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Review of "Public Control of Economic Enterprise," By Harold Koontz & Richard W. Gable

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BOOK REVIEWS

PUBLIC CONTROL OF ECONOMIC ENTERPRISE. By Harold Koontz and Richard W. Gable. New York: McGraw-Hill Book Company, 1956. Pp. XII, 851. $7.00.

In this book the authors have interpreted the phrase "public control" to include the broad fiscal and monetary controls over the level of economic activity, direct government economic activity, regulation of collective bargaining, and positive aids to certain sectors of the economy, as well as specific regulation of industries affected with a public interest and the maintenance of competition through antitrust statutes. The book thus attempts to cover the topics incorporated in most of the courses in applied economics customarily included in the undergraduate curriculum.

This reviewer agrees that this is "an area of inquiry and analysis which is not only of significance to persons in business, but also to the general public whose material wants the economic system is designed to satisfy and whose economic freedom is often closely related to political and social freedom."[1] But this is equivalent to saying that it would be desirable for all citizens to have majored in economics as undergraduates! Professors Koontz and Gable have provided, in 851 pages, a basis on which an intelligent citizen might make up for such a deficiency in his formal education. For this purpose the book must compete more with the many introductory economics textbooks than with the books concerned with what is commonly called "social control of business."

Like far too many of the texts on social control, but unlike most general introductions to economics, the authors have not included a systematic exposition of the pure economic theory which is implicitly used in their analyses of questions of public policy. This omission may serve to make the book more attractive to the citizen attempting to understand the complexities of our economic institutions on his own, but it makes the book of less value as a teaching aid for class use. For the general reader it is an excellent introduction to economic problems, and the carefully selected references at the end of each chapter provide a basis for continued study by those whose appetites are sufficiently whetted.[2]

The book includes twenty-eight chapters grouped into eight parts entitled: "The Setting of Economic Control," "Transportation," "Public Utilities," "Maintaining Competition," "Protecting the Investor," "Labor," "Public Promotion and Ownership of Economic Enterprise," and "Public Control of the Total Economy." In Part One the authors began with a very brief outline of the development of the economic institutions of American capitalism from medieval times to the present. More historical perspective is provided, however, in later chapters in the treatment of some of the other seven topics.

In the limited space of 120 pages, Professors Koontz and Gable have provided a very concise treatment of government regulation of transportation. This section can serve as a good introduction to this topic. The authors give references to many textbooks on the economics of transportation. In view of the current increase in interest of economists and others in this important area of public policy, it is particularly interesting to note the authors' conclusions on the requisites of a sound national transportation policy. In discussing the relation of the antitrust laws to interstate carriers, the authors express approval of exemp-

1. p. vii.

2. This reviewer has adopted the book as a text for a course in current economic problems.

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tions from the antitrust statutes provided by the Transporation Act of 1920 and the Reed-Bulwinkle Act of 1948. They state: "While such broad exemption of the interstate carriers from the federal antitrust laws has been criticized as being inimical to the operation of competition, it is difficult to conceive a system of regulation in which such exemption would not be made."[3] In the following chapter[4] they list as an example of government interference with management's quest for efficiency the "limitations placed by public policy on efficient combinations of carriers," and the "artificial separations of railroads, water carriers, motor carriers, and airlines."[5] The authors continue: "It is certainly reasonable to argue that government policy should either consistently aim at making competition effective or at promoting monopoly and gaining its fruits. It should hardly try to do both."[6] After these statements, it is rather surprising to find the conclusion that there is "neither the justification nor the inclination to depart from the tradition of competition in American transportation industry."[7] At this point they further state: "Perhaps the protections of antitrust regulations would be adequate to maintain effective competition in transportation as it does in many other industries." This reviewer agrees that the pattern of control developed for railroads prior to the entry of motor and air carriers into the maket should not be continued. It seems particularly important, however, to guard against the relaxation of direct government controls unless there is a simultaneous relaxation of the exemptions from antitrust policy which have been granted to firms in the transport field. Perhaps we can gain the fruits of monopoly, with direct regulation protecting the public interest, while relaxing direct regulation wherever competition among carriers and among types of carriers is capable of protecting the public interest under the antitrust law policy. This whole question of transportation policy is one which urgently needs careful consideration by an informed public. Professors Koontz and Gable have raised some important questions but provided few answers.

