from accepting the earlier, more historical, analysis of economic growth bear obviously on questions of industry policy, both as regards existing and potential manufacturing sectors.

Shifting growth theory, so that it nestled comfortably within the confines of the debate characterising economic efficiency, removed issues of distribution to the periphery of research. Efficiency replaced the more institutional requirement of political stability as the necessary basis for economic growth. Without the need to maintain a countervailing force against the use of private economic power, the rationale for government intervention dwindled. The coupled threat to individual choice was largely neutered. The two-step process seems clear in retrospect. First Stigler (and his colleagues) in all their work extended the applicability of neoclassical analysis, particularly the reach of competitive markets<sup>41</sup>. His work on oligopoly (1968) effectively eliminated that theoretical middle ground by vanquishing this lingering distraction inhabiting an ill-defined region between monopolistic and competitive markets. The next strategic step set its sights on demolishing the importance of monopoly theory<sup>42</sup>. Once markets are established firmly as widely competitive, the motivations and costs of government intervention can only undermine economic efficiency and growth. If government cannot improve economic outcomes, the undeniable analytic imperative becomes to explain why governments nonetheless do intervene. It is unsurprising that George Stigler's work moved from pioneering empirical and theoretical pieces in industrial organisation to path-breaking insights in the field of government regulation<sup>43</sup>. This happened not according to some premeditated grand strategy but rather evolved from the natural unfolding of his professional interests. My point is that these interests were always guided by a core and unalterable belief in freedom of choice as the foundation of liberty and morality.

Third, collective choice (Samuelson and public goods) versus individual choice (von Mises and private goods):

Now trends of evolution can change, and hitherto they almost always have changed. But they changed only because they met firm opposition. The prevailing trend toward what Hilaire Belloc called the servile state will certainly not be reversed if nobody has the courage to attack its underlying dogmas. (von Mises 1980, p. 179)

Just as the Protestant Reformation inevitably called forth a regrouping and reaction by the forces of Catholicism, the widespread acceptance of collective action by mainstream economists and the public at large was bound to create something of a backlash. Friedrich von Hayek viewed the need for strategic regrouping amongst the considered voices of conservatism as urgent to brake the ever creeping encroachment on individual liberty. At his urging, thirty-six intellectuals, mostly economists, met at a resort hotel on Mont Pelerin, Switzerland, on April 10, 1947. Amongst the invited group were two rising young economists (Stigler and Friedman)<sup>44</sup> who had become friends and sometime colleagues as graduate students in Chicago and later in Washington DC during the war<sup>45</sup>. This conservative vanguard issued a resulting statement of aims that conveys an almost alarmist tone:

The central values of civilization are in danger. Over large stretches of the earth's surface the essential conditions of human dignity and freedom have already disappeared. In others they are under constant menace from the development of current tendencies of policy. The position of the individual and the voluntary group are progressively undermined by extensions of arbitrary power. (Mount Pelerin Society 2003, p. 1)

Seen in the context of the Cold War, there was a clear ideological battle for the proverbial hearts and minds of mankind. It was not only the clearly professed collectivists of the Soviet Union who together posed an imminent danger, but also intellectuals of Western democracies who were too understanding or too accommodating to dangerous alternatives. In this environment, a new Keynesian-inspired textbook, like the one produced by Paul Samuelson, and seen as innocuous today, could generate a firestorm around those institutions that chose to adopt it<sup>46</sup>. Economists like Samuelson and Arrow, in their attempts to formalise large sections of economic theory, seemed determined to find limitations and faults with competitive markets.

The traditional liberals, represented at Mount Pelerin, firmly believed that a free economy was necessary for a democratic society<sup>47</sup>. Given what they uniformly viewed as a dangerous and almost unrecognised drift toward collectivism, they, like their socialist opponents, saw no other viable option than embracing the underlying logic of their ideas. They needed to find the courage to be idealistic. The extent of the leap taken, from this position to that of a full-fledged ideologue, is hard to measure. A few steps in this direction need not lead to a deliberate attempt to slant research to achieve a given set of preconceived outcomes. Stigler himself was never as crude as that. Nor did he ever consciously try to achieve results that fitted with his deeply-held beliefs. But someone who believed so unequivocally in a certain goal would inevitably find evidence to support what he knew (in an almost *a priori* way) to be correct. It is hard to imagine what data, research, or evidence could have moved Stigler to fundamentally change his views about markets. To lose his faith would have fatally undermined the basis of his moral precepts.

