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ABSTRACT

Economic actors command political power as well as economic power. It is used to the same effect to create monopolies and oligopolies. The two powers can be combined; e.g., aside from monopolies based only on economic power or only on government intervention, there are especially powerful monopolies that command both powers. The stability of the various power holders is related to the nature of their power base; pure economic power is particularly *unstable*. However, economic power can be more readily amassed than interventionist power, which violates norms, and has a sharply declining marginal utility. When the effects of interventionist power are added to those of economic power, economies such as America, which are often classified as quite competitive, turn out to be much less so.

The idea that powerful economic actors may use their power not only in the marketplace but also to achieve economic ends by influencing the direction of government actions has been advanced with regard to several areas of economic behavior. Schattschneider (1935) found that tariffs were set not in line with some ecomomic logic but that they reflected the results of a political struggle between some businesses and others 'too inert and sluggish to find political expression'. Stigler (1971) argued that the regulatory policy of the government often represented not the public's needs but powerful economic units. A significant body of economic literature has further substantiated and developed this thesis (Peltzman, 1976; Pashigian, 1984, pp. 1–24; Toma, 1983, pp. 103–16; and Kim, 1984, pp. 227–39). Finally, a literature on rent-seeking (Tullock, 1967; Krueger, 1974; Posner, 1975; and Buchanan, Tollinson, and Tullock, 1980) analyzes the social costs that are caused by economic actors seeking favors from the government. Aside from distortions that government interven-

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tion causes in the market place, resources are wasted in competing over who will gain the favors. *This* competition adds nothing to the efficiency or productive capacity of the economy.

Here this kind of political economic analysis is extended to the study of industrial organization. Specifically, government is expected to produce *pseudo-concentration* effects, i.e., to generate effects comparable to those caused by industrial concentration, monopolies, and oligopolistic collusion – without there being necessarily any actual concentration or collusion among firms. By contrast, the existing economic literature on the subject focuses almost exclusively on intra-economic and not on political means for gaining monopolistic profits. The competition among rent-seekers is not free but is itself largely oligopolistic or monopolistic; rent-seeking, rather than absorbing the monopolistic gains, adds to them. Finally, some groundwork is laid for the construction of a general theory of political economics.

1. *Industrial organization: the intra-economic approach*

One cardinal attribute of the imperfectly competitive world is the existence of economic power. 'The essence of perfect competition is in the utter dispersion of power' (Stigler, 1968, p. 181). He adds that power is 'annihilated, just as a gallon of water is effectively annihilated, if it is spread over a thousand acres'. However, in the second best world some sellers or buyers have varying measures of economic power. This is often defined as an ability to raise prices above marginal costs and hence attain a larger profit than would be possible in unfettered competition. Monopolistic profits are described either as the result of economic power or an indicator that it is present.

The most important means employed to gain power to control the market is concentration. While one small firm cannot command power, a buyer or seller can, if large as compared to the total market size. Blocking the entry of potential competition is often listed as an important corollary power; without it control of market shares or concentration may not last long, especially if entry costs are low compared to potential profits (Baumol, Panzar, Willig, 1982; Shepherd, 1982, p. 616; Greer, 1980, pp. 111–12; and Needham, 1969, p. 84).

When there is a single seller or single buyer, i.e., 100 per cent market share, it is said to command monopolistic or monopsonistic power. When there are but a few buyers or sellers, they are expected at the least to command such power in *potentia*, depending on whether or not they collude. When a group of oligopolistic firms actually cooperate with one another, they are sometimes referred to as a shared monopoly. Most studies of oligopolistic behavior proceed from this starting point to

examine the strategies that lead some firms to collude while others do not, and the means used to collude as well as to block new entries into 'their' market.

