BOOK REVIEW

BIG ENTERPRISE IN A COMPETITIVE SYSTEM. By A. D. H. Kaplan. Washington, D. C.: The Brookings Institute, 1954. Pp. xii, 269. $4.00.

Mr. Kaplan's book is the first fruit of a study of big business which has been under way at the Brookings Institution since 1948. The study is still continuing, and presumably further publication is contemplated. The purpose of the volume is "to explore those aspects of big business participation in American industry that may reveal whether it is or is not compatible with the objectives of competitive private enterprise" (p. 1). This broad appraisal is conceived as dependent upon two basic questions: "First, has the growth of big business tended to narrow the opportunities for new enterprise by concentrating employment, assets, and market control in the hands of a few industrial giants? . . . Second, is the competition in which big business engages of a kind that is regulated in the last analysis by big business policies or by the market forces inherent in the system itself?" (p. 234). These two questions are regarded by Mr. Kaplan as the keys to the relation of big business respectively to the structure of industries and markets and to competitive performance. In seeking to answer them in the initial volume of his continuing study, Mr. Kaplan appears to have placed his sweeping appraisal before rather than after his more detailed work.

The two parts of the book, each devoted to one of Mr. Kaplan's two basic questions, are of different kind and quality. The first part is a statistical analysis of the extent and trend of industrial concentration. It contains some of the best summaries of the limitations of concentration data that are to be found in print; but unfortunately, as will appear below, the interpretations of the new data which it contains are uncritically optimistic at crucial points. The second part of the book consists of a provocatively stimulating interpretation of the incentives and main lines of policy thought to be characteristic of big business. In this part much that is new and persuasive is to be found but much that is old and obvious is ignored, while the whole is interpreted with an unflagging optimism that is almost lyrical. Even a long review cannot cover this compact body of ideas and evaluations except by brief characterization and example.

Mr. Kaplan's analysis of the place of big business in the structure of industries and markets becomes the basis for a conclusion that this structure "evidently is appropriate to dynamic competition" (p. 240). This conclusion is reached in spite of the fact that Mr. Kaplan finds essentially the same high level of concentration which has been noted in other recent studies.[1] This concentration does not disturb him for four principal reasons: first, during the last quarter century or more, the place of the largest industrial corporations in the economy has not grown, but has become slightly smaller; second, the total business population has grown during the same period; third, the development of inter-product competition and the consequent weakening of industrial boundaries have largely destroyed the significance of figures of concentration for particular products or industries; fourth, the largest 100 industrial corporations do not have a secure place at the top of the corporate pyramid, but instead constitute a changing group.

When carefully examined, Mr. Kaplan's grounds for optimism about the extent of industrial concentration are not persuasive. His facts need not be seriously disputed,[2] but his interpretations are questionable. His evidence as to the trend of concentration is sufficient to discredit the view that concentration is growing catastrophically, as it was when Berle and Means published their pioneering study more than two decades ago. However, since it is clear that the largest industrial corporations are growing at roughly the same rate as the total volume of business, we cannot expect the problems raised by concentration to be solved merely by expansion of the economy. The persistence of the present level of concentration must trouble observers who think anti-competitive effects are now apparent.

There may be various interpretations of the fact that the total number of firms is growing as fast as the population. It may mean, as Mr. Kaplan apparently thinks, that small new concerns can compete successfully against established large rivals and that there is a considerable field of new industry for the small business pioneer. It may mean merely that a segment of the economy in which business is typically small is growing as the whole economy grows—that, as manufacturing becomes more mechanized, specialized, and geographically remote from its market, there is an expansion of distribution and of the service trades. It may mean that where large concerns are dominant they prefer to buy from and sell to smaller ones which are relatively docile, so that maintenance of the power of the large

1. He reports that 260 firms, each with more than 10,000 employees, accounted for 22% of all business employment in 1948; that the 100 largest industrial companies accounted in 1948 for nearly 27% of the assets of all industrial corporations and for 30% of the profits of all such concerns; that in more than half the product groups for which one can ascertain concentration in 1937, four firms or fewer produced 70% or more of the total output; and that diversification of the largest manufacturing companies gives them power and influence beyond that which is apparent in the figures for particular markets.

2. Though Mr. Kaplan's presentation of his statistics is a model of caution, he omits certain figures relevant to his thesis. The most important omission is the Federal Trade Commission's finding that from 1935 to 1950 the proportion of all manufacturing shipments made by the largest 200 manufacturing corporations rose from 37.7% to 40.5%. FTC, REPORT ON CHANGES IN CONCENTRATION IN MANUFACTURING 1937 TO 1947 AND 1950, at 17 (1954). Presumably the report containing these figures was issued after his volume had gone to press. But the factual point at issue is a narrow one—whether concentration in manufacturing has risen slightly or fallen slightly. That the changes since 1929 have not been great is now generally recognized.

enterprise involves maintenance of a considerable number of nominally independent satellite suppliers and customers. Before interpreting the figures optimistically or pessimistically, one needs to know whether the large and small concerns are in the same fields, and whether the small ones generally are independent ventures capable of growth, like Minute Maid, or are Charlie McCarthies like the so-called independent filling stations that lease their premises from a major oil company.