For these reasons, Stigler would not surrender his precept that the Trojan horse of beneficial state services ruthlessly advanced collectivist aims at the expense of liberty. But, unlike other clearly confessed ideologues, Stigler refused to rest his case on some simple statement of faith or a claim based on anecdotal evidence. Consistent with his methodology, the assertion of imperilled liberty must be transformed into a testable hypothesis:

The proof that there are dangers to the liberty and dignity of the individual in the present institutions must be that such liberties have already been impaired. If it can be shown that in important areas of economic life substantial and unnecessary invasions of personal freedom are already operative, the case for caution and restraint in invoking new political controls will acquire content and conviction. (Stigler 1975, p. 18)

## 5. Cold Warriors Fade Away: The Cost of Ideology

I dare say, I think that would have been Milton Friedman and George Stigler's attitude to McCarthy. One would have wished he didn't do it

so loudly, he didn't do it so vulgarly, but they would have said that he was essentially right. In the same way that a lot of people said you know, you have to put up with McCarthy to keep communism in check. Stigler would have regarded McCarthyism as not being a threat. (Mark Blaug, conversation with Craig Freedman, June 1998)

For George Stigler, ideology had to remain an unacknowledged, guilty secret. By his own reasoning, actions springing from this set of beliefs and imperatives were outside economic analysis. Such an avowal could only undermine the integrity of the discipline like a worm burrowing from within: 'An ideology .... is a commanding set of beliefs, beliefs that are probably not grounded upon self-interest or are related to the interests of the holders in so subtle and obscure a manner as to make it more useful to treat the beliefs as data' (Stigler 1988b, p. xiii). If, though, these sets of beliefs and preferences determined George Stigler's world view, his professional conclusions could not remain unmarked by his ideological inclinations. Like any other economist, Stigler did not come to his data with a blank slate. Even with the best will in the world, some influence must necessarily remain despite all his insistence on empirical testing. Facts do not speak for themselves. They need interpretation. The very nature of such interpretation cannot by definition be entirely objective. At least some slight residue of spin will be detected by the careful researcher.

Ideology subtly undermines the work of even the very best researcher. In George Stigler's case, we can most clearly see this influence in his critical work. He strapped on his battered armour and levelled his lance only in defence of his bedrock beliefs. When defending the major tenets of neoclassical economics he inevitably resorted to the adversarial legal tactics of the courtroom<sup>48</sup>. George Stigler's overriding concern was to demolish opposing, and inherently dangerous, heretical doctrines. This led to a pattern of misrepresenting these doctrines, not with the intention to deceive but rather driven by an overwhelming need to triumph. He was a partisan, but an honest and ethical one. The problem comes with simply being a partisan, even when that describes a great economist stooping to conquer. The temptation to yield to these matters of the heart is great, but there is little evidence that it yields the best research or insights: 'It cannot be doubted that economists have imported egalitarian values into economics from the prevailing ethos of the societies in which they live, and that they have not been important contributors to the formation of that ethos' (Stigler 1982e, p. 13).

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## Notes

1 Potential rewards are both psychological and material. There is international acknowledgement for one's work in a manner limited to a virtual handful of practitioners. As Stigler sardonically comments, 'I concede to Samuelson, nevertheless, that to a scientist educated hands make more melodious applause than ignorant hands, but too often the educated hands seem to be sat upon by educated asses' (1982b, p. 67). However, this cannot be entirely divorced from more mundane rewards. The type of wider name recognition earned translates into higher fees for appearances, whether as an expert witness or a conference speaker. Stigler himself saw his own rewards rise. It

would be an economist of a saint-like disposition dominated by non-monetary objectives who would easily pass up all such offers.

