

Power without Glory – George Stigler’s Market Leviathan

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No arts; no letters, no society; and which is worst of all, continual fear and danger of violent death; and the life of man, solitary, poor, nasty, brutish and short (Hobbes 1914:65).

All but the hopelessly naïve or perennially romantic understand that Nobel prizes are not a simple recognition of merit. Often they are more the result of intense lobbying campaigns (rent seeking in economic terms) and unstated political considerations if not unsubtle and even blatant ideological concerns. Peace and sometimes literature awards periodically are prizes where such forces can be discerned to be at play. Economics, replete with its own cast of rational self-seekers, is understandably tarred by the same brush¹. Certainly George Stigler, a Nobel laureate himself, campaigned strongly (justifiably so) and eventually successfully for both Ronald Coase and Gary Becker.

Yet few amongst the far flung tribe of economists would be so petty as to grudge Stigler this particular award, even if suspecting that ideological considerations might have played a role in his choice. If the medal is to go to those who most influenced and changed the profession, then George Stigler is automatically in the fore front for such honours even when compared to his own remarkable post war cohort.

Like many of that generation, Stigler used his rising status in the immediate post-war years to define and impose his vision of economics. He seldom passed up the chance, by seizing an opportunity provided by an invitation to deliver a key address or particular set of lectures, to redefine his beloved economics profession. Thus his 1964 AEA Presidential address (1982f) to the assembled foot soldiers huddled together on the cold plains of Chicago was a call for all true economists to redeem their professional faith by means of testing, measurement and quantification. But this ingrained reflex of rallying the troops at opportune moments had a long history for George Stigler. A key and too often overlooked instance of this occurred in a series of five compact lectures given at the London School of Economics (1949) home in the past to such luminaries as Robbins and von Hayek. In these lectures Stigler redefines the nature of economics and defines the direction the true faith must take during the post-war period². This revealed credo remained remarkably constant throughout a long and fruitful career. The inner most heart of this vision is defined by a classic, if not austere, liberal philosophy. Stigler was a closet moralist, acting in much the same way as he conceptualised the motives and objectives of his early predecessors. “The desire for better men, rather than for larger national incomes, was a main theme of classical economics.” (Stigler 1949: 4)

Unfortunately, morality, while potentially an admirable quality, can permeate analysis in a less than desirable fashion if transformed into ideological imperatives. Despite his unquestioned skill as an economist and even as an original thinker, his bred in the bone classic liberalism ultimately left Stigler with a distinct blind spot. Not one that turned him into anything resembling a tragic figure of a Homeric mode, but perhaps someone more akin to Cervantes’ Don Quixote, who needed to hold a few unvarying, if almost intentionally self-deceptive beliefs.

...most people will not be persuaded there ever were any knights-errant in the world. Now, sir, because I verily believe, that unless Heaven will work some miracle to convince them that there have been and still are knights-errant, those incredulous persons are too much wedded to their opinion to admit such a belief: I will not now lose time to endeavour to let you see how much you and they are mistaken (Cervantes 1993: Part Two 470).

It is this unyielding core, created by an unacknowledged ideology, which implicitly motivated the fierceness of his attacks on market critics. Yes, he viewed them as misguided and lacking in any substantial economic logic. But he chose to dismiss, rather than discuss the issues these critics raised. In this he was more of a St. Augustine banishing heretical views than a scientist sifting through empirical evidence. He was a true believer in market processes, a belief that was essentially a priori and unreachable by either logic or facts³. This belief in both the equity and efficiency of markets rested upon something more fundamental than any economic objective. For Stigler, markets maximised freedom, at least freedom defined in terms of economic choice. It did so by removing economic power from the sphere of market decisions. Power, when exercised, limited choice and by doing so constrained liberty. Preserving liberty in the face of a constant threat of organised power required sacrifices, especially a determined resistance to government intervention⁴.

For Stigler, markets provided a Hobbesian⁵ bargain to protect individuals from the excesses of Society, namely a misuse of economic power. In this sense a compact is formed between the market as an institution and individuals that compose that market. Individuals cede all economic power to the market and respond passively to market signals. They do so to avoid becoming a victim of unjustly applied economic power. Distribution then is no longer based on degrees of economic power but rather one's contribution to the economy. Given this perspective, marginal productivity theory, as developed since the time of J.B. Clark onwards, represents the objective solution to the age old problem of distribution. Ricardo was amongst the first to raise the distributive issue of economic power when he focused on the question of which group retained property rights to the key input factor. Clark's formulation essentially renders that question meaningless. Market forces determine outcomes and individuals respond to, instead of shaping, those issues. Rewards reflect individual efforts, leaving any fault residing firmly with the individual rather than with the governance system itself.

... it is of the essence of the good society that it permits individuals to behave as they wish provided they bear the consequences of their actions (Stigler 1949: 10).

Given Stigler's acolyte-like vision of liberty and the concomitant sacrifices due and demanded for its defence, any attacks that potentially undermined the legitimacy of this market compact required a response perhaps more frequently seen in the realm of knight errantry than in the more placid back alleys of academe. His fiercest battles with Sweezy, Galbraith, Means, Chamberlin or Leibenstein, though superficially unrelated to one another, share this one common trait. Acceptance of any one of their positions would open up economics to debates that focused on economic power, exactly the type of debates which George Stigler deemed he had helped banish permanently to the nether world of economic reasoning. In the moral world inhabited by Stigler, this Grendel like monster of greed and passion had to be forcefully chained to allow individuals the dignity of their own choice. Ever vigilant to prevent potential professional validation of theories embodying economic power, no quarter could be given to any opponent of the truth, omnipotence and inevitability of

market forces. In practical terms, Stigler envisioned the potential for using a hypothesized existence of economic power to justify various forms of governmental intervention. In essence, any threat posed by the chimera of economic power would allow the forces of social engineering to substitute effective governmental power as a necessary countervailing force. At the very least, liberty would be heavily constrained.

Only when George Stigler's long dormant ideology is revealed can a full understanding of his critical work commence⁶. Stigler is of course not unique in opting for such an ideological, winner take all approach. Economists on all sides of any issue and particularly some of those who constituted his chief opponents tended to be similarly bound. Stigler however was more skilled than most at conducting crusades and noticeably more successful. Ultimately his biggest conquest might have become his own objectivity as an economist. For these reasons alone Stigler's almost forgotten battles deserve to be rediscovered. But before such evidence is provided I will need to sketch out briefly the long running debate over economic power and distribution which Stigler was so keen to inter. This necessitates revisiting the often debated economic framework so meticulously constructed by David Ricardo.

I. Ricardo's wrong track – distribution and power

Political Economy you think is an enquiry into the nature and causes of wealth – I think it should be called an enquiry into the laws which determine the division of the produce of industry amongst the classes who concur in its formation. No law can be laid down respecting quantity, but a tolerably correct one can be laid down respecting proportions. Every day I am more satisfied that the former enquiry is vain and delusive and the latter only the true object of the science (Ricardo quoted in Keynes 1964: 4).

Distribution, rather than the Smithian problem of economic growth, dominated much of 19th century economics and continued as an only partially recognised subtext in the 20th century. The link between distribution and economic power goes back at least as far as Ricardo. It is not far fetched to see Ricardo's concerns as a misguided focus that shunted economic analysis on to a rather unprofitable spur line⁷. His equally committed opponents largely responded to these distributional issues by diligently providing an efficiency rationalisation for any existing state of market outcomes. Starting then with Ricardo the battle lines were drawn. The marginalist revolution, particularly the triumph of marginal productivity theory during the 1890s, finally succeeded in substituting market efficiency as the core explanation for distributive outcomes. But, though the Ricardian tradition emphasising economic power subsequently weakened within the profession, it did so without completely losing hold of the public imagination. It seemingly survived whatever attempts were made to push this approach to the very fringes of the economic profession.

A. Explaining Rent

But in different stages of society, the proportions of the whole produce of the earth which will be allotted to each of these classes, under the names of rent, profit, and wages, will be essentially different ... To determine the laws which regulate this distribution is the principal problem in Political Economy (Ricardo 1923:1).

Rent was essentially a windfall return based on controlling some key economic input. In this way, market prices could deviate significantly from more efficient exchange prices, or what Ricardo would call the natural price of a good or service. Under these circumstances, distribution need not be either efficient or equitable depending instead on the historical circumstances surrounding that key resource. Moreover, the key input itself could, and most likely would, change over time⁸. Controlling this economic resource defined the idea of economic power. Given the somewhat arbitrary nature of these distributive outcomes, a justification for countervailing government or public power came readily to hand. The dynamic underlying this controlling input and the analysis it nurtured can be simply grasped in Ricardo's own work.

Ricardo introduces as one of his focal points the concept of a return due to owning a scarce resource. For him the controlling factor in the distributive process was land. The difference between the natural price (or value) of a good and its market price reflected the degree of economic power available. Under this framework, the landlord does no actual work but receives this difference only to ensure access to his land⁹. The actual value of the corn raised on this land is its embodied labour¹⁰. For Ricardo, rent does not affect the value of a good. However it definitely will change any distributive results.

To begin with, the trinity formula (of land, labour and capital) demands that workers receive the value or natural price of their labour¹¹. The difference between the value of labour embodied in the good and the value the workers receive for their labour yields the reward due to capital. In this approach capital lacks a natural price. Instead it is an entirely derivative construct coordinate with a particular natural price of labour. As long as the wage labourers receive a natural price for the labour they exert, the undertaker must by definition be receiving a natural rate of profit¹².

Since land rent enters into the determination of the market price of food, the level of any required rental payments can to a degree determine and thus raise the natural price of labour without necessarily raising the value of the good produced. Profit is squeezed between these two immovable grindstones – wages and rent. Rent will rise with a growing population as more land is put into cultivation and the productivity of the soil falls. Rising rents translates into rising food prices that in turn cause higher wages and falling profits¹³.

The landlord receives rent merely as the result of owning a piece of fertile land, the higher the fertility, the higher the rent. Ownership in and of itself affects the fertility of that land and thus the ultimate output not one whit¹⁴. Further, rent, by squeezing profits, seems to be a spoke in the wheel of accumulation. The solution for Ricardo is not of course the elimination of private property but the removal of land from its position as the key scarce resource by importing tariff free food from abroad. Economic power can only be countered by the express use of government power (even if that origin of the economic power initially lay in a misguided degree of interference by government itself).