In less than 100 pages, Part Three provides an excellent textbook on the economics of public utilities. Chapter nine concisely and thoroughly covers the legal development of the public utility concept along with economic criteria for policy decisions. The other three chapters in this part of the book provide a very useful source of reference on current statutes in this field.

In Part Four the authors have devoted 115 pages to antitrust policy. The first of four chapters in this section discusses the meaning of competition and the goals of public policy and evaluates the published evidence on the question of whether competition has declined. The authors state: "Much of the confusion and misunderstanding over the characteristics of the competitive system arise from the fact that it is both a myth and a model."[8] Professors Koontz and Gable thus raise the question of the scope and nature of economic theory and its relation to public policy. They state that:

> The model has never existed . . . . However, the model is a useful device, because it provides a standard against which existing conditions can be measured. The competitive system as a myth, on the other hand, is neither a theoretical model nor a description of reality. It is the expression of value goals, a prescription rather than description, a statement of what "ought to be" rather than of what "is."

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3. p. 164.
4. p. 191.
5. *Ibid.*
6. *Ibid.*
7. p. 192.
8. p. 297.

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> Public policy that does not recognize this distinction is doomed to failure, because any attempt to achieve, as the goal of public policy, a system that did not, does not, and cannot exist is futile. Perhaps somewhere between the model of perfect competition and pure monopoly there is an area of "effective" competition that is both a feasible and desirable goal of public policy.[9]

Since the model of pure monopoly is, like the competitive model, a very useful but, nevertheless, a very abstract concept, it seems to this reviewer unlikely that the illusive "effective competition" will be found "between" these two abstract concepts. The search for a new concept—*i.e.*, a workable concept of competition which can serve as a "feasible and desirable goal of public policy," has produced a great many useful contributions[10] to the literature of antitrust problems in the past two decades. No one, however, has developed a rigorous, abstract model of a market economy which can serve as a realistic description of the economic organization which we desire and which is embodied in the "myth" of competition.[11]

One of the most important implications of the recent attempts to evolve a concept of "effective" or "workable" competition has been not only to make clear the distinction which Professors Koontz and Gable emphasize between competition as the vaguely defined complex of values deeply rooted in our society, and competition as an analytical concept, but also to show the necessity of using abstract models in an *ad hoc,* flexible manner rather than as doctrine. It seems to this reviewer that the most important function which the economist can perform in discussing public policy with respect to industrial organization is to focus attention upon the less obvious relationships between the institutional framework of free business enterprise and the complex set of social goals masked by the "myth of competition."

Such analyses of the effects of the structure of markets and business practices on the fulfillment of the social goals can undoubtedly be improved by advances in economic theory—*i.e.*, by development of new models with different assumptions to obtain new propositions to give better insight into the workings of our economic organization. One cannot expect a book of the type here reviewed to make new contributions to economic theory. It is disappointing, however, that a book so excellent in other respects does not make better use of the competitive model which the authors acknowledge to be a useful device. The general reader who lacks a background in economic theory might have been better served if a little more space had been devoted to an exposition of some of the analytical concepts which enable economists—albeit, without unanimity—to interpret the observed facts underlying policy decisions. About the model of perfect competition the authors say that in this sense:

> [T]he competitive system is only a concept, a model by which to measure the varying degrees of imperfection that characterize the actual market condition. Perfect competition presupposes a homogeneous commodity, many sellers and buyers, all acting independently and with full information of market conditions, mobility of productive factors, and no artificial barriers

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9. p. 299.

10. See Clark, *Toward a Concept of Workable Competition,* 30 AMER. ECON. REV. 241 (1940); *Report of the Attorney-General's National Committee to Study the Antitrust Laws,* Washington, 1955, c. VII.

