THE
FreeMarket

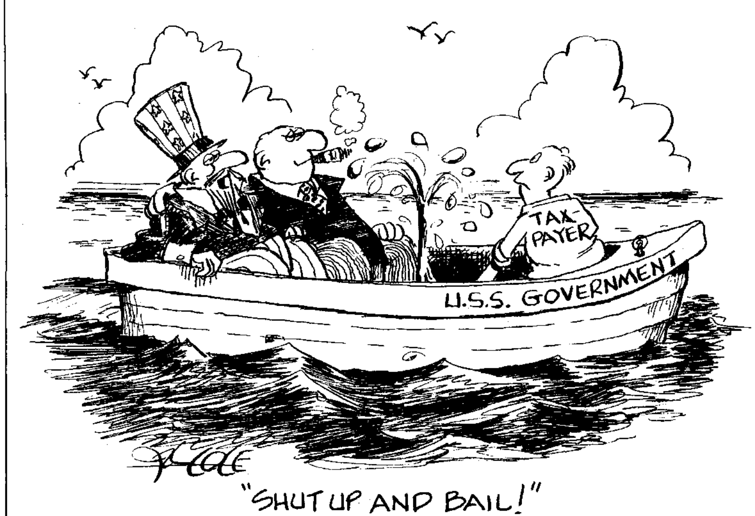
LUDWIG VON MISES INSTITUTE VOLUME 8, NUMBER 9 SEPTEMBER 1990

The "Partnership" of Government and Business

BY MURRAY N. ROTHBARD

The "partnership of government and business" is a new term for an old, old condition. We often fail to realize that the point of much of Big Government is precisely to set up such "partnerships," for the benefit of both government and business, or rather, of certain business firms and groups that happen to be in political favor.

We all know, for example, that "mercantilism," the economic system of Western Europe from the sixteenth through the eighteenth centuries, was a system of Big Government, of high taxes, large bureaucracy, and massive controls of trade and industry. But what we tend to ignore is that the point of many of these controls was to tax and restrict consumers and most merchants and manufacturers in order to impose monopolies, cartels, and subsidies for favored groups.



The king of England, for example, might confer upon John Jones a monopoly of the production of sale of all playing cards, or of salt, in the kingdom. This would mean that anyone else trying to produce cards or salt in competition with Jones would be an outlaw, that is, in effect, would be shot in order to preserve Jones's monopoly. Jones either received this grant of monopoly because he was a particular favorite or, say, a cousin of the king, and/or he paid for a certain number of years of the monopoly grant by giving the king what was in effect the discounted sum of expected future returns from that privilege. Kings in that early modern

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Survival of the Fattest?

BY BRADLEY MILLER

It gets harder each day to take seriously the image of the United States as the beacon of "democratic capitalism"—without, that is, redefining those terms. More and more "capitalists" get their livings by lobbying Washington for bigger shares of existing wealth. One fat cat, observing the chart of his company's falling profits, screamed at the other, "Cut the fat? You nuts? WE'RE the fat!"

And "democracy" has less and less to do with seeking consent of the governed. It's more like an auction at which contributors buy congressmen who buy votes with public money. Market competition, albeit heavily regulated, is OK up to a point, but not if it harms the corporate goliaths. Their bloat entitles them to everything from protectionist trade barriers to outright bailouts.

Above all, it has been the buying of votes through government programs that has destroyed the ideal of the Founding Fathers. They fought against taxation without representation; their 20th century heirs fight against taxation without entitlements. Used to being fleeced by government, many "capitalists" devote their energies to beseeching the fleecers for kickbacks. The ideal is "getting yours," as Matthew Lesko entitled his "complete guide to government money." "Perhaps you are convinced that it is not you but others who are eligible," Lesko says. "The fact is, with so many programs covering so many different areas, it is hard to be ineligible for all of them...."

We have met the fat, and it is ours.

In 1927—during the admin-

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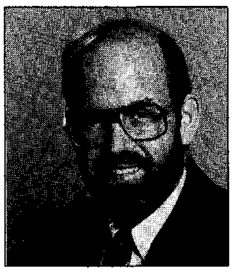
The Regulatory-Industrial Complex

From the President



BY LLEWELLYN H. ROCKWELL

Socialists want socialism for everyone else, but capitalism for themselves, while capitalists want capitalism for everyone else, but socialism for themselves.