The strategies and means typically studied tend to be intra-economic: they are actions by economic actors using economic means to economic ends. Strategies are devised and applied by corporate executives, their lawyers and banks. The means employed may entail predatory pricing, price leadership, advertising campaigns, early marketing of new products, overt and covert agreements, rule-of-thumb pricing, and so on (Scherer, 1980, ch. 6). An excellent study of dominant firms emphasizes the use of non-price strategies including product proliferation, R&D, vertical integration, diversification and distribution channels (White, 1983). Even the heretical analysis of Galbraith (1967) focuses on the intra-economic power of large firms, which are said through advertising and planning to shape and control consumer demands rather than respond to them. *Although the study of industrial organization moves economic analysis from perfect competition to models closer to reality, it still basically treats the economy as a world set apart, free from political factors.*

The government, to the extent it is considered at all, is typically considered as the source of antitrust policies, i.e., as a force which seeks to limit the concentration of economic power. 'The government assumes the task of providing the legal framework and certain basic services prerequisite to the effective operation of a market economy' (McConnell, 1975, p. 102). 'A second model, that of market *failure*, is the proud child of economists. It portrays the government as a benevolent *deus ex machina* [whose role is] . . . to correct these imperfections or "market failures"' (Navarro, 1984, p. 7). The government in such discussion is not typically considered as a main source of industrial organization (beyond such legal acts as granting patents and issuing licenses); as a major means of gaining and maintaining economic concentrations forming monopolies and oligopolies; as the most commonly used and most effective way of capturing and holding on to market shares; curbing entries of new firms, and for collusion among powerful economic actors. The term powerful economic actors here refers to economic units, whether firms, labor unions, or occupations, if they constitute a monopoly or a monopsony, an oliogopoly or oligopsony; it contrasts with competitive economic actors.

To the extent that the use of the government by powerful economic actors is ignored, the analysis also disregards one of the most effective ways of gaining so-called excessive profits, not by setting prices above marginal costs, but by charging market prices and *using the government to acquire one or more input factors* at costs substantially below those competitors must pay. These include gaining capital at below-the-market interest rates, for instance via industrial development bonds; company or

industry-tailored tax exemptions or tax credits; cheap labor via government financed work-study programs; and exemptions from such laws or regulations as those concerning minimum wage or immigration; outright subsidies; rights to benefit commercially from government-financed R&D; purchase of government assets at fire-sale prices; and accelerated depreciation schedules which favor capital-intensive industry over service and R&D firms.

Reference is not to frequently reported market distortions but to the use of the government by some powerful economic actors to enhance their profit as compared to that of weaker firms. For example, of the billions in tax benefits DISC provides to American exporters, 84 per cent accrued to corporations whose assets exceed $100 million (Lang, 1976). Gaining excessive profits in this way, rather than by driving prices up, makes the gain less visible, which is desirable for the beneficiaries of such power in a political economy.

Last but not least, the focus on intra-economic means to the neglect of political means, reaches erroneous conclusions about the extent to which an economy is competitive. For example, when concentration ratios are used as a measure of the competitiveness of the American economy, it is possible to argue that it is largely competitive. However, when one also studies the use of political means to curtail competition, the picture changes significantly.

2. *Interventionist power*

The vast economic literature on the ill effects of government intervention in the market pays relatively little attention, for good reason, to the forces that drive the government to intervene. For many analytic purposes it does not matter if the government intervenes in order to enhance beauty or justice, or to help politicians to gain re-election; the resulting market 'distortion' is the same whatever the motive, with the important exception, said to be limited in scope, when the government acts to correct free market failures. It is hence common to refer to *the* government without asking who drives it.

To the extent that there is discussion as to who is behind the government's interventions, it tends to focus on emerging social groups, such as minorities and women, and their inflationary demands (Bell, 1975, p. 100; Friedman, 1982, p. 23); politicians and bureaucrats (Downs, 1967; Niskanen, 1971); and special interest groups (Olson, 1982).

Studies typically seek to explain the scope of government activities and the distorting effects such activities have on the free market, not their effects on the relations among economic actors in imperfectly competitive markets. By contrast, Schattschneider, Stigler and others' studies of tariffs

and of regulation seek to explain the use of the government by powerful economic units to *their economic* ends.

Political power is the ability of non-governmental units to guide the actions of the government. It is assumed that the direction the government takes is *in part* affected by units external to it, especially, interest groups. Other factors that affect its direction include values and goals to which the government or its personnel are committed for moral or ideological reasons, and self-interests of politicians and bureaucrats. Political power is assumed in many text-books on democratic theory to be evenly distributed among all citizens, as in one person, one vote; however, this is hardly the way political science sees the actual working of any political system (Lowi, 1969, Ornstein and Elder 1978). In all politics, power is unevenly distributed within society and among economic actors. In democracies each person may have a vote; however, various economic actors provide large parts of the resources necessary to reach the voters. Most importantly, numerous government decisions are made between elections in consultation with and under the influence of interest groups, unbeknown to most voters and not subject to their approval.

