



Economics 160: Industrial Organization

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Article citation:

Gaffney, Mason. "Economics 160: Industrial Organization." Various Dates. Syllabi and Reading Lists.

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DETAILED SYLLABUS OF TOPICS

Economics 160, Industrial Organization, W86

Unit 1: Welfare Economics of Competition and Monopoly

- a. Perfect competition: "The way it's supposed to be".
- b. Cost, demand, and monopoly pricing: simple basic concepts. Monopoly downstream and monopsony upstream. Price discrimination, real and illusory.
- c. What happens to the inputs disemployed when monopolies restrict output? The necessity of preemption or exclusion.
- d. Imperfect competition. The limited success of questing for elusive deterministic "solutions" on paper. The frustrated econometric alternative. Institutionalism.
- e. "Imputing away" big markups, the original laundering operation.
- f. Real infrastructure requirements of workable competition: sizable market; equal access to central market places, physical and legal; equal access to transportation and utilities without discrimination in rates and service; access to land on equal terms; equal (more or less) distribution of wealth among firms and individuals; easy entry and exit; sharing indivisible inputs; etc. Role of municipal corporations, common carriers, utilities with duty to serve, etc. Role of taxation.
- g. Real strategies of market control: controlling government (all three branches); financial power to preempt, forestall, hold out, and mobilize peak funds in playoff battles; cornering and reserving strategic materials, lands, bottlenecks, rights of way, franchises, leases, concessions, routes, locations, sites, etc.; buying for future expansion; holding back reserves; covenants not to compete; premature entrance with economies of scale and/or grants of property based on prior appropriation; implicit collusion; gentlemanly behavior, class consciousness and the comity of property; social controls and connections (charities, chambers of commerce, churches and clubs); control over credit; threat implicit in reserve capacity; cross-subsidy to gain position; creating capital barriers to entry; interlocking directorates; mergers; cartels; trade associations; holding companies; marketing agreements; joint bidding; employers' associations; price fixing; hierarchy; tying clauses; resale price maintenance; de facto rate discrimination by natural monopolies (rebates, discounts, regressive rate structures,

etc.); and several more.

Unit 2: Differential rents as source of market power

a. High rent = "low cost". "Scale" and "efficiency" often take credit for cost savings actually owing to the firm's privileged control over superior natural advantages like key industrial sites with water access, high-grade ores, "high-site" (top quality) timberlands, level rights-of-way, vast railyards in big cities, chains of retail sites on hot corners, etc.

b. Rent in general. (Example of the dilemma of syndicalism in Yugoslavia and China.)

c. Examples from American industries: agriculture; extractive industries; urban industry and trade; others.

d. Sources of great fortunes; disposition of same.

e. Corporations as possessors and amassers of rentable resources. The lure of appreciating assets. "Rent-seeking," "growth industries", etc.

Which is cause and which is effect: economies of scale or massed possessions?

f. Capitalized rent as collateral: disposal over ready cash.

g. Financial power as market power

Unit 3: Government as mother of monopolies

a. The vision of Wm. Bradford, Thomas Jefferson, and Andrew Jackson: equal rights for all, special privileges for none, limited government, limited construction of The Constitution.

b. Two contrary sources of business wealth and power: earnings and stealings. The brainwashing industry for laundering stealings and dumping the dirt on earnings.

c. Capture and control of government by powerful minorities who appropriate common resources and monies. No.1 example: government handout of the public domain. ("The recipe for Hungarian omelettes.")

1. Precedent in England: the enclosure movement

2. Farmland, city sites, timber, minerals, water, rights of way, etc. Special case of railroad grants. Discrimination by requiring cash on the barrelhead: then and now.

3. "Deregulation" as repudiation of terms of concessions; idolatry of property wiping out reciprocal obligations. The case of radio spectrum: robbery in progress.

4. Lands abroad: banana lands and banana republics. The ladder of five rungs: adventure, appropriation, appreciation, accumulation and accretion. Leverage of private over public investment (the flag follows finance).

d. Preferences in taxation, direct subsidies, public works, access to alien labor, government contracting, military protection (buy cheap and call the Marines).

e. The thesis of Horace Gray and Walter Adams: government as sponsor of monopoly.

f. The public compulsion to valorize: withholding tax-dead lands; bailing out banks; diffusing floating values; etc.

g. Small-town idolatry of big business branches: the misuse of economic base analysis.

h. The small business blues.

