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The Bigness Complex: Industry, Labor, and Government in the American Economy

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THE BIGNESS COMPLEX: INDUSTRY, LABOR, AND GOVERNMENT IN THE AMERICAN ECONOMY. By *Walter Adams* and *James W. Brock*. New York: Pantheon Books. 1986. Pp. vii, 426. $22.95.

Over the past decade, economists, economic journalists, and politicians have commented endlessly on the inability of American firms to compete in international markets. Although analyses and policy prescriptions vary, many commentators have suggested that the nation should abandon its "antiquated" notions of antitrust to restore the competitive position of its firms.[1] These commentators, representing positions all along the ideological spectrum, argue that given modern economic conditions and production technologies, economic organizations of extremely large scale are necessary to achieve economically efficient production (pp. 27-29). Commentators on opposing ends of the spectrum disagree about the optimal make-up and nature of these giant organizations, but not about the need for great size (pp. 4-7, 351-67).

In *The Bigness Complex,* Walter Adams[2] and James W. Brock[3] argue that the gigantic size these commentators advocate is part of the nation's economic problem, not part of a solution to that problem. *The Bigness Complex* systematically debunks what its authors label the "mythical assumptions" on which the pervasive belief that "bigger is necessary" rests. The authors' analysis shows that gigantic size not only fails to produce the assumed efficiency gains, but more often results in reduced efficiency. Adams and Brock argue further that even if Bigness did result in some efficiency gains, the apologists of Bigness fail to consider the deleterious effects of the power that accrues to the gigantic economic organizations they advocate. The giants use this power to influence the government and to avoid the discipline of the marketplace. All in all, the book presents a readable and spirited defense of the virtues of controlled competition and the traditional American concept of antitrust at a time when these values are neglected, and even rejected, in almost all of the literature accessible to the layperson.

Adams and Brock divide their exposition into five parts. In part 1, the authors contrast the importance of power — economic and political, private and public — with the dearth of recognition accorded power in traditional academic economics (chs. 1 & 2). The authors suggest that it is largely the recognition of the role of power that leads

1. *See, e.g.,* Baldridge, *Rx for Export Woes: Antitrust Relief,* Wall St. J., Oct. 15, 1985, at 28, col. 3; Thurow, *Let's Abolish the Antitrust Laws,* N.Y. Times, Oct. 19, 1980, sec. 3, at 2, col. 3.

2. Distinguished University Professor and former president, Michigan State University, member of Attorney General Brownell's National Committee to Study the Antitrust Laws. B.A. 1942, Brooklyn College; M.A. 1946, Yale University; Ph.D. 1947, Yale University.

3. Associate Professor of Economics, Miami University (Ohio). B.S. 1973, University of Wyoming; M.A. 1975, University of Wyoming; Ph.D. 1981, Michigan State University.

them to reject the "Bigness Complex" (pp. 7, 14-21). Although the authors' attempt to define the term power may not be entirely satisfying as a matter of formal theory, most readers will have little difficulty accepting the proposition that the ability of gigantic organizations to influence government is a manifestation of power.

After discussing generally the role they believe power should play in economic theory and analysis, the authors proceed in part 2 to examine the empirical foundations of the assumption on which most economists ground their support for Bigness — that Big is efficient. The authors note that there are three facets to the concept of efficiency — operating efficiency, innovation efficiency, and social efficiency — and divide their discussion accordingly.

The authors first tackle the relationship between size and operating efficiency (ch. 3). The question here is whether production costs fall as size increases. Operating efficiency requires that both production units (*i.e.*, factories) and administrative units (*i.e.*, firms) be of optimal scale. Adams and Brock accept the notion that modern production techniques require production units of some considerable size. Studies by Joe S. Bain in the 1950s[4] and F.M. Sherer in the late 1970s,[5] however, have shown that production unit efficiencies do not require firms of the size that many advocate today. A defense of Bigness resting on operating efficiency, therefore, must be grounded on the more controversial notion that large firm size produces significant administrative efficiencies.