While it is true that to some extent the various wielders of political power neutralize one another because they pull in opposing directions, it does not follow that therefore they will have no net effect (cf. Key, 1958; Thurow, 1980), or mainly a stalemating one (Riesman, 1950, pp. 244–8). No two groups have the same amount of political power and hence a net tilt results from a tug of war among groups. Moreover, often a group has hegemony in one limited area: for instance, the National Rifle Association over gun control, and farm lobbies for many years over farm subsidies.

The scope of the uses of political power is vast; it may be used to support various items of the so-called social agenda (such as abortion), foreign policy (such as support for the IRA) and scores of other matters which are basically not economic in nature. At issue here is the use of political power by *economic actors* for *economic purposes.* When one refers to political power the language seems to force one to think about governmental power, or power used to influence the government. To keep attention focused on the use of governmental power by economic actors for their ends, the term *interventionist power* is used. Thus, corporate interventionist power refers to the use of the government by corporations to interfere in the economy in line with their goals. The term applies equally to other interest groups, such as labor unions' interventionist power or farmers' interventionist power.

3. *Economic concentration and interventionist power*

The two most important observations about the application of interventionist power are: (1) its exercise insures *economic* consequences comparable to those gained through the exercise of economic power by one economic actor over others; and (2) interventionist power can be applied *whether or not* the actor commands economic power. The term *interventionist concentration* might be used to call attention to the ability of a firm to control large shares of the market *without* it being a large or dominant firm; to a firm's ability to block entry of new firms into a market without being a monopoly or an oligopolistic firm; and to a firm's ability to generate excessive profits without raising prices above those that would be set by perfectly competitive markets. In short, economic actors can achieve various effects often attributed to concentrations of economic power by the use of political means.

The theorems just stated are in opposition to the left notion that political power merely or largely reflects economic power. While it is true that if an actor commands economic power it might be converted into interventionist power, economic power is *not* a prerequisite for interventionist power, and interventionist power is often the *source* of economic power. While many actors command both kinds of power, there is *no necessary* correlation between the two.

Economic actors who rely exclusively or largely on either economic or interventionist power will find their preferred position relatively unstable, while the position of those that command both kinds of power will be more sustainable. As a result, economic actors that command only one kind of power are expected to seek to acquire the other.

There are basically three forms of the distribution of interventionist power: pluralism, oligarchy, and hegemony. *Pluralism* occurs when political power is more or less evenly distributed among a large number of actors. Democracy is said by many political scientists to be pluralistic because the government responds to the demands of a large variety of politically active groups. Pluralism occurs in an industry in which there are a large number of firms, and none commands significantly disproportional political power, for example, if all are assessed roughly the same campaign contributions or have comparable lobbyists working for them. Under these circumstances, little or no interventionist power is generated because all the actors command the same (or similar) ability to affect the government; hence none can use it to coerce the others.

Oligarchy occurs when political power is concentrated in the hands of a few actors. The church, army, and the aristocracy in 19th century authoritarian societies provide cases in point. Interventionist oligarchy exists when a small number of economic actors command most or all the political power generated in a specific area. For instance, to the extent that large oil corporations command most of the political power of the industry and little is in the hands of numerous small independent

producers, the industry's interventionist structure is that of an oligarchy.

Hegemony exists when political power is largely concentrated in the hands of one actor (Keohane, 1984). Such an actor is often referred to as the power elite. Interventionist hegemony occurred in earlier ages, when an exclusive right was granted to one private agent to issue currency, or to collect taxes.

At first it would seem that these interventionist modes, of singular, selective, and dispersed power parallel those of well-known concepts economic power, monopoly (and monopsony), oligopoly (and oligopsony) and competitive markets. However, it is a thesis of this article that *there is no necessary correlation between the three forms of economic power and those of interventionist power*; all nine possible combinations are encountered. Moreover, variations in the specific combinations yield specific, predictable dynamics.