Unit 4: Forms of business organization and finance

a. Learning through vocabulary expansion: piercing the corporate bafflegab.

b. Features of the corporate form. Is it a special privilege?

c. Corporations as financial institutions.

d. Relevant legalisms.

Unit 5: Concentration of economic power

a. Causes

1. Head starts from various kinds of earnings, findings and stealings: productivity, hard work, thrift, genius, crime, graft, corrupting government, luck, birth, unearned increments, catering to vice, etc.

2. Saving from and internalizing profits.

- a. The power of compound growth rates over time.
- b. Kinds of investments.

--To create new capital.

--To acquire existing land and capital (this kind of investment is more threatening to free markets).

--Preference for future values, longevous and appreciating assets. Differential advantage in advance acquisition: "buy at the fringe and wait".

3. Accreting other people's money: exploiting how savers swarm with the queen bee. Use and role of financial institutions. The myth of "non-financial" corporations. The thesis of Justice Louis Brandeis.

4. Economies of scale: real and imaginary; social and individual. Is scale the cause or effect of concentrated ownership? (The Veblen thesis: scale follows absentee ownership.)

b. Ways of measuring concentration: Lorenz, Gini, Herfindahl etc. The statistical pitfall of "regression fallacy", and how to avoid it.

c. Ways of concentrating: horizontal, vertical, conglomerate, etc. Keys to market power. Other sources of unearned income. How massing wealth leads naturally to preempting means of production.

d. Historical trends in concentration. Waves of merger movements, and other aspects of growing concentration.

Unit 6: Differential factor proportions

a. Behind the corporate veil: real wealth, real people.

b. Effects of concentration: studies of mergers, etc. How accumulation of redundant assets leads naturally to less competitive behavior.

c. Size of firm vs. labor-intensity.

The agribusiness prototype: concept of "the congested frontier".

The Fortune 500 replica.

The LDC caricature: locked-up valleys, congested hillsides.

d. The contribution of cost theory: substituting fixed costs for variable costs.

e. The contribution of production theory: Marginal Net Product and the asymmetry of oversized and undersized firms. TITSTAAFL for TANSTAAFL.

f. Labor-intensity seen in two ways: as a relationship of co-existence; and a relationship of sequence.

g. Concentration, preemption and unemployment: lock up means of production and lock out labor.

h. Runaway shops: using the world labor pool.

i. Structural causes of unemployment, poverty, and instability: what macro-economics wishes away.

Unit 7: Cartel behavior

a. Agribusiness: government as sponsor, Congress as Board of Directors.

b. Oil, gas and government policy

c. The perverse dynamics of cartel expansion: excess capacity, wasted capital, overdecentralization, pressure on frontiers. Meaning of the "price-umbrella syndrome". Analogy to urban sprawl.

d. Cartels in boom and bust. Overcorrecting, resulting in careening through cycles. Analogy to the "cobweb theorem". e. Special: Bret McMurran on trade associations in the newsprint industry.

Unit 8: Natural monopolies, regulated transportation and utilities

a. The essential resource base: rights of way, radio frequencies, franchises, use of city streets, easements, water rights, power drops, hydrocarbons, pollution rights, wharves and dockyards and accessways, etc.

b. Rate and service regulation. Roll-in pricing, marginal-cost pricing, price discrimination, zonal pricing, etc.

c. Averch-Johnson effect, excess capacity, and the drain on national capital. Example: the bloated electric power industry.

Unit 9: Historical evolution and international migration of industrial leadership.

- a. The notion of "relative backwardness".
- b. Mercantilism, imperialism, and national vertical integration.
- c. Slowdown of replacement, renewal, and embodiment of latest technology in capital in use.
 - Effect of wealth
 - Effect of vested interests
 - Effect of size
 - Effect of exporting capital
- d. Changing forms of organizing work.
- e. Imperial leadership as a burden on industry. Economic decline of leading imperial powers. The treadmill of national security through mercantilistic vertical integration.

Unit 10: Government contracting and the decline of American industrial leadership

Unit 11: Hope for the future: can anything be done?