2 His position regarding quantitative methods always contained a whiff of the contradictory. Clearly, for Stigler, economics without empirical testing collapsed into sheer assertion. There is no reason then to cast doubt on his enthusiasm:

It was just that he was so enthusiastic about quantitative measures. He thought that he was going to change the world .... I was sitting with Aaron Director at the time when he gave his Presidential address and we did look at one another at the time to try to see what each one thought about all of this (Ronald Coase, conversation with Craig Freedman, October 1997).

However, it can be disputed whether he took empirical testing seriously, since his empirical results always seemed to verify his *a priori* beliefs.

So, it doesn't seem altogether consistent .... he knew what the answer was going to be. He just regarded it [empirical evidence], as I say, as a way of persuading other people (Ronald Coase, conversation with Craig Freedman, October 1997).

3 Readers have not noted sufficiently the singular interconnectedness of these lectures. The implicit assumption in their structure is that most of his audience would be returning during the course of the five days. These lectures then build on each other to provide a complex vision of economics. They should not be read as separate and complete lectures on quite distinct topics.

4 Let me emphasise that Stigler is not unusual in having ideological motivations, whether hidden or not. Robert Tollison couldn't resist using Stigler's death as an occasion for writing an obituary strongly imbued with Hegelian 'End of History' overtones:

Rational choice theory can explain politics in a predictable fashion. This was Stigler's lesson. Many have yet to learn it, but they will. All the voices to the contrary do not have the power to stop the onslaught of modern economic research which is pushing this paradigm further along each working day. We have probably come to the end of the history of economic thought. (Tollison 1992, p. iv)

This is over the top, but at least somewhat reminiscent of Stigler's (1982f) 1964 *American Economic Association* presidential address, which was not without its own 'Brave New World' flavour. Readers should keep in mind that this fervour does not restrict itself only to more conservative members of the economics profession. Self-styled left-wing practitioners can be every bit as strident as their brethren on the right. It is Stigler's skill at demolishing his ideological opponents that sets him apart, rather than his pronounced adversarial approach to economics.

5 It is always difficult to know when and to what degree Stigler resorts to tongue-in-cheek statements, in part to insure a response from his opponents. He thrived on controversy but shrivelled when ignored. In a 1963 debate with Paul Samuelson, he fiercely markets his views by setting out the strongest aspect of any given one of his positions. The context, of course, is the polarised presidential race of that year which reintroduced an ideological slant to debate. This slant, after the McCarthy era, had become more muted. Stigler's statements recall Goldwater's famous acceptance speech at that year's Republican convention ('Extremism in the pursuit of liberty is no vice; moderation in defense of freedom is no virtue'). Market inequities become the price one needs to pay for eternal vigilance.

To gain a feel for the dynamic tension between Stigler's classical liberalism and the increase and centralisation of state power in the postwar period, read his defining essay 'The economists and equality', where he quotes de Tocqueville approvingly:

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 Tocqueville, quoted in Stigler 1949, p. 11)

6 For Hobbes, individuals cede political power to a monarch to protect themselves from the uncertainties and iniquities of power exercised capriciously by private individuals, the anarchic rule of nature.

7 Based on his unyielding ideological stance, McCloskey refers to Stigler as a Marxist: '...George Stigler, America's leading vulgar Marxist economist' (McCloskey, 1997, p. 361). It might be more accurate to designate him as a Stalinist for the sort of market fundamentalism he displays. Crude Marxists prefer to reduce the world to an economic rationale. Everything else can be dismissed as mere superstructure which simply reflects the underlying forces of production of any economy. In a not dissimilar way, all explanations for Stigler reduce to market forces. Just as an ideologically committed Marxist knows the answer to any question before commencing an investigation, so too did George Stigler. I suspect McCloskey used the Marxist term to describe Stigler, not only because of its accuracy in characterising an aspect of his scientific approach, but also because she suspects how much such a designation would have irked Stigler.

8 Though by itself an interesting question, it is peripheral to the focus of this paper. In this section I find it useful to show that this type of debate did occur rather than trying to evaluate whether such an inquiry was or was not productive.