FIGURE 1. *A typology of political-economic power*

	Interventionist Power		
	Pluralism	Oligarchy	Hegemony
Economic Power			
Competitive markets	1	2	3
Oligopoly	4	5	6
Monopoly	7	8	9

(a) *Economic and intervention-based monopolies* (7, 8, 9 compared to 3). In line with the analysis advanced here there are three quite different kinds of monopolies: those based on economic power (type 7); those that are based on government intervention gained by one economic actor among many (type 3); and double monopoly that draw on both, economic and interventionist power (type 9). (Firms that have economic monopolies but share their interventionist power in the *same industry* with a few other economic actors, e.g., relations between monopolistic firms and closed-shop labor unions, type 8, raise issues not pursued here).

A situation in which an economic actor is in a highly competitive business and has little or no economic power, but commands interventionist hegemony (type 3) can be illustrated by an account of the business of an arms dealer in Libya. Edwin Wilson was selling weapons to Libya for numerous years at 100 to 200 per cent mark up, despite the fact that many other arms dealers were bidding for the business of the same generals, and it was relatively easy to enter the business: No production capacity or weapon stockpiles or a track record were required (Goulden, 1984). Nor was there collusion among most of the dealers. When a single buyer faces numerous independent sellers such a profit is not the expected outcome. Wilson was able to garner such profits because he had won and kept the support of the general in charge of acquisitions. Bribes were paid or

offered by many dealers; Wilson's bribes were not lavish, at best competitive. The suggestion that it was rational for the general to pay millions above the market because he knew Wilson as a reliable source flies in the face that Wilson regularly delivered junk. His powers were those of persuasion and of a con man. For the delivery of certain categories of arms, Wilson may be said to have created a pure *intervention-based monopoly*.[1]

The standard account in economic literature of how a monopoly is created and maintained deals with type 7, the monopoly based on economic power; it 'conceives of monopoly power as producible by a firm or an industry without any substantial aid from the government' (Demsetz, 1974, p. 164). While it matters little to economic analysis how monopolies are historically formed, a heuristic tale is often used about the first mover. In a situation in which a new product or service requires large capital outlays, whoever makes these expenditures first is likely to incur monopolistic profits. (See for example, Smiley and Ravid, 1981). Other ways are said to include controlling essential raw material (Alcoa controlled the sources of bauxite in the United States and was the sole producer of aluminium from the late 19th century until the 1940s; Browning and Browning, 1983, p. 305); gaining patent rights (McConnell, 1975, pp. 544–5); and acquiring consumer loyalty by being the first to market a product (Kamerschen and Valentine, 1981, p. 309). Forming monopolies via legal rights is also occasionally mentioned, but the main concern is with economic means.

Intra-economic developments of monopolies do occur; it is the author's hypothesis that they are much less common than is often implied. The counter-hypothesis is that initially one of many competitive economic actors gains a monopolistic position by political means. For example, labor unions gains the exclusive right to represent the workers in a given firm (closed-shop), via elections supervised by a government agency, drawing on a right the state grants and enforces, which in turn is the result of political pressure by labor. Obviously, the ability to monopolize the representation of labor in a firm or in an industry is much lower when laws have not been enacted to help unions organize.

Monopolies that have been politically initiated but also acquire the economic features of a monopoly become double-based monopolies (type 9). For instance, a firm with much political clout may also deter potential competitors by keeping prices low, by commiting a large amount of resources to raise the entry costs by heavy advertising, or by using other economic means to further enhance its power, rather than rely only on government interventions.

Types of monopolies are expected to differ systematically in their stability. Intervention-based monopolies with little or no economic power

may be expected to be inherently unstable because of a change of politicians in office, or the entry of new politically powerful actors may break their hegemonic power. When a firm has an exclusive franchise or contact with a given public agency but there is relatively little investment or the capital goods belong to the public institution, the authorities in charge can drop one firm at the end of a contract period, and award it to another.

When there are pure economic monopolies without an intervention base, monopolistic profits are expected to be particularly difficult to insure over time; hence there is pressure to move to the double-based monopoly. Indeed, the author is hard put to find examples of pure economic monopolies so often described in economic literature. All those examined rely on at least some interventionist power.

