Accounting Historians Journal

Volume 39
Issue 2 *December 2012*

Article 11

2012

In antitrust we (do not) trust

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IN ANTITRUST WE (DO NOT) TRUST[1]

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I will be teaching industrial organization (IO) to undergraduates next year. It is a brand new course, and so I have been trawling though the websites of IO teachers around the world for inspiration. Overall, I have been quite perplexed with what I have found: undergraduates seem to be fed material that is very theoretical and computational, with little or no context or application. Perhaps this prepares students well for graduate programs in economics, but the vast majority of economics undergraduates are not going to be doing a PhD. And even those that do will require exposure to some empirical research.

I want my students to use their microeconomics, to get them to appreciate that real life is dirtier than in the models. And I want them to understand that economic ideas are not fixed in time and space, that a log-run perspective can reveal very different insights about human behavior. I plan to do so by limiting the use of textbooks and instead delving into academic papers and antitrust cases. I feel economic history should play center stage in an economics degree, not relegated to being an obscure field study. So, when teaching sunk costs and market structure, I will look at the decline of Europe's film industry in the early twentieth century;[3] when covering collusion, I will set them the US sugar cartel of the 1930s;[4] when explaining natural monopolies, I will examine Victorian railways;[5] and when looking at the efficacy of patents, I will do nineteenth century alternatives.[6]

I am also keen to find something accessible that students can use to appreciate the origins and evolution of competition policy – including why it differs by place, and how legal decisions based on economic arguments made long ago still have resonance today. I want to teach them some history of economic

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[1] An older version of this comment was posted on the NEP-HIS blog (http://www.nephis.org/), a weekly blog that discusses new working papers in business, economic and financial history sourced from the RePEc digital library (http://repec.org/).

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[3] Bakker (2005).

[4] Genesove and Mullin (2001).

[5] Freman-Peck (1987).

[6] Brunt, Lerner and Nicholas (2011).

thought. One paper that I hope to discuss in this context is Nicola Giocoli's new working paper, entitled "British economists on competition policy (1890-1920)".[7] Giocoli, an Associate Professor of Economics at the University of Pisa, looks at the reaction in the UK to the advent of antitrust in the US.[8] He finds that academically and politically influential British economists Herbert S. Foxwell, David H. McGregor and Alfred Marshall were dead against US-style anti-monopoly legislation. They believed it would be difficult to implement, run counter to the ideals of a free market, and be inappropriate in the UK industrial context.[9] The UK had to wait until 1948 for the Monopolies and Restrictive Practices (Inquiry and Control) Act, 1965 for the Monopolies and Mergers Act, and 1998 for a fully independent competition authority.[10]

What I think is particularly important about Giocoli's paper for my students' understanding of the evolution of IO is his description of a transformation in what economists thought competition entailed. For classical economists, competition was about firm conduct; they adopted a dynamic process-based view of competition. For the neoclassical economists that followed, competition was more about market structure, the market condition; this static view was more concerned with business size and the number of competitors. For someone teaching modern IO theory, this is fascinating. Over the last two (or three) decades, IO has seen a paradigm shift from the old structure-conduct-performance view of competition – which primarily concerned itself with measuring market structure – to the so-called "new industrial organization" view – which, apparently much like the view held by the economists described by Giocoli, is far more concerned with figuring out firm conduct and does not necessarily draw a causal link between structure and performance.[11] In short, it appears we have come full circle.

I like Giocoli's paper because he tries to marry his history of economic thought with up-to-date research in economic history. Instead of seeing the US as a success and Britain as a failure – a view associated with the work of business historian Alfred D.

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[7] Giocoli (2012).

[8] The Sherman and Clayton Antitrust Acts (1890 and 1914) were introduced at a time when the UK had no codified competition policy.

[9] US economists too were very divided on the efficacy of antitrust at the time, see Hovenkamp (2010).

[10] Motta (2004), pp. 11-13.

[11] See Lipczynski, Wilson and Goddard (2009), Chapters 1-5, for an accessible introduction to modern approach to IO theory.

Chandler[12] – Giocoli argues that competition law was unnecessary because Britain was largely still a success, ahead of everyone else terms of total factor productivity – it did not require government intervention in the form of antitrust legislation. I would encourage Giocoli to further develop this argument by looking at some of the work of LSE business historian Leslie Hannah, whose career has been devoted to debunking Chandler. His articles show that the "Chandlerian corporation" was actually far more a thing of Europe than America.[13] A monopolist like Standard Oil – the company whose breakup must be central to any history of antitrust – was the exception rather than the rule. US capitalism is a story of small family-run enterprise, not big business. How does this revision of the business history affect Giocoli's argument?

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[12] See, e.g., Chandler (1969).

[13] See especially Hannah (2008).