9 What constituted a key resource was soon seen as something of an historical artefact by the time that Alfred Marshall published his definitive text:

When Mill was growing up, England was still oppressed by the difficulty of obtaining raw produce and this was giving a bias to distribution in favour of those who own land, and against those whose income is derived from labour and who have many mouths to feed .... Since then it has dwindled; but Mill was always haunted by the fears which had oppressed Ricardo and Malthus. (Marshall 1982, p. 316)

10 The amount of rent depends on the fertility of land. The least productive or marginal piece of land receives no rent at all. In this case, the market price of any such produce equals its value. Since the value of the output is lower on the more fertile land, price and value must diverge.

11 Ricardo adjusts this simple idea of embodied labour for differences in factor intensities, depreciation of capital, and roundaboutness of production. None of this affects the basic ideas presented here.

12 It is clear for Ricardo that economic power derived from the ownership of key, scarce inputs not only results in arbitrary and inefficient distribution patterns but, taken to an extreme, erodes economic growth:

.... long before this state of prices (zero profits) has become permanent there would be no motive for accumulation; for no one accumulates but with a view to make his accumulation productive, and it is only when so employed that it operates on profits. (Ricardo 1923, pp. 72-3)

13 It might be argued that without the inducement of rent there would be less incentive to improve one's property. Such an analysis would indicate a basic confusion. As long as there is private property, one may reap the benefit of any improvements. These benefits, however, spring from the actual productive use of the land. Rent is the unadorned tribute paid for access to that land. The apparent confusion between the maintenance of property and the amount of rent paid is due to the potential separability between the reward provided strictly for ownership and the fact that the owner can also inhabit other, more productive, roles.

14 This whiff of Ricardian rents continued to persist even when Ricardo's own analysis remained largely a province of genteel historians of economic thought. Keynes saw interest payments in much the same way as Ricardo saw rent:

Interest today rewards no genuine sacrifice, any more than does the rent of land. The owner of capital can obtain interest because capital is scarce, just as the owner of land can obtain rent because land is scarce. (Keynes 1964, p. 376)

15 Profits for Marshall cease to be an undifferentiated lump:

Finally we may regard this supply price of business ability in command of capital as composed of three elements. The first is the supply price of capital; the second is the supply price of business ability and energy; and the third is the supply price of that organization by which the appropriate business ability and the requisite capital are brought together. We have called the price of the first of these three elements interest; we may call the price of the second taken by itself net earnings of management, and that of the second and third, taken together, gross earnings of management. (Marshall 1961, p. 313)

16 Ronald Coase (1994b) has an informative as well as delightful essay on Marshall's childhood. In particular he sketches the role played by his stern father, described by Alfred Marshall himself as exerting an 'extremely severe discipline' (Marshall, quoted in Coase 1994b, p. 125). Coase characterises this childhood as a partial explanation for Marshall's compulsive shying away from confrontation, for what might be characterised as an intellectual flinch:

That was Marshall's character, which really wasn't very admirable. But it is understandable. I argue it's the way he was brought up by his father.... I mean you can always hear the swish of the birch (Ronald Coase, conversation with Craig Freedman, October 1997).

17 As Stigler notes, the applicability of Euler's theorem to the distributional exhaustion of output coincides with a disappearance of the entrepreneur in a steady-state economy:

...under what conditions does the entrepreneurial role disappear? It disappears, we know, in the completely stationary economy, where the stocks (not the rates of supply) of productive resources, the technology, and the tastes are rigorously fixed. In such an economy the same things are always done in the same way by the same men. Everything is reduced to routine; the captains of industry – and their innumerable adjutants – are in Nirvana. (Stigler 1941, p. 384)

18 Friedman and Savage in their 1948 article have a much different take on issues of uncertainty and risk. George Stigler would have accepted his colleague's view in this matter:

I believe that the only theory of probability that can hold water is personal probability, the kind of thing that Jimmy Savage helped develop. If you take that approach, you can't distinguish uncertainty from risk. There's no break point. (Milton Friedman, conversation with Craig Freedman, August 1997)

19 Stigler clearly disliked the ideal of income redistribution. This seems to flow from his belief in the ethics of productivity distribution. He agreed that:

To hurt in any degree the interest of any one order of citizens, for no other purpose but to promote that of some other, is evidently contrary to that justice and equality of treatment which the sovereign owes to all the different orders of his subjects. (Smith, quoted in Stigler 1982e, p. 11)

20 This is not particularly remarkable, as it can be argued that this is a common American vice, even among academics:

Another story about George, I've always found it to be a problem, which is how incredibly American he was. I used to be shepherding these Latinos through and here they would come to some question in his Price Theory examination. 'Explain something, something about the Dred Scott Decision'. (Arnold Harberger, conversation with Craig Freedman, October 1997).