Public utilities, for example, are often referred to as natural monopolies because of high capital costs, and also as regulated monopolies. To the extent that regulation limits their ability to raise prices or rates or curbs profits, these utilities might still be conceived as economic, and not as double, monopolies. In these situations, political power is used not by utilities to secure their monopolistic position, but by the public to curb it. However, regulation, as Stigler pointed out, is also used to maintain monopolistic status; Stigler (1962) first developed his regulation theory in a study of the regulation of public utilities. In short, type 7 is logically possible but seems rare and unstable.

b. *The Interventionist Powers of Oligopolies* (4, 5, 6). Economists have concerned themselves with the question under what conditions oligopolistic firms collude rather than compete with one another. In the first case, they are likely to behave more like monopolies; in the second case more like small firms. The strategies and means that oligopolistic firms use are scrutinized in efforts to discern the factors which lead toward cooperation or conflict; however, these typically include only non-political means. Scherer (1980, ch. 6) lists overt and covert agreements, price leadership, rule-of-thumb pricing, focal points and tacit coordination, and manipulation of the level of backlogs and inventories. Koch (1980, pp. 375–85) focuses on price leadership and basing-point pricing.

The present analysis suggests that the kind of interventionist power the firms command *as a group*, compared to other politically active actors, is a key factor in determining outcomes. From this viewpoint there are three kinds of groups of oligopolistic firms: those with little or no interventionist power (type 4); those with some interventionist power they must share with others (type 5); and those with interventionist hegemony (type 6). All other things being equal, the author expects the first kind to be least likely to reap monopolistic profits, the last most, and the middle being at an intermediate level.

A major way oligopolistic firms block entries into their markets, secure monopolistic profits and collaboration with one another is by jointly inducing the government to limit imports by introducing quotas, tariffs or trigger prices, or by eliciting voluntary quotas from exporting countries. The extent to which this is achieved is in part a matter of a group's relative interventionist-power. Thus, in the United States, oligopolistic auto and steel makers had more political clout than copper producers, and hence were able to limit imports through 'voluntary' import quotas in 1984. As a result one would expect auto and steel industries to garner more monopolistic returns than the copper industry.

c. *The interventionist powers of firms in competitive markets* (types 1, 2, 3). The connection between pluralism and competitive markets, between free markets (free, among other things, from economic concentrations and from government intervention) and political freedom (free from political oppression) has been frequently pointed out (Friedman, 1962; Novak, 1982). However, being a small firm in a big market does not insure that such a firm will behave as expected, will compete effectively or be wiped out. Some firms that are small and command no economic power use interventionist power to generate oligarchies or gain hegemony as groups or individual firms. This may be one reason the correlation between economic concentration and the level of profits is rather weak (Demsetz, 1974, pp. 168ff): industries that economists consider not concentrated nevertheless can gain excessive profits by the use of political means.

Farming is often cited as a highly competitive industry. In a discussion of the attributes of perfect competition Stigler (1968, p. 181) writes: 'The fortunes of any one firm are independent of what happens to any other firm: One farmer is not benefited if his neighbor's crop is destroyed'. Using several economic measurements, especially market shares and concentration ratios, Shepherd (1982, p. 618) found American agriculture, forestry and fisheries to have been 86 per cent competitive in 1980. However, it is well known that farmers use their political power to set prices and improve their return via various public subsidy schemes, to gain credit below market terms, to limit entry via import quotas, and to limit substitutes. Whether farmers constitute an interventionist oligarchy (type 2) or an interventionist hegemony (type 3) is largely a question of the extent to which the main farmers' organizations pull together, or undercut one another in fights over spoils. There is little difference between a mass of small farmers and a single monopoly firm according to an often applied criteria to determine the existence of a monopoly: the ability to set prices and to block entries.

Hiring and promotion quotas that are politically imposed tend to generate interventionist-oligarchies (type 2) for dispersed categories of individuals who have little economic power, such as women and

minorities, who can gain via affirmative action laws preferential access to certain categories of jobs. Agreements, whether formal or informal, to allot staff positions among professionals in a hospital according to quotas (X to physicians, Y to nurses, Z to nurses aides) to the exclusion of others (mid-wives, medics and chiropractors) are another case in point. Such allocative agreements may be due in part to non-political considerations, such as proven medical merit and relative cost. Interventionist power is at work to the extent that allocations reflect relative political clout to allocate economic benefits.