Ricardian rent, as a return to a scarce resource can easily be generalised to any key input. In each case, payment is not in return for value added (marginal productivity) but simply for access. This viewpoint, in which certain property rights can earn 'something for nothing', can easily be extended to the role of the capitalist as well¹⁵. A landlord has the option of selling his land and subsequently lending this sum of money out at interest. One would be hard pressed to justify this transformation as substantially changing his contribution to the

production process. In either case his position remains that of a rentier doing, in this context, no work of any kind. Nor does Ricardo's own analysis provide any economic justification for the rents received in whatever form¹⁶.

Since Ricardo accepts the three great classes as given, he feels no need to rationalise the rewards each receives. But the exact distribution to these classes that each possibility embodies must ultimately affect the process of accumulation. Capitalists act as the engine of investment. The landed class, by controlling the key scarce resource, in Ricardo's era, interfered with the growth of societal wealth by thwarting the objective of the capitalist class. Therefore Ricardo's analysis provides support for efforts to break the stranglehold of these landlords by encouraging free trade. Implicitly the connection between control and a return to a scarce resource has been established. Land provides the material support of the landlords' controlling economic position, which in turn insures a continuing flow of these same returns.

However this analysis is quite consistent with a very different distribution as Ricardo was willing to admit. Capitalists might be much like landlords. Both might be equally dispensed with. Writing to Francis Place he conceded,

I believe that under such a system (of equality) mankind would increase much faster than it now does, but so would food also. A large proportion of the whole capital of the country would be employed in the production of luxuries, and thus we might go on, even with an increase of capital, without any increased difficulty, till that distant time, which because of its distance, Mr. Malthus says should not damp our ardour. Whether this would be a more happy state of society is another question which it is not now necessary to discuss (Ricardo 1973: 50).

Understanding Ricardo's analysis of economic power pinpoints its potential danger. By not feeling obligated to justify the existing distribution amongst the three immutable classes, David Ricardo provided an unintentional point of leverage for critics, reformers, and revolutionaries.

B. What the market has wrought let no man rent asunder

Labourers have been flattered and persuaded that they produce all. The Ricardo economists maintain that labour is the only source of wealth while others have even denied the right of capitalists to any share of the product (Read 1829: 56).

In his description of economic forces lay the potential basis for a theory of class conflict and exploitation. There were those who were not slow to recognise this possibility. As presented, the interests of these three classes are always directly or at least indirectly opposed (Ricardo's inverse relation between wages and profits. The landlord class appears to receive windfalls simply by existing (or more precisely, due to prevailing property rights and the concomitant political structure). Given this groundwork, the egalitarian or Ricardian socialists felt justified in calling for a general redistribution. Since profits are the leavings of wages, what need could there be for any share to go to the owners of capital let alone the landlords?

The explicit question continues to be distribution as a return to a scarce resource, but layered above this implicit idea of control, is an associated and often emotional debate about justice.

Thus the issue of justice become inextricably linked to the question of distribution. The problem that must be dealt with is not only who gets what and how it is used, but whether the recipient deserves to get it in the first place. The reward must be seen, in some sense, to be proportionate to the deed. But such an approach provides for the possibility, if not the justification, for arguing that the labourer by his or her unalienable birthright is entitled to all the fruits of this toil. Thus the Ricardian insistence on limiting all analytic focus to distributional issues leads economists to fish in murky waters. It becomes simple to see why a recognised scholar of the history of economic thought like Stigler would easily perceive the danger signals inherent in such an approach and would attempt to nip any such discussion before it could start. Ruling the debate out of court becomes the most efficient strategy to adopt.

Ricardo's unintentionally insidious challenge to the economic status quo was unlikely to go unanswered. The owners of capital, for example, must also be shown to contribute something if a more radical agenda was not to dominate economic discussion. By accepting this Ricardian type of framework it becomes insufficient simply to say that capitalists must be given something to induce them to leave go of their money. This would place the owners of capital on the same level with landlords, namely, unable to justify their own existence. A need to mount a defence initially leads to Nassau Senior's abstinence theory (otherwise known as a reward for waiting). Morality now makes its appearance on the opposing side as well, and we madly set sail on a sea defined by virtue and vice. Profit must be received not as the result of mere ownership of capital but as a reward for demonstrating self-control. The ability not to squander, but instead to delay one's pleasure, is scarce and thus worthy of a reward. For if all were profligate like the large majority of people, the wealth of a nation would never increase. As public benefactors (rather than drones), these husbandmen and accumulators of wealth earn and deserve exactly what they get. Initially this provides quite a novel counter-approach. Moreover, once this justification had thrust its way into the economic mainstream of thought, its powerful moral patina alone would imbue it with a tenacity increasingly difficult to dismiss.

These feints and justifications merely form a set of preliminary skirmishes by self-appointed champions on both sides of the issue. The nineteenth century debate becomes full blown with Mill entering on the side of redistribution. However, the issue by this time has shifted away from the rents earned by landlords to the profits earned by capitalists. Notice that the Ricardian framework still dominates. The issue is whether returns are determined according to some measure of value added or are simply a measure of economic power (ownership).

If tools, buildings, and materials were the spontaneous gifts of nature, requiring no labour either in order to produce or to appropriate them; and if they were thus bestowed upon mankind in indefinite quantity, and without the possibility of being monopolized; they would still be as useful, as indispensable as they now are; but since they could, like air and the light of the sun, be obtained without cost or sacrifice, they would form no part of the expenses of production, and no portion of the produce would be required to be set aside in order to replace the outlay made for these purposes. The whole produce, therefore, after replacing the wages of labour, would be clear profit to the capitalist (Mill, 1968: 94).

In this hypothetical case where nothing need be paid to gain access to capital goods, the clear profit referred to must be received on some other basis. For Mill there is a service that

productive capitalists perform, the necessary task of superintendence. Profit can thus be divided between a return for required managerial activities and money gained by providing access to capital¹⁷.

The difference between the profit which can be made by the use of capital, and the interest which will be paid for it, is rightly characterized as wages of superintendence ... Interest and thus wage of superintendence, can scarcely be said to depend upon one another. They are to one another in the same relation as wages and profits are. They are like two buckets in a well; when one rises, the other descends, but neither of the two motions is the cause of the other; both are simultaneous effects of the same cause, the turning of the windlass (Mill 1968: 108-109).

Though the exact basis of indemnification for coordinating and overseeing production can be questioned, the nature of the division is clear. One part of profit can be viewed as earned for services rendered. Interest however, in Mill's view, has no justification in the production process itself. Mill was never won over to Senior's waiting game argument. If waiting itself was the chief determinant, misers, French peasants, and hoarders of all hues and scents should expect more than a lumpy mattress from socking away their earnings. Mill clearly is making a traditional nineteenth century distinction between productive and unproductive returns.

Mill's approach, like Ricardo's, provides room to manoeuvre. There can be no logical reason for insisting on a unique distribution as corresponding to some unchanging prototype. Unlike the way in which goods are produced, which is rooted in technology, a distribution pattern can change with changes in economic power. This must be true since the entirety of profits, according to Mill, are not justifiable. The payment of interest is the result of property relations which likely will vary as societal organizations change. Here lies the potential political danger. A distribution scheme, seen as to some degree arbitrary, is the ideal basis for attacking traditional market capitalism. By comparison, focusing on the production process seems a comparative waste of time, since production appears as a simple application of natural law¹⁸. Adopting this approach, it is only when attention is turned to how the pie is being sliced that we leave the realm of necessity. Payments can then be secured solely for the purpose of gaining access to capital. Lacking a rationale for a specific form of property rights, any such distributional system will appear to be largely arbitrary.

Unlike the laws of production, those of distribution are partly of human institution: since the manner in which wealth is distributed in any society, depends on the statutes or usages therein prevalent (Mill 1965: 21).

We should not be surprised to find that the synthesis of these two contrasting strands of British economic thought await only the deft hand and agile wrist of the great ameliorist, Alfred Marshall. The rules of the game by this time had been fairly well laid out. The labour process itself was beyond debate. Analysis of the distribution question had fallen into a predictable ritual. Once it was agreed as to how the pie was currently to be dealt out to the various economic players, the focus shifted to justifying such arrangements and determining how variable they might be. Marshall's major contribution here is a more careful delineation of the economic meaning of profit. In his analysis, a distinct cleavage appears. A trinity transmutes into four discernable classes. Not only land, labour and capital are allotted their shares of total output, but business ability, taken as a separate entity, demands recognition¹⁹.

What Mill labelled as superintendence, gaining the difference between total profit and interest on capital, now achieves prime importance. Entrepreneurs move to centre stage as the motive force behind any industrial system. If only implicitly, a drama filled with Ricardian passive players, has now gained a hero in the historical sense of that word. The deeds of these businessmen will serve, from this time on, to explain the driving force behind capitalism. Marshall unfortunately fails to defuse in any definitive way the issue of economic power that he surreptitiously must confront, if only in his attempts to refute its importance. Given the chance to fudge or make a clear cut statement, Marshall's inborn cautiousness comes to the fore²⁰.

He employs a two step strategy, starting with a more easily defensible position of economically justifying the entrepreneur. If business ability is now the key resource, and thus the controlling resource, owners of this talent should be expected to exert themselves to insure a continuance of returns. To the extent that rewards are linked to the competitive market process, we escape any variation of the Ricardian windfall profit argument.

Marshall is forced into occasional mental gymnastics if he is to accomplish his contradictory agenda. The second stage of his approach compels a justification for the share given to capital (interest) as well as the reward allotted to the less controversial factor of business ability. Capital, while relinquishing its claim to a central role, is not automatically shorn of all and any potential economic power. This leaves Marshall faced with a dual objective that is more the creation of his own compulsions than generated by any analytic necessity. He needs to justify the returns gained by capital while at the same time indicating the inherent ameliorating tendencies within the market system. Capital needs to be legitimised, but the threat it might conceivably pose must be rendered harmless. Again his inherent caution pulls Marshall up before ever going quite as far in his analysis as Mill. Even though actual distribution patterns are not precisely foreordained by market competition, they still need not be mended by government design. The difference between a rent and a quasi-rent becomes crucial in making such a claim.