- a. The way of the wimp: futile gestures, cosmetic compromises, treating symptoms, retreating into arid scholasticism.
- b. The way of digression: the misleadership of Wm. J. Bryan, Major Douglas, and John M. Keynes.
- c. Anti-trust policy; structural improvement.
- d. Restoring competitive structure through tax reform. Tax measures to offset discrimination in the capital markets; to offset rent differentials; to repossess common ground; to penalize price-fixing; to penalize internalization of growth; to handicap size; to penalize withholding productive agents from full use. Possible uses of taxation of property, of capital stock, of undistributed profits, of corporate income, and other property income. Positive incentives for small, medium and upstart businesses.
- e. Full commitment to free markets by government: selective government competition; penalties on anti-competitive manifestations; etc.
- f. Simulated market behavior for natural monopolies:

marginal cost pricing.

g. Hope springs eternal: the irrepressible resilience of small business.

h. The role of scholarship and objective inquiry. Perception leads action. The power of objective inquiry revealed by the hostility it evokes. Example of TNEC. The exploding brainwashing industry targets you. Learning to investigate and think for yourself.

Readings, Industrial Organization, W86

Texts:

S = Scherer, F.M. Industrial Market Structure and Economic Performance. (2nd ed.) Boston: Houghton Mifflin Co., 1980.

WS = Samuels, Warren. The Economy as a System of Power. New Brunswick: Transaction Books, 1979.

WS-I = Volume I: Corporate Systems

WS-II = Volume II: Corporate Powers

(R) = Recommended (not "Required" -- the absence of (R) means Assigned.)

Unit 1: Welfare Economics of Competition and Monopoly

S, Chaps. 1,2

(R) S, Chap. 5, skipping from last par. p.157 to 1st qtr. of p. 160.

Unit 2: Differential Rents

R.H. Montgomery, The Brimstone Game. (cf. S, p.226, to see how pale S's treatment is by comparison).

Thorstein Veblen, Absentee Ownership, pp. 129-41

(R) pp. 119-29; 165-201.

WS-I, Don Kanel, "Property and Economic Power ...", pp. 365-78, esp. pp. 365-71.

S, pp. 582-90 on tying contracts, franchises, etc.

pp. 252-58 on entry deterrence through plant location

pp. 300-06 on vertical integration

(R) M. Gaffney, "Adequacy of Land as a Tax Base", first and last few pages, to be specified.

Unit 3: Government as Mother of Monopoly

Eric Goldman. Rendezvous with Destiny.

pp. 125-36, the heritage of civic corruption and granting special privileges to a few.

pp. 157-70, waffling of T. Roosevelt; good intentions of W. Wilson.

pp. 220-30; 236-39 on the War Industries Board; Hoover and Associationism.

pp. 258-65 on Raymond Moley and the NRA, the climax of Hooverism under Roosevelt.

pp. 298-300 on The War Production Board, groundwork for a later wave of concentration.

Charles and Mary Beard, America in Midpassage, Chap. XVII, "Toward a Reconsideration of Democracy", pp. 920-49.

Richard Immerman, The CIA in Guatemala.

Chap. 4, "The View from the North", pp. 68-100

Chap. 8, "Project PBSuccess: The Legacy", pp. 187-201.

WS-I, R. Seidman, "Contract Law ...", pp. 219-41.

WS-I, K. Parsons, "Institutional Basis ...", pp. 97-117.

J.R. Commons, Legal Foundations of Capitalism, Chap. VI, "The Rent Bargain".

S, Chap. 16, "Economics of the Patent System", pp. 439-58

pp. 141-45, "The Impact of Government Policies"

(R) Mark Green and John Berry, The Challenge of Hidden Profits, Chap. 9, "Corporate Welfare: America's Implicit Industrial Policy", pp. 344-84.

(R) Maury Maverick, A Maverick American

(R) Bruce Catton, The Warlords of Washington

(R) WS-I, H.H. Liebhafsky, "Commons and Clark", pp. 351-64.

(R) WS-I, R. Lekachman, "Law and Economics", pp. 379-93, esp. pp. 380-84.

(R) Horace Gray and Walter Adams, Monopoly: Government as Sponsor

Unit 4: Forms of Business Organization

J.R. Commons, Institutional Economics, "Reasonable Value", pp. 649-76.

WS-I, W.F. Mueller, "Comments on 'Legal Foundations of the Corporate State'", pp. 305-09.

WS-I, H. Sherman, "Corporate Foundations of Law and the State", pp. 311-14.