Neither Ted Kennedy nor Jane Fonda practices a vow of poverty, nor are they taking any homeless into their mansions, while too many big companies try to short-circuit the market with government privileges. And one way they do it is through the regulatory agencies that acne Washington, D.C.

If I may make a public confession (counting on the charity of *Free Market* readers): I used to work for the U.S. Congress. I've since gone straight, of course, but the experience had its value, much as the future criminologist might benefit from serving with the James Gang.

For one thing, being on Capitol Hill showed me that, unlike the republic of the Founding Fathers' vision, our D.C. leviathan exists only to extract money and power from the people for itself and the special interests.

Ludwig von Mises called this an inevitable "caste conflict." There can be no natural class conflict in society, Mises showed, since the free market harmonizes all economic interests, but in a system of government-granted privileges, there must be a struggle between those who live off the government and the rest of us. It is a disguised struggle, of course, since truth threatens the loot.

When I worked on Capitol Hill, Jimmy Carter was bleating about the energy crisis and promising to punish big oil with a "windfall profits tax." But I saw that the lobbyists pushing for the tax were from the big oil companies.

And, after a moment's thought, it was easy to realize why. There was no windfall profits tax in Saudi Arabia, but it did fall heavily on Oklahoma. And as intended, the tax aided the big companies that imported oil by punishing their competitors, smaller independent firms.

In the ensuing restructuring of the industry, also brought about by the price and allocation regulations of the Department of Energy, the big firms bought up domestic capacity at fire-sale prices, and then the Reagan administration repealed the tax and the regulations. Meanwhile, the big companies received contracts from the Department of Energy to produce money-losing "alternative fuels."

In every administration, the tools of inflation, borrowing, taxation, and regulation are used to transfer wealth from the people to the government and its cronies.

> **Just one clause in the Federal Register can mean billions for a favored firm or industry.**

At times, one or another of these tools becomes politically dangerous, so the government alters the mix. That's why the Reagan administration switched from taxes and inflation to borrowing, and it's why the Bush administration, with the deficit a liability, calls for more taxes, inflation, and regulation.

A tremendous amount is at stake in the reregulation of the economy advocated by the Bush administration. Just one clause in the Federal Register can mean billions for a favored firm or industry, and disaster for its competitors, which is why lobbyists cluster around the Capitol like flies around a garbage can.

While claiming to need more money for—among other vital projects—a trip to Mars supervised by Dan Quayle, the president is boosting the budget of every regulatory agency in Washington.

Here are just some of those agencies, and the way they function:

Founded by Richard Nixon, the Occupational Safety and Health Administration is an anti-entrepreneur agency. Not only does OSHA target small and medium-size businesses, its regulatory ukases are easily handled by Exxon's squad of lawyers, while they can bankrupt a small firm.

Also founded by Nixon, the Consumer Product Safety Commission issues regulations drawn up in open consultation with big business, and which often conform exactly to what those firms are doing. Small businesses, on the other hand, must spend heavily to comply.

Another Nixon creation is the Environmental Protection Agency, whose budget is larded with construction contracts for politically connected businesses, and whose regulations buttress established industries and discriminate against entrepreneurs, by—for example—legalizing pollution for existing companies, but making new firms spend heavily.

The Department of Housing and Urban Development was founded by Lyndon B. Johnson, but its roots stretch back to the housing policy of the New Deal, whose explicit purpose was to subsidize builders of rental and single-family housing. Since LBJ's Great Society, HUD has subsidized builders of public housing projects, and of subsidized private housing. How can anyone be surprised that fatcats used HUD to line their pockets? That was its purpose.

The Securities and Exchange Commission was established by Franklin D. Roosevelt, with its legislation written by corporate lawyers to cartelize the market

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for big Wall Street firms. Over the years, the SEC has stopped many new stock issues by smaller companies, who might grow and compete with the industrial and commercial giants aligned with the big Wall Street firms. And right now, it is lessening competition in the futures and commodities markets.

The Interstate Commerce Commission was created in 1887 to stop "cut-throat" competition among railroads, i.e., competitive pricing, and to enforce high prices. Later amendments extended its power to trucking and other forms of transportation, where it also prevented competition. During the Carter administration, much of the ICC's power was trimmed, but some of this was undone in the Reagan administration.

The Federal Communications Commission was established by Herbert Hoover to prevent private property in radio frequencies, and to place ownership in the hands of the government. The FCC set up the network system, whose licenses went to politically connected businessmen, and delayed technological breakthroughs that might threaten the networks. There was some deregulation during the Reagan administration, although the development of cable TV did the most good, by circumventing the networks.