Administrative efficiencies are said to result from the ability to spread administrative expenses over several production units, eliminating duplicative administrative functions. Adams and Brock examine evidence from several industries and conclude that administrative efficiency fails to justify Bigness.[6] The authors find that after a firm achieves the size necessary to employ production units of efficient scale, a size considerably smaller than the average firm in many industries today, increased firm size not only fails to create further efficiencies but may often result in efficiency losses.

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4. *See* J. BAIN, BARRIERS TO NEW COMPETITION 73, 85-88 (1956).

5. *See* F.M. SHERER, THE ECONOMICS OF MULTI-PLANT OPERATION 339 (Harvard Economic Studies, vol. 145, 1975).

6. Pp. 42-45. The authors first note that despite the steel industry's need for enormous production units, it is the single plant "mini-mill" firms that are meeting foreign competition while domestic giants such as USX are successful only in obtaining ever higher tariffs from an ever more pliable Congress. Pp. 34-38. The authors then consider the automotive industry where General Motors has recently established its Saturn division with the goal of making the new venture as independent as possible from the stifling GM bureaucracy. Pp. 40-41. Finally the authors examine the recent trend toward conglomerate Bigness and argue that the evidence suggests that the combination of functionally unrelated firms in a single conglomerate structure has resulted in significant efficiency losses. The authors believe that the recent trend toward divestitures reflects the business community's delayed recognition of the inadvisability of conglomerate structure. Pp. 41-45.

The authors next consider the relationship between firm size and innovation efficiency (ch. 4). The appropriate inquiry here is whether a firm's virtuosity in developing and improving products and methods of production increases as a function of firm size. Contrary to the image carefully cultivated by the largest corporations' advertising departments,[7] the authors' data suggests that smaller firms expend greater efforts in the pursuit of innovation and achieve a greater innovative output at a lower cost (pp. 50-57). Thus, despite the theoretical advantages of large firms, small firms and even individuals are more prolific innovators.[8]

In chapter 5 the authors turn to the final facet of the concept of efficiency, the question of social efficiency. The question here is whether, given certain technological limitations, an economy of large firms produces a more desirable combination of goods and services than an economy of smaller firms. In the academic economist's world of "perfect competition," the market mechanism coordinates the activities of the economy, allocates scarce resources, and achieves optimal economic outcomes. In an economy of concentrated industries, however, much of this planning is taken from the impersonal forces of the market and placed in the hands of the corporate giants. Thus, an economy dominated by a few giant firms will produce a less desirable combination of goods and services and will skew the allocation of society's resources in favor of the giant firms themselves.[9] One goal of the antitrust laws is to create an economy approximating this model of "perfect competition" so that the market may perform these coordinating and allocative functions. Hence, the authors urge that the antitrust laws be strictly enforced to create more competitive markets,

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7. Many economists have also suggested that large firms are better innovators. *See, e.g.,* J.K. GALBRAITH, AMERICAN CAPITALISM: THE CONCEPT OF COUNTERVAILING POWER 86 (2d rev. ed. 1956).

8. Adams and Brock suggest that the red tape, specialization, conformity, and general conservatism associated with bureaucratic structures are contrary to the spirit of innovation. Pp. 55-57. The authors further note that large organizations may have the power and the motivation to suppress innovations that could alter the market in which the firms operate. Pp. 61-64. The authors' discussion of the suppression of innovation focuses on the pain-control drug industry. Pp. 62-64.

9. Adams and Brock illustrate the influence of gigantic corporations in social planning by considering the role of General Motors in the development of urban transportation, pp. 67-69, automotive fuel consumption, pp. 69-72, and automotive emissions and air pollution, pp. 72-74. In each of these three areas, GM's interests differed significantly from what most would consider society's interests. The oligopolistic structure of the auto industry and GM's tremendous economic and political clout nonetheless allowed the corporation to impede the development of pollution-free electric trains in favor of GM-produced cars and buses in urban transportation, to restrict production of more fuel efficient but less profitable small cars, and to slow the development of pollution control devices despite increasing evidence of the damage automotive emissions caused.