It is obvious that technological change has tended to increase the competition of substitutes and that in particular cases such competition has diminished or destroyed the significance of concentrated control over particular products. Because of these facts, statistics of concentration for particular industries and product groups should be used with caution. But there is a wide gap between recognition that substitutes mitigate the impact of concentration and Mr. Kaplan's belief that they are important enough to deprive concentration of significance. There are instances where goods that might be substitutes do not compete because they are controlled by the same corporate interests, where concerns reciprocally refrain from invading markets which they know are important to powerful neighbors, where no satisfactory substitute is known, and where the existence of a substitute limits the power of a monopoly but leaves a significant part of that power unbroken. These instances, like those in which there are satisfactory substitutes, have not been statistically measured, but like the instances of satisfactory substitutes, they should not for that reason be ignored. Mr. Kaplan's exposition does not touch them, and his optimism does not appear to be diminished by them.

Mr. Kaplan relies most strongly upon his fourth point, that the largest 100 corporations have been a changing group. Listing these concerns for the years 1909, 1919, 1929, 1935 and 1948, he finds that the industrial composition of the list has changed materially and that there have been many changes in the identity and relative place of the companies included. The shifts among industries mean to him a variation of growth patterns "as new and improved products have challenged established lines and their markets" (p. 135). The changing list of companies is interpreted as meaning "that integration, size and competition can and do go together" (p. 195) and that "we are not justified in identifying increase of financial resources of large-scale enterprise with net decline in the scope and vigor of competition" (p. 144).

While it is true that there are substantial changes in Mr. Kaplan's list of companies, there are also striking stabilities therein, particularly at the top of the list. An outstanding case is that of U. S. Steel Corporation. Organized in 1901 with large amounts of water in its capital structure, operated before the First World War in a way that sheltered other steel makers under a price umbrella, and admittedly plagued after the war by inefficiencies that necessitated a broad program of rehabilitation about 1938, this company, in spite of its weaknesses, does not stand lower than third among the largest industrial corporations in any of the lists from 1909 to 1948. For the same period the Standard Oil Company of New Jersey, in spite of a judicial dissolution in 1911, has not stood lower than second. General Electric Company's standing has ranged only between sixteenth and ninth. After the largest motor manufacturers attained a place on the list in 1919, General Motors ranged only between fifth and second; Ford only between seventh and tenth. In 1948 the ten companies standing at the head of the list possessed 36.55 per cent of the total assets of the 100 corporations. The lowest rank of any of these companies in 1935 was thirteenth; in 1929 fifteenth; and in 1919 thirty-fourth.[3] In 1948 the twenty companies standing at the top of the list possessed 52.5 per cent of the total assets of the entire 100. Fifteen of them were among the top twenty in 1935 and 1929, and thirteen were among the top twenty in 1919. One, Western Electric Company, was not on the list in these previous years. Among the rest of the twenty, the lowest rank was thirty-second in 1935, twenty-ninth in 1929, and thirty-fourth in 1919. One must go as far back as the 1909 list to find this leading group seriously dispersed.[4]

Moreover, the changes in the full list of 100 corporations do not justify Mr. Kaplan's presumption that competitive exploitation of new products and processes was the sole cause worth mentioning. Even if every concern in the list had been an entrenched monopoly in 1909, there would have been ground for astonishment if the list in 1919 and again in 1948 had not shown changes reflecting wartime shifts in the pattern of industry.[5] It would have been almost equally astonishing if the list in 1935, a depression year, had not shown a different place for purveyors of inexpensive food than the list for the boom year 1929.[6] However strong a group of monopolistic com-

3. The ranking for 1919 was substantially affected by the judicial dissolution of the old Standard Oil Company in 1911, as a result of which new oil companies appeared in the industry and previous monopoly conditions were disrupted. For this reason, the ranking of the oil companies in the 1919 list may be regarded as a special case. The other five companies which stood in the first ten in 1948 ranked in 1919 respectively first, fifth, seventh, eleventh, and eighteenth.