4. *Economic and interventionist power compared*

So far the use of economic power and that of interventionist-power have been treated as interchangeable and/or complementary means to the same ends. Thus, a firm may use its resources to block the entry of another firm by launching a major advertising campaign, and/or by supporting politicians who will pass a law to the same effect. However, different rules prevail in the economic and the political systems. Of those the most important differences are that legitimization and non-economic actors are much more important in the polity than in the economy.

Legitimization refers to the pressure to act in ways compatible with widely held societal values. While legitimization is a factor in both intra-economic activities and political-economic ones, it is much stronger in the polity. Public officials are held to higher standards and standards additional to those for corporate executives. For instance, they must disclose the sources of their income, are prohibited from accepting gifts, are not supposed to earn income other than their salary, their perks are often carefully scrutinized and so on.

Non-economic actors, actively and effectively participating in the polity, are often groups that have little clout in the economy. These include religious organizations, ethnic and racial associations, lobbies for senior citizens and welfare mothers, and scores of others who gain benefits even though they lack economic or interventionist power.

As a result of both factors, in the polity a *wide* distribution of benefits is considered preferable to a narrow one. *Once a transaction is carried out within the polity as compared to a concentrated sector of the economy, on average, the resulting benefits will be more widely distributed.* As Stigler (1971, p. 7) puts it: 'Small firms [in a regulated industry] have a larger influence than they would possess in an unregulated industry'. Wilson (1981, p. ix) adds that not only are smaller economic powers cut in, 'but if the "capture" theory is correct – at least in some cases – it is unreasonable to assume that only business firms would be able to capture an agency'. Environmentalists, civil rights activists and even academics, occasionally, capture parts of the

government, using their political power to extract benefits for their group.

Because of the higher visibility of the average interventionist as compared to economic acts, commanding *larger amounts of resources than other actors does not provide the same advantage in the polity as it does in the economy.* In the economy, at least until concentrations become very large, they are considered legitimate by those who subscribe to capitalist values, Economics of scale are viewed, up to a point, as necessary for modernity and as a reward for risk-taking, investment, and hard work. However, in a political democracy, the one-person, one-vote notion governs, and the ideal is that all players be treated equally, or the weakest be advantaged. Hence, concentration of power or of benefits, is quick to raise criticism and creates pressures to level the distributions. It is hence less advantageous to amass large amounts of interventionist power than economic power.

The question may be raised: Why would those who command a great measure of economic power resort to the polity at all, if they are relatively disadvantaged in this realm? In part, the polity provides ways to augment and to protect their special status not available within the economy. Also, our working hypothesis is that *interventionist power is comparatively inexpensive and can be highly effective in cost/benefit terms.* Lobbyists and campaign contributions cost much less than R&D or advertising campaigns and seem to be highly effective in comparison. Because of data limitations, one can gain only a rough estimate of the size of the costs of interventionist power. Fortunately, the amounts involved seem to be clearly of a very different order than the costs of economic means of building and sustaining a monopolistic power and so are the benefits. For example, in 1979 the Carter Administration introduced a bill aiming to cap hospital costs and physicians fees. It was expected to reduce health expenditures by $400,000,000,000. There was a high correlation between the members of Congress who received campaign contributions from the PAC of the American Medical Association and those who voted against the bill, defeating it. Of the 50 members who received the highest contributions, 48 voted against the bill (Etzioni, 1984). *In toto*, those who voted against the bill received 3.5 *times* more contributions than those who favored it. However the total reported outlay was very small; $1,647,897. Even if one would double the estimate of the costs involved, they still would amount to less than a fraction of one per cent of the revenues at stake. The fact that members of Congress had other reasons, e.g., philosophical, for supporting the AMA are irrelevant; these reasons had no cost for the AMA and were believed by the AMA not to suffice by themselves.

Price support benefits for dairy farmers in 1982 were estimated to run at about $2 billion. A 1981 proposal to reduce those benefits by $600 million

over four years was defeated. Those who voted against the bill received eight times more contributions from the principal dairy PAC than those who favored it, yet the average amount was only $1,600.