The authors also discuss the role of Big Oil in securing oil import restraints that artificially accelerated the rate at which America's domestic oil reserves were depleted, and the role of these same companies in the suppression of alternative energy sources. Pp. 74-78.

resulting in a more desirable combination of goods and services than results from our current economic structure.

After dispensing with the arguments of those who attempt to justify the power of Bigness by reference to efficiency gains, Adams and Brock ask in part 3 how a society can be structured to avoid the conglomeration of power inherent in a political or economic system dominated by a few large-scale structures. For Adams and Brock, the answers to this architectural question were framed in the years after 1776. In chapter 6, the authors discuss how the founders constructed a governmental system of separated powers such that no one branch of government could turn the coercive power of the state against another or against the people. The American constitutional system, however, provides only for the control of public power; it does not concern itself with the undue conglomerations of private power that may pose a greater threat today (pp. 94-95).

For a plan to control great concentrations of private power, Adams and Brock look to Adam Smith's 1776 work, *The Wealth of Nations.* As the authors interpret Smith's work in chapter 7, the competitive market scatters economic power widely among the people, leaving no individual or group of individuals capable of exerting undue private power. The market itself is said to serve as society's regulatory authority and planning mechanism (pp. 101-03). The authors submit that the political blueprint of the American Constitution and the economic blueprint of Smith's *The Wealth of Nations* still provide the best available plans for avoiding concentrations of power antithetical to both efficiency and individual liberty (pp. 85-86).

Adams and Brock, contrary to the proponents of the Chicago School, do not interpret Smith's blueprint to mean that the competitive market is a self-perpetuating product of nature (pp. 110-13, 211-12). They see the competitive market as a delicate mechanism that can easily be subverted by private interests wishing to escape its discipline or desiring to take over its planning function. In part 4, the authors maintain that a society that seeks the benefits of a free enterprise system must vigilantly protect the competitive market from "subversion and erosion." In chapter 8 the authors argue that in the United States, this protection is accomplished through the antitrust laws. According to the authors, "Just as the purpose of the U.S. Constitution was to prevent cartels or monopolies from controlling the coercive power of the state, so the basic objective of antitrust is to prevent them from controlling economic decision-making in a free society."[10]

After establishing the importance of antitrust to the proper func-

10. P. 108. As the passage indicates, Adams and Brock believe that the "basic objective" of the antitrust laws is the control of the economic and political power that arises from economic concentration. Other commentators reject the notion that the antitrust laws should be used to control corporate power, arguing that they should be concerned solely with greater economic efficiency. *See, e.g.*, R. BORK, THE ANTITRUST PARADOX (1978). The view that economic effi-

tioning of the economy, Adams and Brock proceed in chapter 9 through chapter 15 to examine and critique historical and modern applications of the antitrust laws. The authors work sequentially through the major judicial precedents and current trends in the antitrust areas of conspiracy (ch. 9), monopoly (ch. 10), and mergers (ch. 11) — horizontal (ch. 12), vertical (ch. 13), and conglomerate (ch. 14). The authors' analysis suggests that although the antitrust laws *could* operate as an effective guardian of the competitive market, current enforcement practices and, to a lesser extent, current doctrinal trends make today's antitrust laws an insufficient protector of the competitive system.[11]

In part 5, the authors argue that the maintenance of a competitive economy may often require government action beyond enforcement of the antitrust laws. The authors see a further role for the government in several areas where competitive markets fail. Unlike some on the political right, Adams and Brock see an important role for government in the exercise of the state's traditional police powers. Government, not the market, the authors believe, must make decisions about health and safety, pollution, toxic wastes, military spending, and genetic engineering (p. 211). They also recognize that the government should regulate "natural monopolies" (pp. 211-12).

The danger of governmental involvement, according to the authors, is that the regulation necessary to correct market failures will, through the influence of private power, be turned into a system in which the government permits and even aids the industry's avoidance of competition. The authors note that it was a laudable concern with safety that caused the government to begin its regulation of the airline industry. After the regulation began, however, it was transformed, through collusion between the government and the industry, into a means of escaping competition.[12] The authors suggest, therefore, that subject to restraints imposed by the government's rightful interests in exercising its police powers, regulating natural monopolies, and controlling externalities, deregulation should be implemented so that regulated industries will again be subject to the rigors of the marketplace rather than to the dictates of an often pliable governmental agency (ch. 19).