Indeed, in some cases and for some purposes, nearly the whole income of a business may be regarded as a quasi-rent, that is an income determined for the time by state of the market for its wares, with but little reference to the cost of preparing for their work, the various things and persons engaged in it (Marshall 1982: 626)

Marshall must employ a delicate piece of surgery to remove intact the return to capital from the realm of pure rent. Labelling a return as a rent is inordinately constraining as rents act as a force without a corresponding counter-force. They can be bestowed without requiring an equivalent sacrifice; not unlike an inheritance descending upon the first born. As such, there can be no justification of such arrangements without recourse to the theology of political theory. Positive interest rates and equivalent returns exist because capital is a scarce resource. Though a scarce resource that earns a return, capital is still not the underlying economic scarce resource. For Marshall, unlike some of his predecessors, capital by itself does not grant economic control in the market place. This creates the initial desired distance from Ricardo's insistence on rents paid to core inputs.

Temporary market conditions, on the other hand, can produce quasi-rents that push returns above normal rates²¹. Over time however, economic rewards are linked consistently to some human trait and in this sense can be justified. Still this is not sufficiently comprehensive for

the perennially conservative Marshall. The Ricardian distance must be widened. Interest cannot be linked to a mere quirk of human nature like miserliness but instead must be the expression of a positive effort like waiting²². With this positive step, the analysis moves clearly away from anything resembling a rental windfall. Though the last distributional piece of the theoretic puzzle is now justified, Marshall, as mentioned, wants interest payments, a continuing bone of contention, to dissipate over time. In this way market forces would automatically resolve this distributional issue by making it a moot point. Interest payments under Marshall's framework, inevitably would fall as capital stock increases. Marshall forces himself to envision a future where the ownership of capital becomes more dispersed while society inevitably becomes more indisputably middle class. In an unstoppable manner, old fortunes decay, the working class moves up the ladder with increasing education, frugality, and the acquisition of other commendable beliefs. The interest rate and similar pure returns to capital fall as this habit of restraint becomes more widespread. True to form, Marshall cannot resist the urge to have and eat his cake simultaneously. Interest is justified as a reward for the positive sacrifice of waiting. This promotion links Marshall to a familiar strand of British economic thought. But his own twist attempts to sidestep the inherent distributional issues involved by assuming that this share of output, though justified, would steadily become insignificant. In a practical sense, this abstinence effort eventually would go unrewarded but its existence and theoretical validation would not logically disappear. Accepting this premise entirely marginalizes economic power as a useful analytic tool.

Every attempt to establish this premise [labour theory of value] has necessarily assumed that the service performed by capital is a 'free' good, rendered without sacrifice, and therefore needing no interest as a reward to induce its continuance (Marshall 1982: 587).

Despite Marshall's usual meticulousness in justifying interest payments, this scrupulous attention does not negate the role business ability plays in a market economy. It is the essential scarce resource. "Nevertheless business undertakers are to a certain extent a class apart." (Marshall 1982: 667) However, this poses no long run issue revolving around distribution and economic power. Only momentarily would this key resource remain concentrated in a relatively few number of hands. Education, better opportunity, and a growing economy would eventually "Diminish the toll which has to be paid by the working classes to those who organize the work of the community." (Marshall 1982: 225) Thus entrepreneurship loses its special quality of a property right, transforming instead into a characteristic that appears with increasingly regularity throughout the general public. This is of course Marshall's ultimately egalitarian social solution, a vision of a society composed entirely of the middle class.

Without assuming this trend, Marshall would face the problem that these essential self-centred Captains of Industry had the means and motivation of exerting economic power. He is well aware of the attendant fears evoked by a growing trend to mergers and the creation of trusts (and the entrepreneurial figures behind them). "America is the home of the popular saying that, if the State does not keep a tight hand on the railways, the railways will keep a tight hand on the State." (Marshall 1960: 267). If these entrepreneurs of genius are able to control the economy, personal aims of these men start to supplant the impersonal dictates of prices. By trivialising the ultimate scarcity of entrepreneurial ability and its handmaiden capital, Marshall deftly removes distributional issues from the radar of most practising economists. Otherwise, much of the point and most of the virtues of such a system disappear, inviting governmental intervention to counterbalance private economic power. In fact, the

ensuing failure to properly justify the ways of markets to the public anticipates the later justification for the Progressive Era in the US. This threat of redistribution is exactly what George Stigler can sniff out better than any other economist of his age.

We now have seen, via a fast forward tour through the musty attics of the history of economics, that there exists a link forged between seemingly distinct economic frameworks. Stigler's crusades all have this common denominator. They defend against any analysis that undermines a distributive market system based on marginal productivity factor shares. These alternative approaches all share the potential for government intervention that can supplant individual choice.

C. Stigler Slices the Gordian Knot of Economic Power

What do I care about the law? Hain't I got the power. (Vanderbilt quoted in Josephson 1934: 72).

Stigler would never again so directly address the question of distribution as he did at the very start of his career. The underlying ideas expressed in his dissertation would form the moral backbone of the rest of his career. True, he would in later years claim that the work had been too heavily influenced by his advisor and patron saint Frank Knight. But the core ideas formed during his graduate years under the influence of Knight, Viner and Simons never really changed²³.

In his first substantial work, Stigler looks critically at the triumph of marginal productivity theory which completed the work started in the 1870s by marginal value theory. With it comes the solution to the distribution problem in much the same way as the earlier contribution resolved the problem of price. The issue of economic power is not so much addressed as it is banished.

The branch of economics which was in most urgent need of reformulation was, in fact, distribution. In 1870 there was no *theory* of distribution. Most English economists after Smith devoted separate chapters to rent, wages, and profits, but without important exception such chapters were only descriptive of the returns to the three most important social classes of contemporary England. Rent went to the landowners, wages to the labouring masses, and capitalists secured the "profits of stock." This type of analysis may have had its uses in the England of Ricardo and Mill, but its analytical shortcomings are obvious. Extended criticism is unnecessary at this point; the fundamental defect was clearly the failure to develop a theory of prices of productive services (Stigler 1942: 2-3).

This claim would not be quite so self evident to either Ricardo himself or to others of the classical era. On closer reading it turns out that Stigler's doesn't mean simply that Ricardo merely described existing distributions rather than explaining them. The key is that Ricardo never independently determined the basis for each reward rather than having some payment fall out as a simple residual. As shown previously, this implied that distribution seemed to depend on property rights, namely who gained control over the key resource and could extract rents. Such relationships are historical by nature. If then economic power could be exerted, government would have a rationale to limit through its own coercive power the worst

of these imbalances. But any exertion of power must by definition limit choice. Individual choice for Stigler was the very essence of freedom and liberty.

This is the miraculous beauty of marginal productivity theory. If by giving each factor its contribution to output, the total product is exhausted, no residual thus remains. Lacking a residual, the exercise of private economic power is impossible. Market competition, under a given set of conditions, almost magically eliminated the core Ricardian problem. In other words, the closer markets resemble the conditions of perfect competition, the nearer one comes to dismissing problems of economic power.

The completion of the marginal productivity theory of distribution was achieved only with the development of the proof that if all productive agents are rewarded in accord with their marginal products, then the total product will be exactly exhausted. This exhaustion-of-product problem is of course unique to the general marginal productivity theory (Stigler 1941: 320).

However, as Stigler acknowledges, once the need is granted for an entrepreneur²⁴, residual payments once again must be introduced into economic analysis.

Once uncertainty is introduced, the theory of distribution is altered greatly.

Anticipations rule economic activity, and many of the anticipations must be erroneous because of the very fact of uncertainty. The entrepreneur becomes a residual claimant, and the exhaustion-of-product problem disappears.

Anticipated marginal productivity becomes the basis for remunerating all productive services except entrepreneurship (Stigler 1941: 386).

The focus here on uncertainty does represent Knight's influence. Stigler himself would dismiss its importance in less than a decade's time²⁵. But even with the entrepreneur's residual payment, it is clearly possible to avoid the Ricardian morass of economic power. The residual increase in productivity is due to entrepreneurial activity. Thus the return to the entrepreneur has a basis that is not simply dependent on the application of pure property rights. As long as such rewards are open to competitive forces, with residuals unsustainable over time, no threat to individual liberty can derive from private economic activity. The slippery slope that justifies government intervention and the subsequent limitation of choice is effectively salted down. Over the years, explicit concern for the entrepreneurial function would fade. Stigler, along with his colleagues and associates would dramatically push the applicability boundaries of perfect competition theory. The importance of this progression lies not only in its analytical usefulness but in its implicit support of individual choice.

II. Freedom as Choice

The proximate reasons that the darkly pessimistic predictions of conservatives have not been fulfilled are two. First, the predictions were based on their special view of freedom: Freedom as consisting only of the lack of coercion by the state, so that the widening range of choices due to the growth of income and education is not an effective increase in freedom in Hayek's view, although it is in mine (Stigler 1988:147).

There is more however than the mere accumulation of empirical evidence driving Stigler's life long insistence on marginal productivity as the underlying basis for distribution. As pointed out before, such an approach eliminates the vexing issue of economic power. If

markets are perfectly competitive, no one is able to influence or more precisely coerce another person's choice. Individuals simply respond to market signals. This is at the heart of Stigler's orthodox liberal beliefs. Freedom, and by extension liberty, for him is the freedom of choice. It is not coincidental that his closest friend and colleague would title his most popular book *Free to Choose* (1980).

Contrast the freedom that flows from perfect competition with its alternative. Distribution as envisaged by Ricardo and his descendents depends on economic power. Given the indefiniteness that flows from the strategic employment of this power, governments can rationalise redistributive impositions as creating greater efficiency and/or equity. For Stigler such interventions were no more than the coercive use of state power motivated by rent seeking constituencies²⁶.

Income redistribution is the hall-mark of any special interest group: gains in aggregate output will usually be shared with everyone, so the efficient use of political power usually involves income redistribution (Stigler 1982b: 63).

In this sense the debate over marginalist ideas, the defence of the perfectly competitive model, is not a simple matter of economics but strikes at Stigler's core beliefs concerning a dearly bought freedom almost uniquely enjoyed by the American public. In an exaggerated sense, these designated opponents to economic orthodoxy represent the thin edge of the wedge leading irresistibly down Hayek's (1944) *Road to Serfdom*²⁷.