21 The idea is one of eternal vigilance. One wrong step takes history down a slippery slope, inevitably leading to some form of totalitarianism:

It might not be a perfect system; nothing was perfect; but what he objected to, was, the insertion of the wedge. Under the Prerogative Office, the country had been glorious. Insert the wedge into the Prerogative Office, and the country would cease to be glorious. He considered it the principle of a gentleman to take things as he found them; and he had no doubt the Prerogative Office would last out time. (Dickens 1927, p. 481)

22 Coase (1994) makes a strong case for identifying the market for ideas with the market for goods. He makes the point that the same people who urge a free market in ideas, tend not to support a similar free market in goods and services:

The bulk of mankind will for the foreseeable future have to devote a considerable fraction of their active lives to economic activity. For these people, freedom of choice as owners of resources in choosing within available and continually changing opportunities, areas of employment, investment, and consumption is fully as important as freedom of discussion and participation in government. (Aaron Director, quoted in Coase 1994, p. 66)

23 The ideas underlying his 1977 paper with Becker are more clearly spelled out in a less scholarly work published soon after in *Ordo* (1979) and later reprinted in *The Essence of Stigler* (1986):

If deception by intellectuals were the motive force of social change, we would expect to observe numerous occasions on which a group of conservatives with large powers of persuasion had captured the public's fancy and succeeded in initiating a regime of declining governmental activity. After all, which socialist philosopher has been as profound as Hayek, which socialist propagandist has been as lucidly logical as Friedman? In fact, intellectuals largely – although not wholly – respond to the demands of their times: like Detroit, they produce to demand, rather than contrive that demand. Indeed, per educated person employed, Detroit may well turn out a larger variety of products. (Stigler 1986, p. 340)

24 We often find Stigler in the strange position of pushing propositions beyond their empirical anchors:

So he was very much this kind of a person who would say, 'I'll state this result as strongly as I possibly can, even if it's not completely justified by the evidence'. I mean I think at some level he said to himself, 'I'll make the strongest case I can and then if that stirs people up...!' In many ways he was using a bully pulpit that he had acquired from his stature in the profession. He was able to do that. (Sam Peltzman, conversation with Craig Freedman, October 1997)

25 The resolution ultimately is to raise the underlying market distribution from the narrow bound of efficiency to the more glamorous realm of equity and justice. With the fairness of marginal productivity theory reduced to a testable hypothesis, scientific objectivity is once again bleached free of any blatant ideological tint. At a more basic

level, freedom is successfully defended against the encroaching forces of totalitarianism:

He very much believed that the role of economists in formulating or moving policy was overstated. More than I do. It's not something I agree with him on. He would always take this very strong position. We were part of what Marx would call the superstructure. Bought by one side or another and we really didn't have an independent role to play in the evaluation of policy. And yet he had this belief that the world should be a certain way. It's clear. You know, he was a believer in markets. He didn't like the sugar subsidy for sure and I don't know how you really square it ultimately, with his position that this is the optimal way to redistribute. (Sam Peltzman, conversation with Craig Freedman, October 1997)

26 *The Moral Sentiments* moves away from simple self-interested actors and the anonymity of market relations. The role of trust starts to dominate. This, though, undermines the clean-cut price theory supporting George Stigler's view of distribution. It introduces an unwanted element of ambiguity, antithetical to his objective. Throughout his career, George Stigler was at pains to separate decisively Smith's two great works:

So in lots of ways, George Stigler was very dishonest, I don't know if he realised the extent, in never discussing the relation between these books. He should really have discussed it. It was part of Adam Smith's thought. If you want to understand Adam Smith, you have to try and understand how it is that he left these two books floating and gave you the job of relating them and I think it is very difficult. (Mark Blaug, conversation with Craig Freedman, June 1998)