Some commentators have suggested that we need not worry about

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ciency is the sole goal of the antitrust laws may currently command a majority of the Supreme Court. *See* Matsushita Elec. Indus. Co. v. Zenith Radio Corp., 475 U.S. 574 (1986).

11. *See* pp. 194-208. The authors note particularly that antitrust, especially the criminal branch of antitrust enforcement, is a political instrument. As a political instrument it is subject to the influence of the political power of the very enterprises it is designed to regulate. P. 208.

12. *See* pp. 219-31. Other examples cited include the ability of the steel and automotive industries to obtain significant tariffs and quotas against foreign competition (ch. 20), the government bailouts of Lockheed and Chrysler (ch. 22), and government subsidization of nuclear power in the face of huge cost overruns and concerns about reactor safety and waste disposal (ch. 21).

concentrations of private power because each concentration of power is counterbalanced by an opposing concentration.[13] Thus, labor power, industrial power, and governmental power are said to balance one another, each concentration preventing the other two from causing harm. As Adams and Brock point out in part 6, however, these purportedly opposing powers not only fail to counter one another, but often coalesce into an even stronger power block. When the UAW joined the auto companies in calling for trade restrictions and demanding the bailout of Chrysler, we saw an example of the "Labor-Industrial Complex" (ch. 23). The authors also discuss the "Military-Industrial Complex" and the revolving personnel door between the military and the handful of important military contractors (ch. 24).

The authors conclude that, contrary to the favorable claims made for it, disproportionate size gives rise to economic and political power that undermines operation, innovation, and social efficiency, erodes effective competition and good economic performance, and permits the manipulation of public policy. The authors urge that economic power be dispersed to the maximum extent feasible. While not offering an exhaustive list of policy proposals, they suggest tighter restrictions on mergers (pp. 372-73), further deregulation of industries that are naturally competitive (pp. 373-74), reduced barriers to foreign trade (pp. 374-75), increased competitive bidding for defense contracts (pp. 375-77), and a policy of refusing to bail out failing private firms regardless of their size and political power.[14]

The Bigness Complex is a very readable book. While apparently adding little, if anything, new to the technical literature, the authors' tone of reasoned yet spirited advocacy allows the book to impart a great deal of information without reading like an almanac. The authors appear to be addressing the educated lay audience and explain the economic concepts they employ in a way that even the most number-shy will find accessible. The book seems ideally suited for use in an undergraduate political economy course. Nonetheless, there is likely much that even the more specialized reader can gain from this work.[15]

Moreover, the book fills an important gap in the recent economic literature. Much has been written over the last several years advocat-

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13. The classic statement of this theory is John Kenneth Galbraith's 1952 work AMERICAN CAPITALISM: THE CONCEPT OF COUNTERVAILING POWER. *See* note 7, *supra.*

14. Pp. 377-78. While urging the adoption of these proposals, the authors recognize that the Bigness Complex has a strong foothold in both the Reagan administration and the Congress and, therefore, that there is little likelihood that any of these proposals will be adopted in the near future. Pp. 378-79.

15. For those with a technical background in both economics and American antitrust law, see Adams and Brock, *The 'New Learning' and the Euthanasia of Antitrust,* 74 CALIF. L. REV. 1515 (1986). This excellent article presents most of the arguments made in *The Bigness Complex* without the background explanation included in the book.

ing the adoption of an industrial policy[16] or, conversely, advocating the almost complete withdrawal of the government's influence in the economy.[17] Yet no work accessible to the layperson has presented an adequate defense of the economic assumptions underlying traditional American antitrust policies: that decentralization of power, both political and economic, not only increases political liberty but also enhances economic performance. *The Bigness Complex* succeeds brilliantly in filling this gap in the literature.

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16. *See, e.g.,* R. REICH, THE NEXT AMERICAN FRONTIER (1983).

17. *See, e.g.,* M. FRIEDMAN, FREE TO CHOOSE (1980).