The Department of Agriculture runs America's farming on behalf of producers, keeping prices high, profits up, imports out, and new products off the shelves. We can't know what food prices would be in the absence of the appropriately initialed DOA, only that it would be much cheaper. Now, for the first time since the farm program was established by Herbert Hoover, as a copy of the Federal Food Administration he ran during World War I, we are seeing widespread criticism of farm welfare.

The Federal Trade Commission—as shown by the fascist-deco statue in front of its headquarters—claims to "tame" the "wild horse of the market" on behalf of the public. Since its founding in 1914, however, it has restrained the market to the benefit of established firms. That's why the chief lobbyists for the FTC were all from big business.

When then-Congressman Steve Symms (R-ID) tried to partially deregulate the Food and Drug Administration in the 1970s to allow more new drugs, he was stopped by the big drug companies and their trade association, because the FDA exists to protect them.

OSHA, CPSC, EPA, HUD, SEC, ICC, FCC, DOA, FDA—I could go on and on, through the entire alphabet from Hell. I have only scratched the villainous surface. But in the average history or economics text, these agencies emerge in response to public demand. There is never a hint of the regulatory-industrial complex. We're told that the public is being served. And it is, on a platter. ◀

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period, as in the case of all governments in any and all times, were chronically short of money, and the sale of monopoly privilege was a favorite form of raising funds.

A common form of sale of privilege, especially hated by the public, was "tax farming." Here, the king would, in effect, "privatize" the collection of taxes by selling, "farming out," the right to collect taxes in the kingdom for a given number of years.

Think about it: how would *we* like it if, for example, the federal government abandoned the IRS, and sold, or farmed out, the right to collect income taxes for a certain number of years to, say, IBM or General Dynamics? Do we *want* taxes to be collected with the clan and efficiency of private enterprise? Considering that IBM or General Dynamics would have paid handsomely in advance for the privilege, these firms would have the economic incentive to be ruthless in collecting taxes. Can you imagine how much we would hate these corporations? We then have an idea of how much the general public hated the tax farmers, who did not even enjoy the mystique of sovereignty or kingship in the minds of the masses.

In our enthusiasm for privatization, by the way, we should stop and think whether we would *want* certain government functions to be privatized, to be conducted efficiently. Would it really have been better, for example, if the Nazis had farmed out Auschwitz or Belsen to Krupp or I.G. Farben?

The United States began as a far freer country than any in Europe, for we began in rebellion against the controls, monopoly privileges, and taxes of mercantilist Britain. Unfortunately, we started catching up to Europe during the Civil War. During that terrible fratricidal conflict, the Lincoln administration, seeing that the Democratic party in Congress was decimated by the secession of the Southern states, seized the opportunity to push the program of statism and Big Government that the Republican Party, and its predecessor, the Whigs, had long cherished.

For we must realize that the Democratic party, throughout the nineteenth century, was the party of laissez faire, the party of separation of the government, and especially the federal government, from the economy and from virtually everything else. The Whig/Republican party was the party of the "American System," of the partnership of government and business.

Under cover of the Civil War, the Lincoln administration pushed through the following

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radical economic changes: a high protective tariff on imports; high federal excise taxes on liquor and tobacco (which they regarded as "sin taxes"); massive subsidies to newly established transcontinental railroads, in money per mile of construction and in enormous grants of land—all this fueled by a system of naked corruption; a federal income tax; the abolition of the gold standard and the issue of irredeemable fiat money ("greenbacks") to pay for the war effort; and a quasi-nationalization of the previous relatively free banking system, in the form of the National Banking System established in acts of 1863 and 1864.

In this way, the system of minimal government, free trade, no excise taxes, a gold standard, and more or less free banking of the 1840s and 1850s was replaced by its opposite. And these changes were largely permanent. The tariffs and excise taxes remained; the orgy of subsidies to uneconomic and overbuilt transcontinental railroads was ended only with their collapse in the Panic of 1873, but the effects lingered on in the secular decline of the railroads during the 20th century. It took a Supreme Court decision to declare the income tax unconstitutional (later reversed by the 16th Amendment); it took 14 years after the end of the war to return to the gold standard.