You know my argument [about the relationship of *Wealth of Nations* and *Moral Sentiments*] is the opposite? He was sort of critical of Adam Smith in a way that I didn't think was justified. (Ronald Coase, conversation with Craig Freedman, October 1997)

27 Stigler violated his own narrow assumption of self-interest in his own actions. Not only was he a devoted family man, but he cared deeply about economics and the economics profession itself:

He very much identified with the profession. He cared whether the profession moved ahead. So much of his work dealt with issues concerning the profession. If you look at my catalogue, you'll see what I mean. There are a lot of categories under 'Profession'. He cared about the profession. He identified with it. He identified with the University of Chicago. He cared about this. Not just about his own progress. If it was good for the Department, he really cared. If the Department tried to get somebody, whom he thought would be good, he worked on it. If the Department was in danger of losing somebody, whom he felt would be a loss, he cared and he worked on it. He really had this funny identification. (Claire Friedland, conversation with Craig Freedman, October 1997)

28 Stigler had to make this assertion if ultimately market choice was to be defended with any degree of success. His economic arguments could not be distorted by desired ideological outcomes. Yet this role of economist as dispassionate scientist was asserted rather than proved. What evidence there is tends to move in the other direction:

This is a popular Friedman view too. And it's wrong. I say that flatly. But it's interesting that just recently – I have somewhere a National Bureau Yellow Jacket manuscript of a research study by Richard Fuchs from Stanford University, Jim Poterby from this university and Allan Krueger of the Woodrow Wilson School at Princeton and they did an extensive

sampling of economists in two areas of economics. Their finding is the opposite of Milton Friedman's. There was a very considerable degree of consensus on factual matters. However what they found was the difference in their policy recommendations were – I'm using your language, not their language – ideologically-premised values. They were not fact-driven. Now there are a few cases like the minimum wage or Ricardian comparative advantage where you can almost get certain unanimity, free of ideology. But these are exceptions in my opinion. (Paul Samuelson, conversation with Craig Freedman, 23 October 1997)

29 As an eminent historian of economic thought he insisted that internal pressures of the profession defined the subjects for study:

The dominant influence upon the working range of economic theorists is the set of internal values and pressures of the discipline. The subjects for study are posed by the unfolding course of scientific developments. (Stigler 1965, p. 22)

30 There is a strange contradiction lurking in the background here. Stigler's defence of liberty is conditional or at least has priorities. To fight encroaching collectivism, he is willing to see certain liberties curtailed. As Samuelson points out (Paul Samuelson, conversation with Craig Freedman, October 1997), Stigler and his closest colleagues were ready to acquiesce in the version of McCarthyism sweeping university campuses in the 1950s (though not to its mirror image attempting to curtail more right-wing opinion in the 1960s):

And I remember for years after I left the University of Chicago, when they were contemplating influential appointments they would ask me about the person, 'Is he really sound?' In fact, Milton once showed his naïveté to me, but it wasn't about appointments. He said, 'Tell me the truth, is Galbraith a Commie?' (Paul Samuelson, conversation with Craig Freedman, October 1997)

31 Stigler (1988, pp. 133-4) makes the convincing point that an economist who goes to Washington loses his credibility as an economist. This extends to the role of expert witness. (Though he makes a point in his autobiography of his unwillingness to go to Washington he badly understates his willingness to perform in legal proceedings):

Is the expert honest? At very best, probably as honest as is possible in a process in which truth is sought by the vigorous presentations of opposing views, and where any admission by one side is heavily overemphasized by the other side. (Stigler 1988, p. 133)

The problem is that Stigler does not either recognise or acknowledge that his adversarial approach to economic theory allows the same courtroom problems to intrude into academic life:

For lawyers to write tendentious briefs in an adversarial environment presents few problems; no one expects, or demands, the truth from only one side. But for academics to twist facts, no matter how brilliantly, to fit the preconceived interest of their clients is disturbing. (Weinstein 1992, p. 75)