11. The monopolistic competition models developed by CHAMBERLIN in THE THEORY OF MONOPOLISTIC COMPETITION (1933) were abstract models intermediate between pure competition and pure monopoly. Those theoretical developments were useful contributions to the economist's "analytical tool box" primarily because their development necessitated a more rigorous statement of the assumptions and propositions involved in the models of pure competition and pure monopoly. It was after the widespread dissemination of Chamberlin's work that John M. Clark gave impetus to the search for new ideas of quite a different sort.

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> to entering or leaving an industry. Under such conditions keen rivalry between buyers and between sellers would result, for no individual buyer or seller would be able to gain market dominance.[12]

It is difficut to see how one could logically deduce from the assumptions of perfect competition the proposition that "keen rivalry" would result. Instead, each seller would be able to sell all he wished at the going market price, and would have no incentive to sell below that price. In a market characterized by perfect competition there would be a complete absence of "rivalry" between firms, if "rivalry" is given its ordinary meaning. The careful use of the competitive model as a standard by which to evaluate the effectiveness of competition in an actual market might lead the economic analyst to look behind the rivalry in, for example, the automobile market and to raise questions about freedom of entry, independence of firms, technological (as opposed to styling) innovations, the existence of economies of scale, alternative products and services available to the buyers, and many other things. Yet the authors state that: "Existence of a few large firms in an industry does not necessarily imply that workable competition does not exist among them. One would hardly say, for example, that the automobile industry . . . has not been vigorously competitive."[13] The model of perfect competition assumes "many sellers." In automobile manufacturing only a very few firms exist. This, of course, does not justify a conclusion that competition is ineffective. But the existence of rivalry does not justify the opposite conclusion.

In discussing price rigidity Professors Koontz and Gable cite a report of the House Committee on Small Business showing that between 1920 and 1936 prices in six "concentrated" industries did not decrease as much as unit labor requirements, while in several "non-concentrated" industries prices were reduced more than unit labor requirements. They state:

> Of even greater significance [than absolute changes in prices] to economic welfare is the extent to which, over an extended period of time, the benefits of technological improvements are passed along to consumers in the form of lower prices. Price reductions are not extensively used in concentrated industries as a means of increasing output to compensate for decrease in unit labor requirements, whereas in the nonconcentrated industries price decreases tended to parallel reductions in unit labor requirements.[14]

Although the authors went on to say that the "existence of price rigidities is not always due to an absence of competition," the general reader not familiar with the abstract concepts of economic theory might conclude that the authors are endorsing the comparison of relative prices over time and relative unit *labor* requirements as a measure of the degree to which the benefits of technological improvements are passed on to the consumer. The economic models explained in most elementary economic textbooks, although abstract and not descriptive of the real world, can be quite useful in evaluating such findings of fact as here presented. For example, the elementary theory of price and resource allocation might lead one to ask whether labor saving technological innovations, even if prices are not reduced, will increase general welfare by releasing labor for use in other ways. One might ask whether unit labor requirements have decreased because the price of labor has risen relative to other factors of production, in which case the total unit cost may not have been reduced because of the substitution of other costs for labor costs. Since the pure theory would lead us to expect that concentration would be correlated with the capital requirements relative to labor, the discrepancy between the "concentrated" and "non-concentrated" industries might be the result of differences in capital costs relative to

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12. p. 298.
13. p. 308.
14. p. 310.

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labor costs in two types of industries. Theory might also suggest the possibility of capital-saving technological innovations which might increase unit labor requirements.

In the opinion of this reviewer, this book would have been a much more valuable contribution if Professors Koontz and Gable had chosen to include a more intensive analysis of each topic even at the expense of much narrower coverage.

Each of the eight parts consists of a very brief treatment of a very complex set of policy problems. The most important institutional arrangements relevant to each topic are briefly described. With the references cited at the end of each chapter and in the footnotes, each of these parts of the book can serve as a very good introduction to the topic which it treats. Perhaps the work would have better served the public interest as well as that of the publisher if the "tying contract" implicit in the binding had not been used! For the general reader as well as for classroom use, seven or eight paperbacks priced at $1.00 each would have provided more alternatives to the buyer and might have enabled entry into several markets.

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