And we were never able to shed the National Banking System, in which a few "national banks" chartered by the federal government were the only banks permitted to issue notes. All the private, state-chartered banks had to be deposited with the national banks and pyramided inflationary credit on top of those national banks. The national banks kept their reserves in government bonds, which *they* inflated on top of.

The chief architect of this system was Jay Cooke, long-time financial patron of the corrupt career of Republican politician Salmon P. Chase of Ohio. When Chase became secretary of the Treasury under Lincoln, he promptly appointed his *padron* Cooke monopoly underwriter of all government bonds issued during the war. Cooke, who became a multimillionaire investment banker from this monopoly grant and was dubbed "the Tycoon," added greatly to his boodle by lobbying for the National Banking Act, which provided a built-in market for his bonds, since the national banks could inflate credit by multiple amounts on top of the bonds.

The National Banking Act, by design, was a halfway house to central banking, and by the time of the Progressive Era after the turn of the 20th century, the failings of the system enabled the Establishment to push through the Federal Reserve System as part of the general system of neo-mercantilism, cartelization, and partnership of government and industry, imposed in that period. The Progressive Era, from 1900 through World War I, reimposed the income tax, federal, state, and local government regulations and cartels, central banking, and finally a totally collectivist "partnership" economy during the war. The stage was set for the statist system we know all too well.

And now, the Bush administration is carrying on the old Republican tradition. Still raising taxes, inflating, pushing a system of fiat paper money, expanding controls over and through the Federal Reserve System, and now maneuvering to extend inflationary and regulatory controls still further over international currencies and goods. The northeastern Republican establishment is still cartelizing, controlling, regulating, handing out contracts to business favorites, and bailing out beloved crooks and losers. It is still playing the old "partnership" game—and still, of course, at our expense. ◀

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istration of the man Ronald Reagan calls his hero, Calvin Coolidge, and six years before Franklin Roosevelt created the modern milk-cow state—H.L. Mencken wrote: "As the bureaucracy under which we all sweat and suffer gradually swells and proliferates in the Republic, life will become intolerable to every man save the one who has what is called influence, i.e., the one who has access to the very privileges which the Fathers of the Republic hoped to abolish. It is, in fact, almost so already. The obscure and friendless man can exist unmolested in the United States only by being so obscure and friendless that the bureaucracy is quite unaware of him. The moment he emerges from complete anonymity its agents have at him with all the complex and insane laws and regulations on the statute books, and unless he can find some powerful person to aid him, either for cash in hand or in return for his vote, he may as well surrender himself at once to ruin and infamy.... The only man who escapes [bureaucratic oppression] is the man with pull. The aim of every enlightened American is to get that pull."

Mencken concludes: "Thus democracy turns upon and devours itself. Launched upon the world as a scheme for putting down privilege, it ends by making privilege absolutely essential to a safe and peaceful existence...."

The evil of big government was widely recognized in 1927, as it is today, but in 1927 there remained widespread desire to fight the evil, or at least escape it. Today, the idea is to exploit it, since it's here to stay. What still hasn't changed much is the rhetoric ladled out to fetch votes from gulls. Most Americans doubtless believe both that Ronald Reagan

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cut the size of government and that the reason it's $1.5 trillion in debt (with some $6 trillion in risk exposure for various loan and insurance programs) is that the rich are undertaxed.

But while the Republicans assure us they'll get government off our backs, and the Democrats that they'll soak the rich, government stays on our backs and grows ever fatter. The Republicans' actual role is not to get government off our backs. Their role is to (1) put government in our cars, finances, theaters, classrooms, and gambling arenas—a list their drug war is extending considerably, and (2) fill the bureaucracy with Republicans.

What seems different today is the degree of big business's complicity with, and seeming emulation of, government. For example, the National Association of Manufacturers is one of the loudest tub-thumpers for anti-white quotas and nationalized health insurance. Many business leaders now cheer on the extension of Washington's regulatory tentacles, making common cause with the state to strangle fledgling competitors. Large companies can survive by merely re-deploying paper shufflers. They desire exemptions from the same anti-trust laws they use against competitors, and the ideal is to become too fat to be allowed to fail. Indeed with their bloated bureaucracies and immunity to competitive pressures, they increasingly *resemble* government.

Thus the Reagan administration became the most protectionist in history to prop up industries against foreign competition, costing U.S. consumers dearly in higher prices. Nor did the administration get carried away with its professed deregulatory zeal. And now the Bush administration's zeal for environmentalism, the drug war, going to Mars, and increased federal involvement in day care and health care makes Reagan seem a monument to fiscal restraint.