32 The classic example is an almost guerrilla war conducted against the kinked demand curve, one of Stigler's earliest campaigns and one that established him as a boots-and-all opponent. After his 1947 paper, he returned to the topic in one form or another. (Interested readers may dive anywhere into his irritated diatribe (1982a) or examine his footnote of scorn (1992 p. 456) for a good illustration of obsessive behaviour). Sweezy for his part showed no interest in engaging in this debate: 'I haven't read it (Stigler's 1947 paper on the kinked demand curve). I don't think I ever did. I don't think I was aware of it actually. I didn't pay much attention to Stigler in those

days. I was probably in one of my ultra-left moods, or something like that.' (Paul Sweezy, conversation with Craig Freedman, October 1997)

33 More precisely, both Stigler and Means would have carried on indefinitely. However, the then editor of the *American Economic Review*, George Borts, perhaps foreseeing the inherently irreconcilable differences between the two camps, ended the increasingly tendentious debate by offering to commission a third party to evaluate the state of the existing debate.

34 I can only quote Stigler to defend my benchmark of consistency and comprehensiveness:

The test of an interpretation is its consistency with the main analytical conclusions of the system of thought under consideration. If the main conclusions of a man's thought do not survive under one interpretation, and do under another, the latter interpretation must be preferred. (Stigler 1982g, p. 69)

35 This well-known quote by Voltaire seems largely forgotten by the current generation of economists, who almost believe that they have bootstrapped their way to enlightenment.

36 Stigler's professional standards demanded that he adopt a consistent position on this crucial issue. Resolving the problem of arguing against redistribution without falling back on standard market inefficiency statements proved to be a problem with a very elusive solution:

But look, if you're going to regulate, conditional on wanting to redistribute income, I can't tell you that this is wrong. So, if I don't like it, if I tell you it's wrong, it has to be because I don't like the redistribution. Or you can argue on global grounds. If you have a lot of this in society, it may have global effects on efficiency. You and I can fight over a cookie, but if everybody's doing it, it is spending a lot of society's resources, that kind of argument. But that's a more subtle basis on which to oppose these things than economists usually do by saying it's inefficient. (Sam Peltzman, conversation with Craig Freedman, October 1997).

37 Marginal productivity as the basis for distribution remained the clearest break that Stigler made from his revered teacher, Frank Knight. Stigler's refutation of Knight's (1976) famous essay 'The ethics of competition' couldn't be clearer:

When I first read this essay a vast number of years ago, as a student writing his dissertation under Professor Knight's supervision, you should not be surprised to hear that I thought his was a conclusive refutation of 'productivity ethics'. When I reread it a year or so ago, I was shocked by the argumentation. (Stigler 1982d, pp. 18-19)

38 For discussion of growth theory during the formative years of economics see Brewer (1995).

39 We often forget the number of economists who were first drawn to the subject by their desire to aid the less fortunate:

The question [of the elimination of poverty] cannot be fully answered by economic science. For the answer depends partly on the moral and political capabilities of human nature, and on these matters the economist has no special means of information: he must do as others do, and guess as best he can. But the answer depends in a great measure upon facts and inferences, which are within the province of economics; and this it is which gives to economic studies their chief and their highest interest. (Marshall 1982, p. 3)

40 See Solow (1994) for a good summary of his understanding of the debate and what he was attempting to do in his work.

41 Part of Stigler's idea of marketing an idea was to push it to its extreme. He would nail his flag to an extreme position and relish any subsequent attacks. For him, the worst response was no response:

He was a bit of a provocateur. He liked upsetting people. I told you he wrote that column for *Business Month*. After a year went by, nobody had criticized it. They didn't get any letters to the editor. And you know, he had said so many outrageous things, that insider trading is really OK, that sort of thing. He said things meant really to try to upset people. Well, he gave it up. He wasn't having any fun. He wanted people to criticize his ideas and then he wanted to come back with his rejoinders. You know, he wanted to have a little fun. (Claire Friedland, conversation with Craig Freedman, October 1997)

42 In his autobiography, Stigler (1988, pp. 91-122) describes his journey from embracing the commonly accepted wisdom of the profession (and of his teacher Henry Simons) to believing that issues concerning monopoly power were at most only of minor importance. He came to describe antitrust actions as largely wasted effort. In this sense, an economist simply had no professional role to play in the political process:

I conclude – and perhaps I am alone in concluding – that when the economist goes to Washington, he deserves no more credence, and no less, than any other political appointment, and it is mildly deceptive to address him as Doctor or Professor. (Stigler 1988, pp. 135-6)