The idea of consumer sovereignty is more accurately seen as a presentation of market sovereignty. All must respond to the dictates of the market which is only the aggregate determination of a multitude of individual choices. In such a system there can be no individual or institutional power and no threat to individual choice and thus to liberty. The market is the classical liberal solution to the problem of power and justice. By making everyone equally powerful in the marketplace (equally powerless) the potential abuse of power is rendered meaningless. But once you allow for any lasting economic power (even on an intermittent basis) the safeguards of individual choice as preserved by consumer sovereignty are jeopardised. The non-optimal and certainly somewhat arbitrary distributional results dictated by economic power invite, by providing a rational pretext, the dangerous precedent of government intervention²⁸.

In this sense, Stigler's joint paper with Becker (1977) is in its way a striking response to the increasingly critical stance to consumer sovereignty developed by John Kenneth Galbraith amongst others. In this critical approach, successful advertising produced market power by changing existing preferences and developing new ones, specifically those which redistributed income to corporate sellers. If instead, corporations appeal only to existing preferences, trying to convince potential customers that the flow of services provided will match inherent individual preferences, we return to a model where economic participants respond to market dictates. These markets neutrally represent no more than the resultant manifestation of individual choices. The possibility of market power is removed, as well as possible arbitrary redistributions of income due to any associated economic power.

What flows from such a defence of consumer sovereignty is a parallel insistence on a marketplace for ideas²⁹. But taking the work of Stigler and Becker as our benchmark, the successful idea, like the successful product, is the one best suited to the existing set of consumers' preferences. Ideas, like other goods, are associated with flows of services and

user costs. In this vision, ideas are marketed much like any good or service. Stigler's aim would be to persuade his targeted audience (other economists) that the ideas he presents provides the greatest service flows at the lowest associated user cost. Ideas that dominate are those which best appeal to existing consumer preferences. Marketing, particularly selling one's ideas in a winner take all fashion, inevitably must gain the upper hand. But this need not lead to the adoption of the best or even most correct views no matter what the objective measure chosen.

I remember when I was a young person, George Stigler wired and said >Selling is very important in your research. So write better. Work on writing because that is important. You=ve got to sell what you are doing. I think he=s exactly right. You=ve got to sell what you are doing. It may be that in the long run good ideas do surface but they surface faster, if written in a persuasive fashion. Moreover, bad ideas may be put persuasively. And they may gain the necessary threshold. However, taking that same analogy in competition among ideas, there is a presumption, although not a certainty, that in the longer run, the good ideas are going to compete out the bad ideas. But that may take a long time and may not even always operate. There=s nothing necessary about that. Nothing guaranteed about that (Conversation with Gary Becker October 14, 1997).

The problem with a hard sell approach is the need to simplify and not only in such landmark popular works like Milton Friedman's *Free to Choose* (1980). Identifying liberty with commercial choice (or the institution of private property) is at best sloppy analysis and at worst substituting ideology for economics. Consumers make choices no matter what the institutional framework, no matter what role government assumes in the economic process. Coercion is a matter of degree rather than an absolute condition. Any choice must have attached to it an opportunity cost. To say that the opportunity cost of certain consumer choices are much lower in a given free market framework may be true. But it need not hold consistently for consumers or equivalently for producers³⁰. Moreover, adjustment costs of market competition can be politically unsettling. Without political and social stability, economic growth can be hindered, by limiting available choices.

In the case of George Stigler, this brings us directly to the question of income distribution. He is quite correct in pointing out that discussions of this topic tend to be based on ethical considerations rather than positive economics.

Such a positive theory would explain how the size distribution of income affected, and was affected by, developments such as rising wealth and education, the roles of taxation and other forms of political action, the institutions of inheritance, and the changing nature of the family (Stigler 1982e:13).

However, it is at this point in a distribution discussion that admirable beliefs in freedom of choice can produce dilemmas. Stigler would have economists be what he sees as scientists, providing positive (non-ideological) analysis. Yet his own work with Becker tries to demonstrate the importance of selling one's ideas. Marketing by its very nature attempts to persuade others that a given flow of services meet fixed preferences rather than directly attempting to alter those pre-existing preferences. In a strange way, economists need to rise above economic motives while being ruled by the same every day incentives³¹. They need to lead despite having little impact on public choices. Inasmuch as economists are scientists they are ineffective. To the degree that economists are effective they are ideologically driven³²

The degree of popularity of a preacher does not necessarily measure his influence as a preacher, let alone as a scholar. In fact one could perhaps argue that unpopular sermons are the more influential – certainly if the opposite is true, and preachers simply confirm their listeners’ beliefs, pulpits should be at the rear of congregations, to make clearer who is leading. Whether economic preachers lead or follow, they need an ethical system to guide their recommendations (Stigler 1982e:13).

The need to resolve these fundamental incompatibilities, ultimately leads him to stand ideology on its head and turn assumptions and beliefs into testable hypotheses, an attempt made with varying degrees of success in his Tanner Lectures on Human Values, presented at Harvard University, April 24, 25, and 28, 1980.

Man is eternally a utility-maximizer, in his home, in his office – be it public or private – in his church, in his scientific work, in short, everywhere... I believe it is a feasible and orthodox scientific problem to ascertain a set of widely and anciently accepted precepts of ethical personal behaviour and to test their correspondence with utility-maximizing behavior for the preponderance of individuals. My confidence that the test would yield this result will be disputed by many people of distinction, and that argues all the more for making the test (Stigler 1982c: 35-37)

III. The Problem of Ideological Blinders

The simplest way to test the role of ideology as a nonutility-maximizing goal is to ascertain whether the supporters of such an ideology incur costs in supporting it. If on average and over substantial periods of time we find (say) that the proponents of “small is beautiful” earn less than comparable talents devoted to urging the National Association of Manufacturers to new glories, I will accept the evidence. But first let us see it (Stigler 1982c: 35).

Ideology is dangerous in at least two manifestations. In the first, an economist knows the answer he or she desires to find and figures out how to reach that conclusion in the most convincing manner. The second appears to be the same as the first. Pick up research by a specific author. Given the topic, the reader knows the result beforehand. The only suspense comes from finding out how the author reaches that pre-ordained end³³. The difference with the first case lies in the degree of consciousness present. The researcher will claim that the facts speak for themselves even though the tune is always remarkably similar. Though it was almost inconceivable that George Stigler ever would reach a conclusion that undermined neo-classical theory, he would never deliberately (and consciously) fudge his analysis to reach a given result. He might overstate, or push a conclusion to an unwarranted extent, but this was more due to the need to market than any dishonourable impulse. (Whether marketing an idea in a strong arm manner is or is not dishonourable is quite another question.)

It’s not that he [George Stigler] ignored all the empirical work in making his decisions. He would come across empirical work which was contradictory to other empirical work. Somehow it always seemed to him that the empirical work which favoured his side was done better than the empirical work which didn’t. But this is rampant in our profession (Conversation with James Kindahl 17 October 1997).

For someone who insisted so strongly that ideology played little if no role in economic analysis, his strongest defence rested not on the revered Adam Smith of *The Wealth of Nations* but on the less congenial (to George Stigler) Adam Smith of *The Moral Sentiments*³⁴. Ultimately, a strong sense of professionalism kept economists from degenerating into a morass of partisan arguments that was ideological by nature³⁵. Only this countervailing incentive kept economists from being ruled by narrow self-interest. Without such an escape route, it is difficult to imagine how one could analyse a profession composed of self-interested individuals not ruled in turn by those self-same passions³⁶.

Yet his insistence on the absence of ideology contrasts sharply with many of his actions and positions throughout his career. His need to combat what he saw as the forces of collectivism arrayed against individual liberty brings a certain consistency to the paths he pursued and the strategies chosen to achieve his objectives³⁷. That he took ideological stances in less formal arenas seems undeniable. If his statement about the price of freedom in a debate with Paul Samuelson cannot be categorised this way, it is hard to imagine what could.

My basic answer to this painful problem is: In order to preserve the dignity and freedom of the individual in my society, I shall if I must pay the price of having some fail wholly to meet the challenge of freedom. I find it odd that a society which once a generation will send most of its young men against enemy bullets to defend freedom, will capitulate to a small handful of citizens unequal to its challenge (Stigler 1963:19).

This comes through in the fights he picked with other economists. Though most were on the political left, figures like Chamberlin clearly were not. Certainly there were more economists that he scorned in private than he attacked in print. He held no respect for his one time colleague, John Maurice Clark, but never bothered to attack him seriously in public³⁸. Stigler tended to hold his fire unless he saw his core beliefs endangered. He was not driven by a simple desire to defend neoclassical economics against varied and assorted heretical dragons. What economists like Sweezy, Galbraith, Means, Chamberlin, and even Leibenstein had in common were two-fold. They all developed economic frameworks where non-equilibrium or multiple equilibrium approaches undermined the theoretical foundations of a value free theory explaining income distribution in terms of marginal productivity. Each approach also had gained some wide-spread interest within the economics profession itself and/or with a wider audience. His opponents could be classified as actual rather than hypothetical dangers.

In this sense, Stigler and Means were the Tweedledum and Tweedledee of ideologues. They were bound together by their need to triumph over a diametrically opposite ideological position which ran deeper than economic theory or research and dribbled down into the type of core beliefs that defines each of us as individuals. Essentially they were bound together by their need to triumph over a diametrically opposite ideological position. In this sense, their long running battle over flexible versus administrative prices involved irreconcilable approaches. Because of the consequences of compromising what reduces to different moral visions, debate was essentially reduced to a certain pernicious type of rhetoric. In place of academic exchange (a positive sum game), ideology offers only the adversarial combat of the courtroom (a zero sum game).³⁹ No empirical evidence and certainly no logical argument could conceivably induce either one of these samurai paper warriors to make any but the smallest concessions to the opposing camp. This characterised what can only be described as a long running but ultimately fruitless contest between these two very different Georges.

With most of his other opponents however, Stigler adopted a basic hit and run policy. A devastating attack might then be followed up in an irregular fashion over the years with an occasional offhanded slap, as if chasing away a particularly annoying mosquito⁴⁰. This reflected the level of irritation a given contending theory created as well as the longevity of an opponent's ideas. Means represented one of the few (if not only) cases where Stigler was forced to hold his fire solely by the refusal of the *American Economic Review*⁴¹ to continue the debate in print. Neither Stigler nor Means were capable of mounting a convincing attack upon one another since the debate revolved around articles of faith rather than empirically verifiable suppositions. Galbraith, though enjoying a similarly sustained debate with Stigler, developed a different pattern despite its ideological motivation. What at first was an intellectual struggle quickly transformed itself into something approaching a comedy routine; each new Galbraith book finding itself comfortably in range of Stigler's withering wit.