Still, two factors threaten the preeminence of this alliance of big business and the federal bureaucracy. One is the decline of the Soviet Union and totalitarian communism generally. The ostensible idea behind spending $300 billion a year on the Pentagon was to deter the Russian bear's aggressiveness. Now the bear is in limping retreat, yet it appears the Pentagon may get some $300 billion anyway. Even the Pentagon's publicists may have trouble defending this. And with our own bureaucratic tyrannies harder to justify, either as necessary for opposing totalitarianism or as too mild in comparison to worry about, American's formidable legions of bureaucratic tyrants could be at risk. People may start demanding not just formal rights, but the free time to exercise them.

The second threat to bureaucratic/business tyranny is the decentralizing force of technology. Information technology has empowered individuals in ways almost unheard of 20 years ago. Since a single computer can now do better what herds of drudges used to do, no wonder the Grace Commission on government waste found that most government computer systems were ridiculously outmoded and inefficient.

Keeping humans doing what machines can do better has long been a specialty of bureaucracies, and the computer age has lifted the art of featherbedding to record heights. But can it go on forever? For the short run, the bureaucrats will remain fat and happy. Fat is where the votes are, and deficit spending will remain sacred because it makes bureaucrats fatter and buys elections. But the tide of history now runs against these petty tyrants. How long, O Lord, to the next stage of liberation? ◄

The ExIm Bank: Corporate Cash Cow

BY DOUG BANDOW

The Boeing Co. currently has a $91 billion backlog of orders for 1,700 planes. And the company keeps making sales; in early July British Airways announced a $6.9 billion purchase of new wide- body jets.

If there is a firm in America that doesn't need a hand-out, it is Boeing. Yet Boeing has its very own government bank, a federal institution devoted to enhancing the profits of its shareholders: the Export-Import Bank.

Not that Boeing is the Bank's only customer. At a time when Commerce Secretary Robert Mosbacher is worrying publicly about a credit crunch involving "small and middle-sized businesses, high-tech, across the board," the federal government remains ready to guarantee the borrowing of—or even make loans to—exporters with political clout. (The sellers' customers actually borrow the money, but it is the sellers, like Boeing, that are the primary beneficiaries.) In fact, the ExIm Bank is among Uncle Sam's most venerable cash cows, having been created by Franklin D. Roosevelt in 1934 to subsidize trade with the Soviet

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Union.

With budget negotiations underway and a tax increase in the offing, the ExIm Bank should be one of the first programs on the cutting block. Despite the many justifications offered on its behalf, the Bank is merely a slush fund for corporate America. Like so many other programs—community development block grants, Economic Development Administration funds, all manner of research activities, endless farm subsidies, the multilateral development institutions such as the World Bank, the Overseas Private Investment Corporation—the ExIm bank is a vehicle by which the politically well-connected take from the middle-class and poor.

The theoretical purpose of ExIm is to encourage exports. Last year, however, U.S. companies sold roughly $360 billion worth of products abroad; the ExIm Bank was involved in just 2% of those sales.

But there is nothing intrinsic about exports that makes them worth subsidizing. If there were, the government should buy products and give them away. That obviously wouldn't make sense, but today Uncle Sam pays farmers to grow surplus crops and gives those away, so why not a comparable program for airplanes? Merely channeling credit to exporters is only slightly less stupid, for in a world of limited resources, giving money to some firms means taking it away from others.

The resulting losses are substantial: economist Herbert Kaufman of the University of Arizona figures that every $1 billion in loan guarantees eliminates up to $1.32 billion in private investment. Unfortunately, the losers, though widespread, are also politically invisible, and, even more important, don't know they are losers. ExIm's beneficiaries, in contrast, know who to thank—and to whom to write the campaign check.

What makes the Bank particularly perverse is its reverse-Robin Hood character. In the Reagan administration, a few large firms accounted for 70% of the Bank's loans, including Boeing, General Electric, United Technologies, McDonnell-Douglas, Westinghouse, and Lockheed. Other major beneficiaries included Allis Chalmers, Babcock & Wilcox, Bechtel, Bell Helicopter, Dresser, Fluor, Kaiser, Morrison Knudson, and Pratt & Whitney. Truly needy these companies ain't.