Stigler's whole-hearted embrace of Harold Demsetz's (1968) work on regulation fails to surprise, given this context. This approach undermines the attention paid to the issue of natural monopolies by providing competition in bidding for contractual rights as an effective substitute to competition within the marketplace. Stigler does not deny the existence of monopolies but raises his ever-sceptical voice in terms of the attention economists have lavished upon them:

The strength of the competitive force does not imply that there are no monopolies or that they are always transitory, although in century-long periods they are indeed transitory. What is implied is that the processes of obtaining, defending, sharing, and eliminating monopoly positions are more important and interesting than the exercise of monopoly power. (Stigler 1988, p. 164)

43 Given his passion for consistency, Stigler was forced to argue for the efficiency of the political marketplace. In this sense, economists had no more justification for meddling in political outcomes than in market results. See his posthumously-published work (1992), 'Law or economics?' for a clear exposition of this position.

44 Friedrich von Hayek relied on Aaron Director's recommendations when issuing invitations. (Hayek himself owed the publication of his *Road to Serfdom* (1944) to Director's intervention, which persuaded the University of Chicago to publish it.) It was Director who recommended that the list include his brother-in-law, Milton Friedman, and George Stigler. Aaron Director would remain one of the most influential (and among the very few) intellectual influences on Stigler. He essentially supplanted Frank Knight in this role. Director himself had made his own journey from hard left to hard right ideology. He had originally arrived at Chicago in 1927 to study with Paul Douglas. One of his few publications is a co-authored book with Paul Douglas (1931). However, under the influence of Jacob Viner, his intellectual stance shifted radically, so much so that he once jokingly referred to his brother-in-law, Milton Friedman, as 'my radical brother-in-law'. In 1962, Director helped to found the Committee on a Free Society at the University of Chicago, which was established to 'clarify and reinforce the tradition of individual liberty in its economic, political, historical and philosophical

dimensions'. This and other information can be found in the obituary released by the University of Chicago News Office (13 September 2004).

45 Stigler was consistently conservative in all that he did. As his long-time research associate, Claire Friedland, pointed out, 'He was the only person in Chicago during the late sixties still wearing a homburg'. (Claire Friedland, conversation with Craig Freedman, October 1997) The consistency of his political position does seem to point to a specific ideological stance:

I never heard George make jokes about Ludwig von Mises's extremism, although there were a lot of jokes made at the time, but George was generally on the right side of most issues. (Paul Samuelson, conversation with Craig Freedman, October 1997)

46 Textbook debates within a department or university seem driven by ideology or perhaps theoretical issues that matter to economists more as professionals than as teachers. Thus the new wave of postwar Keynesian textbooks met resistance from the old guard as well as from politicians and businessmen keen on sniffing out anti-free-market (communist) influences:

I [Carolyn Bell] occasionally met a student who asked if it was true that the book [Samuelson] was communistic and if she would be required to read that radical, Keynes. Like the parents who prompted these questions, many economics faculties condemned the new approach, sometimes in a destructive power struggle. One highly thought-of institution was still having difficulty in recruiting in the early sixties because its senior members had for so long adamantly refused to consider appointing anyone using Keynesian analysis. (Bell 1988, p. 147)

47 Much of this account of that first Mount Pelerin meeting comes from the PBS-produced programme *Commanding Heights*. The show interviewed some of the surviving original participants. Milton Friedman remembers it as a meeting of 'good eggs'. He also recalled a heated debate on distribution where von Mises turned on the other participants by denouncing them as 'a bunch of Socialists'.

48 The irony is that a bare-knuckled brawler like George Stigler could characterise his beloved profession as a gentlemanly pursuit. The example set by the Chicago school should have been sufficient to undermine any such assumption:

it is fair to say that indignation and outrage have disappeared from economics. This is no doubt the reason economics is at the moment highly respectable and ... lacking in promise of basic influence on policy in the future. I do not know whether it is an occasion for pride or for regret that the economist is using Marquis of Queensbury arguments in an arena where emotional brass knuckles continue in fashion (Stigler 1965, pp. 27-8).

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