Ideology then continued to play a determining motivation behind George Stigler's work despite his explicit denials to the contrary. No other rationale makes such consistent sense of his critical work⁴². Otherwise the range and intensity of his battles remain merely rooted in his personality. In the case under examination, the debates of the post-war era remain more revealing than any extensive excavation of Stigler's childhood. The exact nature of Stigler's underlying ideology can best be represented by three distinct but interconnected aspects. Taken together they form something of a *Reader's Digest* history of economics in the last half of the 20th century.

IV. Stigler and Post War Economics – The Three Pillars of Wisdom

Lack of conviction has no inner connection with scientific objectivity (Max Weber quoted in Stigler 1941: v).

Never has it been any less than true that the current generation of economists stand on the shoulders of giants, or at least hyperactive dwarfs⁴³. The remarkable post-war generation set the foundations for a modern discipline of economics as we now know it. The Keynesian revolution initiated a struggle for the very soul of the subject. Though the reaction against the new normative model of macroeconomics is more familiar, the accompanying struggle over the corresponding micro basis of economic analysis was at least as important. Debate here, starting with the marginalist controversies in the immediate aftermath of the war, focused on the future role to be played by the model of perfect competition. Given the seeming triumph of the Keynesian approach to macroeconomics, a parallel microeconomic revolution focused on some model of imperfect competition seemed inevitable. The failure of this micro alternative to take firm root led to a disparity between the dominant micro and macro paradigms. We can see this as eventually contributing to the micro-foundations debates of the seventies and the years to follow.

The post-war microeconomics debates came to define much of Stigler's approach to economics. Filtered through Stigler these issues formed what could be seen as the three pillars of post war economics.

- Redistribution (economic power) versus market competition (marginal productivity theory).

I guess he didn't like redistribution. He feels this down in his gut. That's all I can tell you (Conversation with Sam Peltzman, October 14, 1997).

This holds the key to understanding Stigler's critical work. In his gut he knew that rationalising redistribution posed a threat to individual choice and hence to individual liberty. For this reason, he reserved his most scathing attacks for those economists offering frameworks that detoured from the orthodoxy of perfect competition. In particular, those alternatives that offered multiple equilibria or non-equilibrium solutions. This is the common thread running through the analysis offered by such a diverse group as Sweezy, Chamberlin, Galbraith, Means and Leibenstein. At first glance these economists seem more distinguished by their differences than their similarities. However, each championed an economic approach which signalled the demise of unique equilibrium market solutions.

This becomes important only when examined in light of Stigler's core beliefs. Each alternative placed in peril the marginal productivity approach to distribution long championed by Stigler. The focus starts with his dissertation under Knight⁴⁴. I would contend that it remained as the driving forces behind his defence of orthodoxy. Not only is a reward proportional to marginal productivity the most efficient form of income distribution but ethical as well. '... I wish only to assert that the appeal of productivity ethics for income distribution commands wide support not only from the public but also from the economists when they are watching their sentiments rather than their words.' (Stigler 1982d: 19) Ethics, like everything else, becomes driven by utility maximizing behaviour. For Stigler this had to be a testable hypothesis rather than the sort of convenient assumption typically employed by most economists. "... I believe that it is a feasible and even an orthodox scientific problem to ascertain a set of widely and anciently accepted precepts of ethical personal behaviour, and to test their concordance with utility-maximizing behaviour for the preponderance of individuals." (Stigler 1982c: 36)

As Stigler characterises the post-war period, questions of distribution had come to dominate policy and economic questions as they had never done before.

Most recently the desire for greater equality has grown strong. Every policy is scrutinized for its effects on the distribution of income, and the results of this scrutiny weigh heavily in the final judgment of the desirability of the policy. A growing number of economists, indeed, implicitly argue that no other injustice equals in enormity that of large differences in income (Stigler 1949: 1).

It is just this insistence on equality of results that causes Stigler's unbending liberal heart the most anxiety. The moralist buried deep within sees this type of redistribution as undermining the soul of a good society.

... we are persuaded that an economic system will not help us to move in the right direction unless it grants both opportunity and responsibility to the individual: the very uncertainty of our ultimate ethical goals dictates a wide area of individual self-determination. ... On the liberal philosophy, it is necessary that all contestants begin the race at the same point, but it is fatal to require that they reach the finish line simultaneously (Stigler 1949: 8-9).

- Market efficiency (exemplified by Koopmans (1957) essays) vs. economic growth (Beveridge and Galbraith)

A Well, I'll eat it, said Alice, and if it makes me grow larger, I can reach the key- and if it makes me grow smaller, I can creep under the door: so either way I'll get into the garden, and I don't care which happens! (Carroll, 1956, pp.9-10).

In the immediate post-war period, public memory retained the images of market failure generated by the great depression. These contrasted sharply with the collective triumph that government had achieved in waging and winning World War II, an intervention verging well into the neighbourhood of social engineering. Growth became the prime imperative ensuring employment and economic stability. Given these requirements, issues of efficiency took a decided backseat. Trade-offs of efficiency for growth were seen as necessary sacrifices to prevent the collapse of post-war economies (and keep them insulated from the collective vision of communism). The manifestation of this, articulated industry policy, became attached to a variety of programs with varying objectives often justified by convenient, if not always rigorous, economic thinking. Almost inevitably such proposals have been controversial. For most economists, any government intervention cannot begin to be justified unless it can clearly be shown that markets are somehow defective in accomplishing some specific objective of economic coordination. This is the necessary, though far from sufficient, condition for taking any such policy proposal seriously. Such niceties may not be of concern to practising politicians who are often more concerned with doing something that seems to work without fussing about underlying reasons. They are especially averse to listening to objections that run strongly counter to their own predilections and what may seem to them to be their own common sense.

In all cases however, such proposed policies have been connected directly or indirectly with the concept of economic growth. The fact that discussions of industry policy is to some degree another way of discussing growth policy explains where the core of the problem is. Growth, as a subject to be tackled, has long been an issue assiduously avoided by many well known economists. Growth and the reasons for it was the motivation behind Smith's *Wealth of Nations*⁴⁵. His was a prescriptive policy for unshackling the potential of the English economy. Ricardo successfully deflected the focus of economics onto issues of distribution, a direction that economists found difficult to abandon entirely. This position continued to dominate, in spite of the general recognition that explaining economic growth, particularly insofar as it reduced poverty, remained the chief duty of an economist⁴⁶.

Modern growth theory, in the immediate post-war period, did not find its roots in a rediscovery of Smith's questions, but in one of market coordination. It raised the Keynesian question in a dynamic framework. In their work Harrod (1948) and Domar (1947) point to the lack of any fundamental endogenous mechanism which might prevent recurrent large swings in unemployment and capacity utilisation. Given the assumptions of their model, steady state growth was unlikely. The model suggested that growth could be boosted by increasing the investment to output ratio. But this was hardly the point of the work done by Harrod and Domar. Solow's (1956) solution spoke to the coordination

difficulty since the policy implications were not at the forefront of the debate⁴⁷. Given the nature of the questions raised it hardly comes as a surprise that after an initial flurry of interest in the early and mid sixties interest in growth models largely waned. The questions that naturally follow from accepting the earlier, more historical analysis of economic growth bears obviously on questions of industry policy both as regards existing and potential manufacturing sectors. Should the government do anything to extend the maturity phase of older industry either by extending life cycles or boosting technology? Or should they facilitate the shifting of resources into high growth industries? What could be done to encourage innovation which would bring about such high growth sectors? If such objectives could be accomplished in an economically neutral fashion, this would surely increase manufacturing output and thus boost growth. If you accept that markets accomplish this effectively, then there is little else to do than to sit back and let the market work its wonders. Economists, as well as policy makers of this early post-war era, had little to say about such topics as innovation. Successful innovation seemed to entail a random, unpredictable element which made it hard to model. Like pornography, they knew it when they saw it, but had little otherwise to contribute to our understanding.

Shifting growth theory, so that it nestled comfortably within the confines of the debate characterising economic efficiency, removed issues of distribution to the periphery of research. Efficiency replaced the more institutional requirement of political stability as the necessary basis for economic growth. Without the need to maintain a countervailing force against the use of private economic power, the rationale for government intervention dwindled. The coupled threat to individual choice was largely neutered. The two step process seems clear in retrospect. First Stigler (and his colleagues) in all their work extended the applicability of neo-classical analysis, particularly the reach of competitive markets⁴⁸. His work (1968) on oligopoly effectively eliminated that theoretical middle ground by vanquishing this lingering distraction inhabiting an ill defined region between monopolistic and competitive markets. Afterward sights could then be turned to undermining the importance of monopoly theory⁴⁹. Once markets are established as widely competitive, the motivations and costs of government intervention must undermine economic efficiency and growth. It comes as no surprise that George Stigler's work moved from pioneering empirical and theoretical pieces in *Industrial Organization* to path breaking insights in the field of government regulation⁵⁰. This happened not according to some premeditated grand strategy but rather evolved from his professional interests. My point is that these interests were always guided by a core and unalterable belief in freedom of choice as the foundation of liberty and morality.

- Collective choice (Samuelson and public goods) vs. individual choice (von Mises and private goods)
 - Now trends of evolution can change, and hitherto they almost always have changed. But they changed only because they met firm opposition. The prevailing trend toward what Hilaire Belloc called the servile state will certainly not be reversed if nobody has the courage to attack its underlying dogmas (von Mises 1980: 179).

Just as the Protestant Reformation inevitably called forth a regrouping and reaction by the forces of Catholicism, the widespread acceptance of collective action by mainstream economists and the public at large created something of a backlash. Friedrich von Hayek viewed the need for strategic regrouping amongst the considered voices of conservatism

to be urgent if the ever creeping encroachment on individual liberty was to be slowed. At his urging, thirty-six intellectuals, mostly economists, met at a resort hotel on Mont Pelerin, Switzerland, April 10, 1947. Amongst the invited group were two rising young economists (Stigler and Friedman) who had become friends and sometime colleagues as graduate students in Chicago and later in Washington D.C. during the war⁵¹. This conservative vanguard issued a resulting statement of aims that conveys an almost alarmist tone.

The central values of civilization are in danger. Over large stretches of the earth's surface the essential conditions of human dignity and freedom have already disappeared. In others they are under constant menace from the development of current tendencies of policy. The position of the individual and the voluntary group are progressively undermined by extensions of arbitrary power (Mount Pelerin Society 2003:1).