Even more embarrassing are the actual borrowers. What repressive regime has not collected ExIm money? Angola, China, Ethiopia, Romania, and the U.S.S.R. are all past beneficiaries. So, too, was the Marcos' kleptocracy in the Philippines; Julius Nyerere's Tanzania, then the leader of "African Socialism"; and Zaire, mercilessly looted by President Mobuto Sese Seko. Moreover, such wastrels as Argentina, Bolivia, Brazil, and Mexico have all run up large Bank tabs. The Bank has never met a potential deadbeat that it didn't like.

In an international marketplace where competition is fierce, the bank has regularly backed competitors of American firms. Foreign airlines, such as the famous (although now defunct) Laker Airways, Nippon Airways, and Royal Jordan Airlines, and numerous steel enterprises, for instance, have borrowed at subsidized rates, allowing them to undercut U.S. firms. Growing economic powerhouses such as South Korea and Taiwan have used American money to purchase nuclear power plants. And so on. This is a remarkably curious way to "create" jobs.

Nevertheless, Bank supporters wave the red flag of foreign subsidies and argue that without the ExIm Bank virtuous U.S. exporters will be gang-raped by foreign competitors. But Washington created the Bank to underwrite sales to Uncle Joe Stalin's communist utopia. And today the Europeans use the ExIm Bank as an excuse to bolster their own export subsidies.

Anyway, the amount of U.S. trade affected by foreign subsidies is small and some subsidized products, such as many of Boeing's smaller planes, have no comparable foreign rivals. Moreover, we are better off spending our money domestically than ripping off our taxpayers to match the Europeans' bad habits.

With taxpayers being hit for more money for everything from child care to the S&L bailout, and as businesses throughout the economy are scrambling for credit, Congress should close the doors of the ExIm Bank. Billions in delinquent loans and loan guarantees will cost us for years to come. But at least we could staunch the bleeding by killing off this corporate welfare scheme. ◄

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The Return of Antitrust

BY DEBORAH WALKER

The Bush administration," noted the *Washington Post*, is "gearing up for more vigorous antitrust enforcement." The Federal Trade Commission is hiring more lawyers. And bar associations are heralding the "Rebirth of Antitrust."

Why should we be surprised? Antitrust law has always been a favored tool of old-line firms to hurt their competitors, and the Bush administration represents exactly that sort of attitude.

Economists and the public have been confused on this subject for a century, yet today, few aspects of government policy are more sacrosanct. Like the New Deal, antitrust is supposed to have "saved capitalism from its own vices." In fact, it imposes government vices on the free market. Antitrust violates property rights, sacrifices efficiency, derails entrepreneurship, and forces businessmen to apply scarce resources to legal defenses. Antitrust, in fact, *reduces* competition by favoring some businesses at the expense of others.

About 90% of the 1,400 antitrust suits each year are brought by companies complaining about their competitors. And most of these cases are settled out of court. The suit itself is often enough to whip the competition into shape. Most firms would rather toe the line than face a costly legal battle.

One antitrust action is the head to head case, where a firm uses the government to put another firm out of business. In the case of the Sealy Mattress Co., for example, a franchisee took over the entire company by claiming that a legitimate anti-merger clause was anti-competitive.

Another type has distributors suing companies. Manufacturers understandably want control of their products' distribution, to make sure, for example, that sufficient service is offered to customers. But when the manufacturer tries to cut off a certain distributor—for skimping on service and undercutting other distributors who do not—the distributor typically files suit claiming monopoly practices.

Our first antitrust legislation was the Sherman Act of 1890, which dealt with the supposed attempts by business to monopolize markets.

The most famous early antitrust case was Standard Oil, which was accused of "predatory pricing." The company was partially dissolved in the name of protecting consumers, although the entire industry was cartelized for the war effort a few years later.

What exactly is predatory pricing? It is the supposed attempt by a dominant firm to price their products below cost and thus drive out the competition. The dominant firm would then supposedly charge above-market, or "monopoly," prices, and restrict output.

But this theory ignores new entries. If the dominant firm prices below cost, they must lose money. The firm can only do this for so long. Eventually, it would have to try to make up losses by charging high prices once it captures the market. But "monopoly profits" would signal new competitors to get into the business. In order to engage in "predatory pricing," the firm would have to perpetually lose money. As soon as it raises prices, it invites new firms into the market.

As a rule, it is much more economical to buy out competitors than to "drive" them out of business. As the testimony in the Standard Oil case shows, more than one refinery went into business just to sell out to Standard Oil. So Standard did have a kind of "monopoly," but it had it through efficiency, mergers, and entrepreneurial success. In retrospect, we know that Standard Oil's "monopoly" would probably have been broken up by the market anyway. Oil was being discovered in Texas and elsewhere.