4. These relative stabilities at the top of the list cannot safely be regarded as proof that the manufacturing economy is monopolized. The stabilities, like the changes, probably have various explanations. Of the largest twenty companies in 1948, seven were oil companies, two steel maufacturers, two motor vehicle manufacturers, three electrical manufacturers, two chemical manufacturers and the remaining four from tobacco and farm machinery manufacturing, copper mining, and mail order merchandising. The oil companies, motor vehicle manufacturers and steel manufacturers were among the largest twenty companies in 1935 and 1929, along with one of the electrical manufacturers and one of the chemical manufacturers. Thus much of the stability of the position of the largest corporations probably expresses the large scale organization that characterizes certain particular industries and the persistent importance of those industries in the economy. If this stable structure is inconsistent with competition—an inference made here only for contrast to Mr. Kaplan's view that instability proves the vigor of competition—the inconsistency centers in the particular industries, and is not necessarily representative of the manufacturing economy as a whole.

5. For example, Bethlehem Steel Company, thirty-first in the 1909 list, had risen to sixth place in 1919. Midvale Steel and Ordinance Company, not included in the 1909 list, stood tenth in 1919. It was acquired by Bethlehem in 1923.

6. For example, Great Atlantic and Pacific Tea Company rose from sixty-seventh place in 1929 to thirty-seventh in 1935.

panies might have been in 1909, it is scarcely conceivable that they could have pre-empted all the opportunities of new industries, particularly those industries which, like automobile manufacturing and motion picture production, were initially thought by most observers to have a limited future. Though the fact that motor vehicle manufacturers and moving picture producers have climbed to a place among the 100 largest is a tribute to the dynamic character of the economy, it demonstrates nothing significant about the vigor of competition either in the motor vehicle and motion picture industries or in the industries of the concerns they displaced. So long as an economy is growing and the social environment changes under the catastrophic impact of war and depression, even a group of powerful monopolies may be expected to grow at different rates. To prevent changes in relative position would require monopoly control much stronger than is thought to exist by even the most pessimistic critic of big business.

A portion of the changes in Mr. Kaplan's list appears to have been directly traceable to anti-trust proceedings designed to break up industrial monopolies. The second company on the 1909 list is the Standard Oil Company; the third is the American Tobacco Company. Both companies were dissolved by judicial decree in 1911. As a result of these dissolutions a number of new corporations were formed, and several of these were large enough to appear in the list for 1919.[7] The duPont powder company, also on the 1909 list, was likewise dissolved in 1911, but only the part which retained the duPont name was large enough in 1919 to be included in the list for that year. Two large meat packers, Armour and Swift, stood high on the list in 1909 and even higher in 1919; a third, Cudahy, rose from ninety-fourth in 1909 to sixty-sixth in 1919. In 1920 the packers' consent decree struck down the sources of the power of the leading packers, and in subsequent lists the position of all three packers was lower.[8] International Harvester Company stood fifth upon the list in 1909. In 1918 it consented to a decree of partial dissolution which was widely criticized as ineffective; in 1919 it stood thirteenth on the list, and thereafter did not stand higher than fourteenth. Various later anti-monopoly proceedings probably had effects similar to those mentioned above. It is surprising to see the results of the action of the government against monopolies included, with all other types of change, as evidence of the essentially competitive character of large business enterprises. It is also surprising that Mr. Kaplan's inferences from the statistics have not been modified in the light of the record of monopolistic practices indulged in by some of the big companies, as revealed in judicial proceedings like those mentioned above.

7. For example, Standard Oil Company of New York, Standard Oil Company of California, Standard Oil Company of Indiana, Liggett and Myers Tobacco Company, P. Lorillard Company, and R. J. Reynolds Tobacco Company.

8. Armour fell from third in 1919 to fourteenth in 1929, twentieth in 1935, and thirtieth in 1948. Swift fell from fourth in 1919, to nineteenth in 1929 and 1935 and 27th in 1948. Cudahy was not on the list for 1929, stood ninety-fifth in 1935, and was not on the list in 1948.

One means by which particular companies have attained greater absolute and relative size has been merger with other corporations. There was a substantial merger movement in the 1920's; another is in progress today. The importance of these movements can be illustrated in the case of the steel industry. Nine steel companies were among the hundred largest industrial companies in 1948. For seven of these the Federal Trade Commission has estimated the percentage of total growth between 1915 and 1945 which was due to the acquisition of other companies.[9] For the Republic Steel Corporation this percentage was 63.8; for Bethlehem Steel Corporation, 33.4; for Youngstown Sheet & Tube, 28.5; for American Rolling Mill, 20; for Jones & Laughlin, 15.7; for Inland Steel, 9.6; and for U. S. Steel, 6.9. Concerns which, by acquiring other companies, have entered the largest 100, or risen in relative place within the 100, cannot safely be said to have grown through the competitive vigor of their innovations; nor can the instability of the entire list be regarded as evidence of fluctuating competitive fortunes in the market in so far as it is due to this type of change.