Seen in the context of the cold war, there was a clear ideological battle for the proverbial hearts and minds of mankind. It was not only the clearly professed collectivist of the Soviet Union that together posed an imminent danger, but also intellectuals of western democracies that were too understanding or too accommodating to dangerous alternatives. In this environment, a new, Keynesian inspired textbook, like the one produced by Paul Samuelson, and seen as innocuous today, could generate a firestorm around those institutions that chose to adopt it⁵². Economists like Samuelson and Arrow in their academic research seemed determined to find limitations and faults with competitive markets.

The traditional liberals, represented at Mount Pelerin, firmly believed that a free economy was necessary for a democratic society⁵³. Given what they all saw as a dangerous and almost unrecognised drift toward collectivism, they, like their socialist opponents, had to embrace the underlying courage of their ideas, the courage to be idealistic. The extent of the leap taken, from this position to that of a full-fledged ideologue, is hard to measure. A few steps in this direction need not lead to a deliberate attempt to slant research to achieve a given set of preconceived outcomes. Stigler himself was never as crude as this. Nor did he ever consciously try to achieve results that fit with his deeply held beliefs. But someone who believed so unequivocally in a certain goal would inevitably find evidence to support what he knew (in an almost a priori way) to be correct. It is hard to imagine what data, research, or evidence could have moved Stigler to fundamentally change his views about markets. To lose his faith would have fatally undermined the basis of his moral precepts.

Nor would Stigler easily surrender this idea of liberty being at risk from collectivist advances ruthlessly using that infamous Trojan horse of beneficial state services. But unlike other clearly confessed ideologues, Stigler refused to rest his case on some simple statement of faith or a claim based on anecdotal evidence. Consistent with his methodology, the assertion of imperilled liberty must be transformed into a testable hypothesis.

The proof that there are dangers to the liberty and dignity of the individual in the present institutions must be that such liberties have already been impaired. If it can be shown that in important areas of economic life substantial and unnecessary invasions of personal

freedom are already operative, the case for caution and restraint in invoking new political controls will acquire content and conviction (Stigler 1975:18).

V. Cold Warriors Fade Away – The Cost of Ideology

I dare say, I think that would have been Milton Friedman and George Stigler's attitude to McCarthy. One would have wished he didn't do it so loudly, he didn't do it so vulgarly, but they would have said that he was essentially right. In the same way that a lot of people said you know, you have to put up with McCarthy to keep communism in check. Stigler would have regarded McCarthyism as not being a threat (Conversation with Mark Blaug, June 1998)

Ideology subtly undermines the work of even the very best researcher. In George Stigler's case, we can most clearly see this influence in his critical work. He strapped on his battered armour and levelled his lance only in defence of his bedrock beliefs. When defending the major tenets of neoclassical economics he inevitably resorted to the adversarial legal tactics of the courtroom. George Stigler's overriding concern was to demolish opposing, and inherently dangerous, heretical doctrines. This led to a pattern of misrepresenting these doctrines, not with the intention to deceive but rather driven by an overwhelming need to triumph. He was a partisan, but an honest and ethical one. The problem comes with being a partisan, even when that describes a great economist stooping to conquer. The temptation to yield to these matters of the heart is great, but there is little evidence that it yields the best research or insights.

It cannot be doubted that the economists have imported egalitarian values into economics from the prevailing ethos of the societies in which they live, and they have not been important contributors to the formation of that ethos (Stigler 1982e: 13).

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Notes

¹ Potential rewards are both psychological and material. There is international acknowledgement for one's work in a manner limited to a virtual handful of practitioners. As Stigler sardonically comments, 'I concede to Samuelson, nevertheless, that to a scientist educated hands make more melodious applause than ignorant hands, but too often the educated hands seem to be sat upon by educated asses.' (1982b:67) However, this cannot be entirely divorced from more mundane rewards. The type of wider name recognition earned translates into higher fees for appearances, whether as an expert witness or a conference speaker. Stigler himself saw his own rewards rise. It would be an economist of a saint-like disposition dominated by non-monetary objectives who would easily pass up all such offers.

² Readers have not noted sufficiently the singular interconnectedness of these lectures. The implicit assumption in their structure is that most of his audience would be returning during the course of the five days. These lectures then build on each other to provide a complex vision of economics. They should not be read as separate and complete lectures on quite distinct topics.

³ Let me emphasise that Stigler is not unusual in having ideological motivations, whether hidden or not. Robert Tollison can't resist using Stigler's death as an occasion for writing an obituary strongly imbued with Hegelian 'End of History' overtones.

Rational choice theory can explain politics in a predicatable fashion. This was Stigler's lesson. Many have yet to learn it, but they will. All the voices to the contrary do not have the power to stop the onslaught of modern economic research which is pushing this paradigm further along each working day. We have probably come to the end of the history of economic thought (Tollison 1992: iv).

This is over the top, but at least somewhat reminiscent of Stigler's (1982f) 1964 *American Economic Association* presidential address which was not without its own 'Brave New World' flavour. Readers should keep in mind that this fervour doesn't restrict itself only to more conservative members of the economics profession. Self-styled left wing practitioners can be every bit as strident as their brethren on the right. It is Stigler's skill at demolishing his ideological opponents that sets him apart, rather than his pronounced adversarial approach to economics.

⁴ It is always difficult to know when and to what degree Stigler resorts to tongue in cheek statements, in part to insure a response from his opponents. He thrived on controversy but shriveled when ignored. In a 1964 debate with Paul Samuelson, he fiercely markets his views by setting out the strongest aspect of any given one of his positions. The context of course is the polarized presidential race of that year which reintroduced an ideological slant to debate. A slant that, after the McCarthy era, had become more muted. Stigler's statements recall Goldwater's famous acceptance speech at that year's Republican convention (Extremism in the pursuit of liberty is no vice; moderation in defense of freedom is no virtue). Market inequities become the price one needs to pay for eternal vigilance.

To gain a feel for the dynamic tension between Stigler's classical liberalism and the increase and centralization of state power in the post-war period read his defining essay "The Economists and Equality", where he quotes de Tocqueville approvingly:

Every central power, which follows its natural tendencies, courts and encourages the principle of equality: for equality singularly facilitates, extends, and secures the influence of a central power (de Tocqueville quoted in Stigler 1949:11).

⁵ For Hobbes, individuals cede political power to a monarch to protect themselves from the uncertainties and inequities of power exercised capriciously by private individuals, the anarchic rule of nature.

⁶ Based on his unyielding ideological stance, McCloskey refers to Stigler as a Marxist, "...George Stigler, America's leading vulgar Marxist economist" (McCloskey, 1997: 361). It might be more accurate to designate him as a Stalinist for the sort of market fundamentalism he displays. Crude Marxists prefer to reduce the world to an economic rationale. Everything else can be dismissed as mere superstructure which simply reflects the underlying forces of production of any economy. In a not dissimilar way, all explanations for Stigler reduce to one of market forces. Just as an ideologically committed Marxist knows the answer to any question before commencing an investigation, so too did George Stigler. I suspect McCloskey used the Marxist term to describe Stigler, not only because of its accuracy in characterising an aspect of his scientific approach, but also because she suspects how much such a designation would have irked Stigler.

⁷ Though by itself an interesting question, it is peripheral to the focus of this paper. In this section I find it useful to show that this type of debate did occur rather than trying to evaluate whether such an inquiry was or was not productive.

⁸ What constituted a key resource was soon seen as something of a historical artefact by the time that Alfred Marshall published his definitive text.

When Mill was growing up, England was still oppressed by the difficulty of obtaining raw produce and this was giving a bias to distribution in favour of those who own land, and against those whose income is derived from labour and who have many mouths to feed ... Since then it has dwindled; but Mill was always haunted by the fears which had oppressed Ricardo and Malthus (Marshall 1982: 316).

⁹ The amount of rent depends on the fertility of land. The least productive or marginal piece of land receives no rent at all. In this case, the market price of any produce equals its value. Since the value of the output is lower on the more fertile land, price and value must diverge.

¹⁰ Ricardo adjusts this simple idea of embodied labour for differences in factor intensities, depreciation of capital, and roundaboutness of production. None of these effects the basic ideas presented here.

¹¹ Whether Ricardo did or did not have a labour theory of value (and what exactly that might mean) has been much debated over the years including by George Stigler (1954). Stigler quite naturally argued against the proposition. It is not my purpose to comment on this debate.

¹² Labour has both a natural and a market price. If these are not the same, the difference, using Marshall's terminology, could be called a quasi-rent. The natural price represents a fair exchange i.e. receiving as a return what a good or service is worth. Any excess above this amount must represent a temporary supply and demand relationship. Like land, if labour is temporarily a scarce resource the owner of that labour can demand a payment (or rent) simply as a requirement to obtain access to it.

The natural price of labour is that price which is necessary to enable the labourers, one with another, to subsist and to perpetuate their race, without either increase or diminution (Ricardo 1923: 52).

¹³ It is clear for Ricardo that economic power derived from the ownership of key, scarce inputs, not only results in arbitrary and inefficient distribution patterns but taken to an extreme, erodes economic growth.

... long before this state of prices (zero profits) has become permanent there would be no motive for accumulation; for no one accumulates but with a view to make his accumulation productive, and it is only when so employed that it operates on profits (Ricardo 1923: 72-23).

¹⁴ It might be argued that without the inducement of rent there would be less incentive to improve one's property. Such an analysis would indicate a basic confusion. As long as there is private property, one may reap the benefit of any improvements. These benefits however spring from the actual productive use of the land. Rent is the unadorned tribute paid for access to that land. The apparent confusion between the maintenance of property and the amount of rent paid, is due to the potential separability between the reward provided strictly for ownership and the fact that the owner can also inhabit other, more productive roles.

¹⁵ This whiff of Ricardian rents continued to persist even when Ricardo's own analysis remained largely a province of genteel historians of economic thought. Keynes saw interest earnings in much the same way as Ricardo saw rent.

Interest today rewards no genuine sacrifice, any more than does the rent of land. The owner of capital can obtain interest because capital is scarce, just as the owner of land can obtain rent because land is scarce (Keynes 1964: 376).

¹⁶ Marshall seems intent on saving Ricardo from himself. In typical fashion, he would prefer to misinterpret his meaning rather than directly oppose his ideas. This resolution lacks substantiality since Marshall clearly represents the opposing efficiency stream of analysis that has always shied away from issues of economic power.