The Clayton Act of 1914 dealt with more specific business practices, like exclusive dealings contracts, tie-in contracts, and interlocking directorates. If they "substantially lessen competition," they are illegal. Yet the Clayton Act was supported by the business establishment, which saw it as a way to punish competitors.

Remarkably, economists didn't really start talking about industry structure and antitrust until the 1930s. By this time the profession had fallen under the influence of Alfred Marshall, a mathematician whose work led to the development of the "perfect competition" model—a bizarre view of the economy that obscures the market process, by assuming that every consumer knows everything, and never changes his mind.

Gardiner Means argued that the structure of an industry (number of firms) would determine the conduct (pricing, advertising) which would in turn determine the performance in the market (competition vs. monopoly). This led to the perfect competition model requiring many firms for competition, which implied the necessity of breaking up industries.

In the late 1930s, there were two amendments to the Clayton Act: the Robinson-Patman Act in 1936, which prohibited "price discrimination" (treating different buyers in different ways) and price fixing, and the Celler-Kefauver Act of 1950, which limited mergers.

The irony is that these acts passed during the New Deal, when the government was cartelizing the economy. Labor unions and whole industries were given cartel privileges and encouraged to set prices above the market level. These government-

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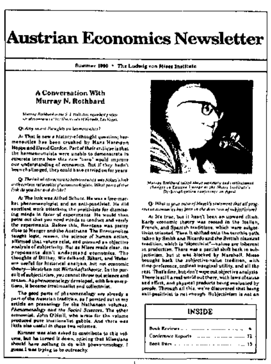
Austrian Economics Newsletter

A Conversation With Murray N. Rothbard

INSIDE

The *Austrian Economics Newsletter*
Among the Mises Institute's publications is the quarterly *Austrian Economics Newsletter*. Designed primarily for students and faculty, it is also available at no charge to any paid-up Member who requests it. For a copy of the most recent issue—featuring a fascinating interview with Murray N. Rothbard—check the box on the enclosed form.

The Return of Antitrust

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created entities, however, were all given immunity from antitrust.

This solidified the tradition that government (and unions) were not subject to antitrust. Even today, government-protected or created entities such as the post office, the insurance industry, trade associations, the professions, the Federal Reserve system, the police, and the courts are all exempt, even though they are clearly monopolies.

Real monopolies, where competition is forbidden, can be imposed only by the government, not by private enterprise. And it is these government-created monopolies that lead to systematic inefficiencies. And in every antitrust intervention undertaken in the name of competition, the government restricts the market, thus lessening competition.

Antitrust makes the status of all controversial contracts unclear. The prospect of successful antitrust suits can gravely affect the market. Companies will keep products on the shelves, decrease their quality, and even stop mergers. They can never know for sure what the courts will decide, which introduces arbitrariness into the market. All this is destructive.

Taken together, antitrust laws create the impression that targeted firms cannot conduct their business without being in violation. There is truth in the old saying that if the price is too low, you're doing predatory pricing; too high, monopoly pricing; and the same, price fixing.

In a free market, business attempts to "monopolize" may be ill-fated, but there is nothing wrong with the attempt. The job of business is to serve consumer needs better than the competition. If in so doing, one firm "monopolizes" the market, it is an indication of success and not an evil to be stamped out. In a free market, no firm's success can last without sustained devotion to consumer needs, cost cutting, and vigilant entrepreneurship. A firm's market share should be considered a reflection of its efficiency, not its market "power."

There is no such thing as a monopoly price or monopoly profit, just as there is no way to know what price is a competitive price. As Murray N. Rothbard points out, there are only market prices and non-market prices.

We should concentrate on the means toward competition—a free market—instead of its end. Who are economists to say whether something is competitive or not? We can only know what the market tells us.

That's why only Austrian school economists—in the tradition of Ludwig von Mises—seem to understand the full destructiveness of antitrust law. Typical of the other side is a prominent "free-market" economist and federal judge, Richard Posner, who recently said that after 100 years, we have finally found the "optimal" amount of antitrust.

The only way to insure free competition is to establish the conditions that make it possible: a market economy completely free of government intervention, and an impartial legal system to enforce contracts and protect property rights. ◄

LUDWIG VON MISES INSTITUTE

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