Even if the fluctuations in the lists were solely due to the causes emphasized by Mr. Kaplan, his evidence of the precarious tenure of industrial leadership could not be safely taken as proof that the companies involved are vigorously competitive. Monopoly power often results in lethargy, technological stagnation, and rising costs. In such cases the monopoly may retain control for a considerable time in spite of its inefficiency, but may lose parts of its market, decline in size, and eventually succumb to substitute goods or to new competitors. So far as the changes in Mr. Kaplan's lists may express such influences, they reflect both monopolistic and competitive forces interacting with each other, and do not justify a blanket appraisal of the entire process as a demonstration of competitive virtue.

The discussion of the incentives and policies of large business enterprises which appears in the latter part of the book consists mostly of material which is fresh and significant and which has received insufficient emphasis. It sets forth the influences within the business enterprise which make for expansion, innovation, and competitive action as means to satisfy the ambitions of subordinate executives and departments. It also emphasizes competitive incentives that are derived from the efforts to maintain and strengthen the overall position of a large business in ways that may be inconsistent with short-run maximum profits in each separate market in which the enterprise may for the moment find itself. Valuable insights abound in this part of the work, and many of the imperfections which appear in it must be attributed to its trail-blazing character. Economists have too long thought of the great corporation as though it had the unity of purpose of a classical entrepreneur and as though its policies were confined to single markets and were susceptible in each market to traditional

9. FTC, Report on the Merger Movement 70-134 (1948).

types of price analysis. Such thinking is distorted, whether it has to do with monopoly problems or other aspects of the impact of large business enterprises. Mr. Kaplan has rendered a valuable service in insisting upon the importance of what is larger than the market and what is less coherent than the entrepreneur.

It is unfortunate that this contribution to economic thought has been weakened by a one-sided selection of facts and an over-optimistic interpretation of them. Doubtless Mr. Kaplan is correct in saying that the drive to improve the large company's position brings it into conflict with other large companies and provides an incentive for expansion that is often inconsistent with monopolistic impulses. Doubtless, too, he is right in regarding the functional specialization of the departments of a large concern as an influence toward dynamic innovations. One looks in vain, however, for significant shadows in his bright picture. He pays little attention to non-competitive techniques for building and defending a company's position—the pre-emption of raw materials and market channels, the erection of patent fences, predatory litigation, political favoritism, agreements to allocate or share markets. He finds it possible to discuss the fluctuations of copper prices without mentioning the three successive copper cartels, the second of which, in the latter part of the 1920's, was conspicuous among the influences making for accumulation of inventory and subsequent precipitous price reductions. In discussing the anti-trust suit against A & P, he summarizes the attractive features of the company's policy of reducing prices to attain targets of volume but does not mention the company's use of local and regional price cutting supported by revenues from other regions; its efforts to get suppliers to raise the prices which they charged its competitors; and other less attractive features of its policy. Indeed, one could not ascertain from his discussion alone that the company was convicted under the anti-trust laws and did not choose to appeal the case to the Supreme Court.

In his appraisals, too, he sees the light without much shadow. For example, he states that, "The acceptance of long-run demand and cost analysis by the big firm compels it as a matter of self-interest to effect a distribution of market benefits equivalent to those that might accrue from transaction to transaction under atomized competition" (p. 167). The primary purpose of this statement in the context in which it appears is to make the point that a large enterprise will forego short-run monopoly profits where they are inconsistent with its long-run program as determined by projections of demand and cost. In making this point, however, Mr. Kaplan equates long-run thinking with competition. One wonders whether he seriously intends to imply that, apart from competitive pressures, the policies of a large company will have the same effect as competition in accelerating change in spite of the pressure of vested interest in obsolete equipment; in stimulating consumption by sales below cost when demand has sagged; in holding the planned profit down to a competitive norm; and in avoiding agreement with rivals for an allocation of fields of business.

The chapter in which Mr. Kaplan discusses the vertical and horizontal integration of large companies contains substantially all of his qualifications of his general thesis that big business is vigorously competitive. In this chapter he recognizes that absorption of other companies can be, and at times has been, anti-competitive in its effect, though he insists that much of it and probably most of it is not of this character. He sees both light and shadow in vertical integration and in the horizontal acquisition of potential competitors. He regards such developments as often reducing competition at particular points, while creating new competition at others. The competition-promoting aspects are the more vivid to him; but his recognition of the conflicting nature of the forces at work is a happy contrast to the discussion in other chapters. He recommends that large business concerns be prompt in sloughing off parts of their structure which are not functionally serviceable to the rest, in order that they may be more free to expand where expansion is desirable. In this recommendation, as nowhere else in the book, he seems to envisage the possibility that great size may in itself call for question as to future growth, and that bigness should therefore not be pushed further than necessary.

Corwin D. Edwards †

† Professor of Economics, University of Virginia.