While the unit costs of interventionist power are low, it has a sharply declining marginal benefit; and negative returns can quickly be reached. Otherwise why would oil companies, fighting in 1974 to reduce a windfall profit tax initially estimated to run nearer to $400 billion over ten years, spend only a few million on lobbying and campaign contributions, instead of a billion or two, which would have exceeded spending by all other sources? The answer seems to be (a) they gained a hefty reduction (initially, $228 billion, to lower levels later) at a lower cost, (b) but a significantly higher involvement raised the risk of a public backlash to the point that it seemed wiser to accept the remaining tax and not to endanger the gigantic reduction already in hand. To minimize visibility, that can undermine their claims to be legitimate interests, economic actors tend to participate in the polity at a low level.

Assuming that further research would support the hypothesis concerning the sharply declining marginal returns of interventionist-power and the low unit cost, this would go a long way to refute the proposition that 'the cost of obtaining a [intervention-based] monopoly is exactly equal to the expected profit of being a monopolist' (Zeckhauser, 1982, p. 1304). Indeed, the author holds, for reasons indicated, the opposite hypothesis: profits resulting from interventionist power are highly monopolistic, i.e., they are gained by one or a few actors, and are considerable in size. The reason is not surprising: rent-seeking is not a free market but a highly concentrated activity. If there is no free market in the economy, there is little reason to expect one in the polity.

5. *The competitiveness level of the American economy*

When one returns now to the often asked question of how competitive the American economy is, the answer changes significantly when one adds the effects of interventionist-power to that of economic power. Shepherd's study serves as a useful starting point. Shepherd (1982, p. 624) concludes his study with the statement that by 1980 competition was 'pervasive' in the American economy. Pure monopoly and dominant firms accounted for about 5 per cent of the economy; 'tight' oligopoly for about 20 per cent, 'while the effectively competitive markets now account for over three-fourths of national income'.

While Shepherd used several criteria for categorizing each industry, he seems to give more weight to the relatively easy-to-measure concentration indicators than to the more difficult to assess efforts to block entry or to

create excessive profits. (The weight he gave to various indicators are stated to be his judgement; Shepherd 1982, p. 617). The first indicator is largely intra-economic; the other two reflect both economic and interventionist power, giving more weight to the first will tend to make an industry appear more competitive than it would be otherwise.

A simple examination of Shepherd's tables suggests that gaining monopolistic profits by means of interventionist power were largely ignored. For instance, agriculture, forestry, and fisheries are categorized as 86 per cent competitive, but this disregards the farmers' interventionist powers listed above. The ability to keep sugar prices at levels *three times* the world market is bound to have a significant effect on the returns from cane and beet farming, and so on.

Steel, autos, and textiles may, by 1980, not have commanded the same interventionist power as farmers, but it was clearly quite substantial, and according to Kwoka (1984), the economy became even less competitive in the years which followed. Shepherd classified the manufacturing sector in 1980 as 69 per cent competitive. In view of the high extent of regulation and other forms of restraint of competition, an analysis that would take into account interventionist power would be unlikely to classify transportation and public utilities as 40 per cent competitive. Indeed, once the effects of interventionist power are added to those of economic power much of the American economy may be classified as not effectively competitive.

Shepherd (1982, p. 624) also argues that there was a substantial increase in competition from 1958 to 1980 and suggests that this should be tied to economic performance 'for the next decade or two'. Rather than wait until the year 2000, it might be noted now that in the decades competition is said to have substantially increased, the growth of American GNP slowed, productivity growth declined sharply, and inflation and unemployment increased. This would seem more compatible with the thesis that whatever progress was achieved on the industrial organization economic front (e.g., by some deregulation) was more than offset by increased use of interventionist power to restrain competition.

Adding considerations of the role of interventionist power in sustaining monopolistic behavior (Koch, 1980, pp. 104–5) to that of economic power may also serve to correct a recent view of the ease by which new entries are achieved into contestable markets. In recent years it has been argued that monopolistic tendencies are curbed, competition benefits, and the need for anti-trust policies is significantly reduced by the fact that monopolistic firms must price at cost or close to it to keep potential competitors out, under various economic conditions not discussed here (Baumol, Panzar, Willig, 1982, pp. 4–8; Brock, 1983, p. 1055).