If we admit that it is the product of labour alone, and not of labour and waiting; we can no doubt be compelled by inexorable logic to admit that there's no justification for Interest, the reward of waiting; for the conclusion is implied in the premise. Rodbertus and Marx do indeed boldly claim the authority of Ricardo for their premises; but it is really as opposed to his explicit statement and general tenor of his theory of value, as it is to common sense (Marshall 1982: 587).

¹⁷ Mill considers this similar to a wage but not exactly analogous since it is not related directly to individual effort but depends in part on the prevailing interest rate and the amount of capital invested. However it might seem more logical to consider the return for superintendence as equal to what one would have to pay a manager to perform the same task, perhaps adjusted for any differential return from not being required to monitor oneself. This would provide a rough approximation to the opportunity cost of superintendence.

¹⁸ This of course distinguishes Marx from either the classical economists or their successors. The production process in force is not some mere manifestation of neutral technology.

We have seen that the capitalist process of production is a historically determined form of the social process of production in general. The latter is as much a production process of material conditions of human life as a process taking place under specific historical and economic production relations, producing and reproducing these production relations themselves, and thereby also the bearers of this process, their material conditions of existence and their material relations ... (Marx 1967: 818).

¹⁹ Profits for Marshall cease to be an undifferentiated lump.

Finally we may regard this supply price of business ability in command of capital as composed of three elements. The first is the supply price of capital; the second is the supply price of business ability and energy; and the third is the supply price of that organization by which the appropriate business ability and the requisite capital are brought together. We have called the price of the first of these three elements interest; we may call the price of the second taken by itself net earnings of management, and that of the second and third, taken together, gross earnings of management (Marshall 1961: 313).

²⁰ Ronald Coase (1994b) has an informative as well as delightful essay on Marshall's childhood. In particular he sketches the role played by his stern father, described by Alfred Marshall himself as exerting an "extremely severe discipline" (Marshall quoted in Coase 1994b: 125). Coase characterises this childhood as a partial explanation for Marshall's compulsive shying away from confrontation, for what might be characterised as an intellectual flinch.

That was Marshall's character, which really wasn't very admirable. But it is understandable. I argue it's the way he was brought up by his father... I mean you can always hear the swish of the birch (Coase conversation with author, October 1997).

²¹ Marshall displays an unfortunate predilection for the use of the term normal and applies it to profits as well as wages. His usage seems mainly time specific. Normal wages are somehow a general consensus of what is a fair payment given long run prevailing market conditions. They must allow a labourer to achieve a decent standard of living as defined by general societal standards. A similar treatment is afforded profits.

²² It is important to emphasise the incongruity in Marshall's thought. Rent was a windfall gain but interest was not. Despite this assertion, landlords seem to show the same virtue as any other rentier. Indeed a portfolio shift from land to bonds would seem to indicate no change in virtue whatsoever.

... there is a continuous gradation from the true rent of those free gifts which have been appropriated by men, through the income derived from permanent improvements of its soil, to those yielded by farm and factory buildings, steam engines and less durable goods (Marshall 1982: 629).

²³ Stigler was not one to change his mind. This is a matter of dispute, but my reading of the available evidence is that unlike Keynes he was not one to fundamentally change his mind when confronted with facts. It is true he moved away from a more conventional view of monopoly or of market failure. But in each case this was more a shedding of peripheral viewpoints which proved inconsistent with his market driven world view.

I think he went to a more satisfactory position, absolutely. The earlier view, as you say, he picked up, that was the literature, he hadn't really thought it through. I mean, you know, he hadn't thought through everything at that point, and he hadn't really thought it out. As he thought through more and more, I think he came to a more satisfactory thesis on the issue. I think you're absolutely right, he did (Conversation with Gary Becker, Chicago October 1997).

If anything, Stigler saw a willingness to change one's mind as a sign of mental weakness, something that a good scholar acting as evangelist would look upon with disdain.

A second and related trait of scholars is that they seldom change their minds. We must remember that we are discussing scholars with good minds, and they would usually lose in a swap of minds. It was most unusual when Keynes's *General Theory* led Alvin Hansen, a hitherto conservative economist of mature years, to abandon his previous scientific position and become a vigorous exponent of Keynesian doctrine (Stigler 1988 :210).

²⁴ As Stigler notes, the applicability of Euler's theorem to the distributional exhaustion of output coincides with a disappearance of the entrepreneur in a steady state economy.

... under what conditions does the entrepreneurial role disappear? It disappears, we know, in the completely stationary economy, where the stocks (not the rates of supply) of productive resources, the technology, and the tastes are rigorously fixed. In such an economy the same things are always done in the same way by the same men. Everything is reduced to routine; the captains of industry – and their innumerable adjutants – are in Nirvana (Stigler 1941: 384).

²⁵ Friedman and Savage in their 1948 article have a much different take on issues of uncertainty and risk. George Stigler would have accepted his colleague's view in this matter.

I believe that the only theory of probability that can hold water is personal probability, the kind of thing that Jimmy Savage helped develop. If you take that approach, you can't distinguish uncertainty from risk. There's no break point. (Conversation with Milton Friedman August 1997).

²⁶ Stigler clearly disliked the ideal of income redistribution. This seems to flow from his belief in the ethics of productivity distribution. He agreed that:

To hurt in any degree the interest of any one order of citizens, for no other purpose but to promote that of some other, is evidently contrary to that justice and equality of treatment which the sovereign owes to all the different orders of his subjects (Smith quoted in Stigler, 1982e:11).

²⁷ The idea is one of eternal vigilance. One wrong step takes history down a slippery slope inevitably leading to some form of totalitarianism.

It might not be a perfect system; nothing was perfect; but what he objected to, was, the insertion of the wedge. Under the Prerogative Office, the country had been glorious. Insert the wedge into the Prerogative Office, and the country would cease to be glorious. He considered it the principle of a gentleman to take things as he found them; and he had no doubt the Prerogative Office would last out time (Dickens, 1927: 481).

²⁸ It is clear that part of the objective of the 'De Gustibus' paper co-authored with Gary Becker (1977) is an attempt to rehabilitate the role of advertising by substituting consumer sovereignty for producer power.

This approach, though, restores consumer sovereignty.

That's what we tried, among other things to do. We thought that's what it could accomplish, as well as help explain some parts of advertising. We got some different implications in areas like advertising in competitive cases as well as monopoly and things of that type. I think that's true. It did. It doesn't mean necessarily everything is for the best with advertising, but at least you can discuss it in a framework that is similar to the usual framework and talk about consumer sovereignty and get an efficient outcome. Or not, which with the ordinary approach you really had to do handstands to achieve. It's very hard to do this if you assume there are shifting preferences. I agree (Conversation with Gary Becker, October 1997).

²⁹ Coase (1994) makes a strong case for identifying the market for ideas with the market for goods. He makes the point that the same people who urge a free market in ideas, tend not to support a similar free market in goods and services.

The bulk of mankind will for the foreseeable future have to devote a considerable fraction of their active lives to economic activity. For these people, freedom of choice as owners of resources in choosing within available and continually changing opportunities, areas of employment, investment, and consumption is fully as important as freedom of discussion and participation in government (Aaron Director quoted in Coase 1994:66).

³⁰ Though economists argue strongly for increased trade, a shift from directed to free trade is bound to create losers as well as winners during the adjustment period.

Suddenly, the much-maligned quota system looks like a lifeline. Rather than helping developing nations, the phaseout of quotas creates a Darwinian survival of the fittest – or, as critics of globalization would have it, a race to the bottom, where wages and benefits are certain to be sacrificed in a frantic effort to retain market share. When quotas on baby clothes and soft luggage ended last year, China's exports of baby clothes to the U.S. leaped 826% and its soft luggage shipments rose fivefold. In Thailand, the Philippines, Indonesia, and Mexico, production of those products dropped by half (Magnusson et al. 2003: 24).

³¹ We often find Stigler in the strange position of pushing propositions beyond their empirical anchors. So he was very much this kind of a person who would say, >I'll state this result as strongly as I possibly can, even if it's not completely justified by the evidence.= I mean I think at some level he said to himself, >I'll make the strongest case I can and then if that stirs people up = In many ways he was using a bully pulpit that he had acquired from his stature in the profession. He was able to do that (Conversation with Sam Peltzman 7 October 1997).

³² The resolution ultimately is to raise the underlying market distribution from the narrow bound of efficiency to the more glamorous realm of equity and justice. With the fairness of marginal productivity theory reduced to a testable hypothesis, scientific objectivity is once again bleached free of any blatant ideological tint. At a more basic level, freedom is successfully defended against the encroaching forces of totalitarianism.

He very much believed that the role of economists in formulating or moving policy was overstated. More than I do. It's not something I agree with him on. He would always take this very strong position. We were part of what Marx would call the superstructure. Bought by one side or another and we really didn't have an independent role to play in the evaluation of policy. And yet he had this belief that the world should be a certain way. It's clear. You know, he was a believer in markets. He didn't like the sugar subsidy for sure and I don't know how you really square it ultimately, with his position that this is the optimal way to redistribute (Conversation with Sam Peltzman 18 October 1997).

³³ Even some of his closest colleagues note the predictability, at the very least, of some of Stigler's work. It seems to me that when you get to his later work, say with Becker, you know what the conclusion is going to be before you start the argument. In a sense, you're assembling arguments to support a conclusion. I mean, that may be unkind and untrue but it's an impression. And, it's even more so in the work of Richard Posner. Have you read any of that? It seems to me that the plot is always the same, and the characters stay fixed (Conversation with Ronald Coase, October 4, 1997).

³⁴ *The Moral Sentiments* moves away from simple self-interested actors and the anonymity of market relations. The role of trust starts to dominate. This though undermines the clean cut price theory supporting George Stigler's view of distribution. It introduces an unwanted element of ambiguity, antithetical to his objective. Throughout his career, George Stigler was at pains to separate decisively Smith's two great works.

So in lots of ways, George Stigler was very dishonest, I don't know if he realised the extent, in never discussing the relation between these books. He should really have discussed it. It was part of Adam Smith's thought. If you want to understand Adam Smith, you have to try and understand how it is that he left these two books floating and gave you the job of relating them and I think it is very difficult (Conversation with Mark Blaug June 1998).