Others have argued that while new entries can be hindered by economic means, these are costly and hence often cannot be maintained for long (e.g., predatory pricing), and that if the monopolistic profits exceed the entry costs, new entries will rush in. This line of analysis either disregards the low costs at which political protection, e.g. blocking of entry by regulation, often can be purchased by powerful economic actors, or erroneously assumes that the market in political protection is highly competitive while actually it is a structured market.

6. *Policy implications*

6.1 Reduce concentration and/or interventionist power.

The most often repeated policy recommendation for dealing with monopolistic effects has been to reduce concentrations of economic power, to keep economic actors small, to break up the big ones, and to reduce their market shares. In America this has led to a considerable literature on the design, significance and effects of antitrust policies. Without going into this literature it seems that the recent consensus of many students of antitrust policies, to the extent that it exists, is that (a) antitrust policies have not been, all said and done, effective in preventing economic concentration, and (b) other non-governmental, intra-economic factors have been more effective in enhancing competition, for instance, the rise of international competition. General Motors, it is typically argued, might have dominated the auto market when it was an American market, but with the advent of major foreign auto makers General Motors commands but a small share of the relevant world market.

A radically different approach to the problem is to reduce interventionist power by insulating the public sector from the private one (Etzioni, 1984, Ch. 7). This is achieved the less able economic actors are to generate political power. For example, public financing of elections (which prohibit the use of private funds) reduces the obligations of elected officials to economic (and other) private powers. A similar effect is achieved when, as in Britain, the amount of money one can spend legally on election campaigns is strictly limited. The less economic power can be converted into political power, the less the government can be made to assist powerful economic actors or be used to generate monopolistic gains.

The two policy approaches are not mutually exclusive; on the contrary they compliment one another in one obvious and one less obvious way. Obviously the less economic power is concentrated, the less it can be used to generate interventionist power; the more that concentrated economic power is prevented from being converted into interventionist power, the less sustainable the concentration of economic power.

The less obvious connection is that *both* antitrust policies (to curb concentration of economic power) and various reforms to reduce the interventionist power of powerful economic actors are themselves political acts. To the extent the concentration of interventionist power is high, it tends to prevent both kinds of reforms from being carried out. That is, dynamics of the suggested corrections for failures or defects of the political-economic system are subject to the same forces that caused the defects in the first place. Significant changes in the system may well require the rise of new political power.

6.2 Less government

One widely held policy recommendation is to reduce the scope of government intervention in the economy (and the payoffs or rent), to curb interventionist power. To the extent that economic actors cannot hope to reap billions through subsidies, tax exemptions, regulatory relief, and so on, it is said, they will concentrate their efforts on intra-economic activities. The scope of government is to be measured not merely in terms of the percentage of Gross National Product taxed, but also to encompass the amount of credit provided at below market rates, number of regulations, and so on. However, as recent experience in the Reagan and Thatcher Administrations strongly suggest, a significant decrease of the scope of government is not likely to occur. During the first four years of the Reagan Administration the rate of growth of government expenditures was slowed to some extent but there was no net reduction. Regulations were cut back or less enforced (Tolchin and Tolchin, 1983); however this has led to a growing interest in re-regulation in several areas such as banking and trucking. For the foreseeable future, preventing the use of interventionist power to achieve monopolistic effects is unlikely to be achieved by significantly reducing the scope of government. Hence, the importance of attempting to reduce the ability of economic actors to amass interventionist power.

6.3 Future research

The basic concepts advanced in these and other such studies also apply to the role of interventionist power in other areas of economic activities. Public finance is obviously affected by relations among various powerful economic actors and not only by tax rates, interest rates, business cycles, or the amount and velocity of the money in circulation. Labor relations, economic development, and economic growth are other affected subjects.

The next step seems to be to develop a general concept of a new political economics. While at this stage only some of its outlines might be

discernible, such a conception will clearly have to go beyond the capture concentration of economic power, and various reforms to reduce the handmaiden of powerful firms, to include the role of small firms, other economic actors (such as labor unions, professional associations), non-economic actors (such as ethnic lobbies and the women's movement), the function of legitimation, the democratization effects of the polity (i.e., that powerful economic actors do less well in the polity than weaker ones), and the opportunities for and difficulties entailed in segregating political from economic power.

NOTE

1. The term legal monopoly is avoided both because these means used are often illegal or non-legal.

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