You know my argument [about the relationship of *Wealth of Nations* and *Moral Sentiments*] is the opposite? He was sort of critical of Adam Smith in a way that I didn't think was justified (Conversation with Ronald Coase October 4, 1997).

³⁵ Stigler violated his own narrow assumption of self interest in his own actions. Not only was he a devoted family man, but he cared deeply about economics and the economics profession itself.

He very much identified with the profession. He cared whether the profession moved ahead. So much of his work dealt with issues concerning the profession. If you look at my catalogue, you'll see what I mean. There are a lot of categories under 'Profession'. He

cared about the profession. He identified with it. He identified with the University of Chicago. He cared about this. Not just about his own progress. If it was good for the Department, he really cared. If the Department tried to get somebody, whom he thought would be good, he worked on it. If the Department was in danger of losing somebody, whom he felt would be a loss, he cared and he worked on it. He really had this funny identification. What do I care if the Department moves ahead? I only care if Claire Friedland moves ahead. But George really cared.

And he cared about the profession in the same way. What he thought about monopolistic competition, *aside* from it being inconsistent with neo-classical economics, was that it wasn't productive. He felt that very much the same way about game theory. He didn't question it as theory. How can you question it? There is nothing to question. Strategies are all very fascinating. If they do this, I'll do that, and if they do that, I'll do this. How can you argue with it? It is purely theoretical. But it didn't seem to move the profession along. It didn't seem to have practical applicability. There wasn't much in the way of testing. Maybe some people *did* feel that they were testing it. But there was nothing that he was impressed with. That's how he felt about this extremely mathematical stuff too (Conversation with Claire Friedland 6 October 1997).

³⁶ Stigler had to make this assertion if ultimately market choice was to be defended with any degree of success. His economic arguments could not be distorted by desired ideological outcomes. Yet this role of economist as dispassionate scientist was asserted rather than proved. What evidence there is tends to move in the other direction.

This is a popular Friedman view too. And it's wrong. I say that flatly. But it's interesting that just recently - I have somewhere a National Bureau Yellow Jacket manuscript of a research study by Richard Fuchs from Stanford University. Jim Poterby from this university and Allan Krueger of the Woodrow Wilson School at Princeton and they did an extensive sampling of economists in two areas of economics. Their finding is the opposite of Milton Friedman's. There was a very considerable degree of consensus on factual matters. However what they found was the difference in their policy recommendations were - I'm using your language, not their language - ideologically premised values. They were not fact driven. Now there are a few cases like the minimum wage or Ricardian comparative advantage where you can almost get certain unanimity, free of ideology. But these are exceptions in my opinion (Conversation with Paul Samuelson 23 October 1997).

³⁷ There is a strange contradiction lurking in the background here. Stigler's defense of liberty is conditional or at least has priorities. To fight encroaching collectivism, he is willing to see certain liberties curtailed. As Samuelson points out (Conversation with Paul Samuelson, October 1997), Stigler and his closest colleagues were ready to acquiesce to the version of McCarthyism sweeping university campuses in the 50s (though not to its mirror image attempting to curtail more right wing opinion in the 60s).

And I remember for years after I left the University of Chicago, when they were contemplating influential appointments they would ask me about the person, >Is he really sound? In fact, Milton once showed his naïveté to me, but it wasn't about appointments. He said, Tell me the truth, is Galbraith a Commie? (Conversation with Paul Samuelson October 1997).

³⁸ See Thomas Sowell (1993) for recollections of some of Stigler's pointed classroom remarks.

³⁹ Stigler (1988:133-34) makes the convincing point that an economist that goes to Washington loses his credence as an economist. This extends to the role of expert witness. (Though he makes a point in his autobiography of his unwillingness to go to Washington he badly understates his willingness to perform in legal proceedings.)

Is the expert honest? At very best, probably as honest as is possible in a process in which truth is sought by the vigorous presentations of opposing views, and where any admission by one side is heavily overemphasized by the other side (Stigler 1988:133).

The problem is Stigler doesn't either recognise or acknowledge that his adversarial approach to economic theory allows the same court room problems to intrude into academic life.

For lawyers to write tendentious briefs in an adversarial environment presents few problems; no one expects, or demands, the truth from only one side. But for academics to

twist facts, no matter how brilliantly, to fit the preconceived interest of their clients is disturbing (Weinstein 1992:75),

⁴⁰ The classic example is an almost guerrilla war conducted against the kinked demand curve, one of Stigler's earliest campaigns and one that established him as a boots and all opponent. After his 1947 paper, he returned to the topic in one form or another. (Interested readers may dive anywhere into his irritated diatribe (1982a) or examine his footnote of scorn (1992: 456) for a good illustration of obsessive behaviour). Sweezy for his part showed no interest in engaging in this debate. 'I haven't read it (Stigler's 1947 paper on the kinked demand curve). I don't think I ever did. I don't think I was aware of it actually. I didn't pay much attention to Stigler in those days. I was probably in one of my ultra-left moods, or something like that.' (Conversation with Paul Sweezy October 13, 1997)

⁴¹ More precisely, both Stigler and Means would have carried on indefinitely. However the then editor of *The American Economic Review*, George Borts, perhaps foreseeing the inherently irreconcilable differences between the two camps, ended the increasingly tenuous debate by offering to commission a third party to evaluate the state of the existing debate.

⁴² I can only quote Stigler to defend my benchmark of consistency and comprehensiveness.

The test of an interpretation is its consistency with the main analytical conclusions of the system of thought under consideration. If the main conclusions of a man's thought do not survive under one interpretation, and do under another, the latter interpretation must be preferred (Stigler 1982g:69).

⁴³ This well known quote by Voltaire seems largely forgotten by the current generation of economists who almost believe that they have boots trapped their way to enlightenment.

⁴⁴ Marginal productivity as the basis for distribution remained the clearest break that Stigler made from his revered teacher, Frank Knight. Stigler's refutation of Knight's (1976) famous essay "The Ethics of Competition" couldn't be clearer.

When I first read this essay a vast number of years ago, as a student writing his dissertation under Professor Knight's supervision, you should not be surprised to hear that I thought his was a conclusive refutation of "productivity ethics." When I reread it a year or so ago, I was shocked by the argumentation (Stigler 1982d:18-19).

⁴⁵ For discussion of growth theory during the formative years of economics see Brewer (1995).

⁴⁶ We often forget the number of economists that were first drawn to the subject by their desire to aid the less fortunate.

The question [of the elimination of poverty] cannot be fully answered by economic science. For the answer depends partly on the moral and political capabilities of human nature, and on these matters the economist has no special means of information: he must do as others do, and guess as best he can. But the answer depends in a great measure upon facts and inferences, which are within the province of economics; and this it is which gives to economic studies their chief and their highest interest (Marshall, 1982: 3).

⁴⁷ See Solow (1994) for a good summary of his understanding of the debate and what he was attempting to do in his work.

⁴⁸ Part of Stigler's idea of marketing an idea was to push it to its extreme. He would nail his flag to an extreme position and relish any subsequent attacks. For him, the worst response was no response.

He was a bit of a provocateur. He liked upsetting people. I told you he wrote that column for Business Month. After a year went by, nobody had criticized it. They didn't get any letters to the editor. And you know, he had said so many outrageous things, that insider trading is really Ok, that sort of thing. He said things meant really to try to upset people. Well, he gave it up. He wasn't having any fun. He wanted people to criticize his ideas and then he wanted to come back with his rejoinders. You know, he wanted to have a little fun (Conversation with Claire Friedland October 1997).

⁴⁹ In his autobiography, Stigler describes (1988: 91-122) his journey from embracing the commonly accepted wisdom of the profession (and of his teacher Henry Simons), to believing that issues concerning monopoly power were at most only of minor importance. He came to describe antitrust actions as largely wasted effort. In this sense, an economist simply had no professional role to play in the political process.

I conclude – and perhaps I am alone in concluding-that when the economist goes to Washington, he deserves no more credence, and no less, than any other political appointment, and it is mildly deceptive to address him as Doctor or Professor (Stigler 1988:135-36).

Stigler's whole-heartedly embrace of Harold Demsetz' work on regulation (1968) fails to surprise given this context. This approach undermines the attention paid to the issue of natural monopolies by providing competition in bidding for contractual rights as an effective substitute to competition within the marketplace. Stigler doesn't deny the existence of monopolies but raises his ever sceptical voice in terms of the attention economists have lavished upon them.

The strength of the competitive force does not imply that there are no monopolies or that they are always transitory, although in century-long periods they are indeed transitory. What is implied is that the processes of obtaining, defending, sharing, and eliminating monopoly positions are more important and interesting than the exercise of monopoly power (Stigler 1988: 164),

⁵⁰ Given his passion for consistency, Stigler was forced to argue for the efficiency of the political marketplace. In this sense, economists had no more justification to meddle in political outcomes than in market results. See his posthumously published work (1992), "Law or Economics?" for a clear exposition of this position.

⁵¹ Stigler was consistently conservative in all that he did. As his long time research associate, Claire Friedland pointed out, "He was the only person in Chicago during the late sixties still wearing a homburg." (Conversation with Claire Friedland, October 1997) The consistency of his political positions does seem to point to a specific ideological stance.

I never heard George make jokes about Ludwig von Mises = extremism, although there were a lot of jokes made at the time, but George was generally on the right side of most issues (Conversation with Paul Samuelson, October 1997).

⁵² Textbook debates within a department or university seem driven by ideology or perhaps theoretical issues that matter to economists more as professionals than as teachers. Thus the new wave of post-war Keynesian textbooks met resistance from the old guard as well as politicians and businessmen keen on sniffing out anti-free market (communist) influences.

I [Carolyn Bell] occasionally met a student who asked if it was true that the book [Samuelson] was communistic and if she would be required to read that radical, Keynes. Like the parents who prompted these questions, many economics faculty condemned the new approach, sometimes in a destructive power struggle. One highly thought of institution was still having difficulty in recruiting in the early sixties because its senior members had for so long adamantly refused to consider appointing anyone using Keynesian analysis (Bell 1988: 147).

⁵³ Much of this account of that first Mount Pelerin meeting comes from the PBS produced program *Commanding Heights*. The show interviewed some of the surviving original participants. Milton Friedman remembers it as a meeting of 'good eggs'. He also recalled a heated debate on distribution where von Mises turned on the other participants by denouncing them as 'a bunch of Socialists.'