(R) J.R. Commons, Legal Foundations of Capitalism, Chap. V, "Going Concerns", pp. 143-213. (This is wordy, so skip judiciously. But Commons is deep, and he grows on you, especially if you are headed for law school.)

Unit 5: Concentration of Economic Power

a. Causes

1. Head Starts

2. Saving and growing

3. Accreting

(R) Louis Brandeis, Other People's Money
J.R. Commons, Institutional Economics, Chap. XI, "Communism, Fascism, Capitalism", pp. 876-903.

4. Economies of Scale

Thorstein Veblen, Absentee Ownership, pp. 129-41

S-4, "Economies of Scale", pp. 81-118

"Operating Efficiencies", pp. 133-38

WS-II, Stanley Boyle, "A Blueprint for Competition", pp. 65-83

WS-II, Warren Gramm, "Comment", pp. 85-87.

(R) Mark Green and John Berry, Challenge of Hidden Profits,
Chap. 1, "Corpocracy".

(R) WS-II, A. Gruchy, "Government Intervention ...", pp.
119-33.

b. Ways of Measuring Concentration

S-3, "The Structure of U.S. Industry", pp. 45-78

S, Appendix to Chap. 3, pp. 601-07

WS-II, David Martin, "Beyond Capitalism", pp. 51-64.

WS-I, John Wilson, "Market Structure etc.", pp. 161-78.

-----David Schwartz, Comments on Wilson, pp. 179-82.

Harold Hotelling, Article on regression fallacy, to be
cited.

Henry George, selections from Social Problems, "The March
of Concentration", comments by Francis Walker, etc. (To be placed
in RBR after duplication of selected pages).

c. Ways of concentrating: horizontal, vertical, conglomerate,
and diagonal.

S-10, "Vertical Integration and Efficiency", pp. 300-06 (a
whitewash).

d. Trend of concentration

S-3, pp. 67-70, "Manufacturing industry concentration
levels and trends".

S-4, pp. 118-38, "Mergers and concentration"

WS-I, Daniel Fusfeld, "Rise of the Corporate State in
America", pp. 139-60.

M. Gaffney, "Land Speculation", Chap. 3, "Large Holdings
and Small", § III, "The Trend of Concentration of Farm Land in the
United States", pp. 293-303. (Please forgive the stilted style: I
was young, it was spring, ..., and I had five old men to placate,
for this was a Ph.D. dissertation.)

Unit 6: Differential Factor Proportions

a. Piercing the corporate veil

M. Gaffney, "Adequacy of Land as a Tax Base", selections to be cited.

(R) WS-I, S. Melman, "The Impact of Economics on Technology", pp. 83-96.

b. Effects of Mergers

Jon Udell, Social and Economic Effects of the Merger Movement in Wisconsin, pp. to be selected.

Walter Goldschmidt, As you Sow, Chap. VIII, "Variations in the social pattern: Large Farms", pp. 203-20. (This is a more scholarly version of The Grapes of Wrath, Steinbeck's novel which was banned in Fresno. Goldschmidt touched the same sensitive nerve, leading to a political purge of the Bureau of Agricultural Economics, which had sponsored his study. Thanks to the institution of tenure, he remained Chair of Anthropology at UCLA.)

S-4, "The financial consequences of mergers", pp. 138-41

Mark Green and John Berry, Challenge of Hidden Profits, Chap. 4, "Mergers: the Production Ethic vs. the Predator Ethic", pp. 189-217.

(R) S-9, "The Price and Profit Consequences of Market Structure".

c. Size and labor-intensity

(R) M. Gaffney, "Land Speculation", Chap. 3, "Of Large Holdings and Small", § II, B, "Large holdings less intensively manned and equipped", pp. 201-26.

(R) M. Gaffney, Prospectus on Corporate Concentration

(R) Polly Roberts, "Let's Try Equality"

d. Cost Theory

e. Labor-intensity as a relation of sequence

(R) M. Gaffney, "Towards Full Employment...", pp. to be selected.

f. Lock-out from land

g. Runaway shops

Unit 7: Cartels

a. General

S-6, "Conditions Facilitating Oligopolistic Coordination", pp. 169-98.

(R) S-7, "Conditions Limiting Oligopolistic Coordination", pp. 199-212; and 220-27.

b. Agribusiness

W.W. Wilcox, W.W. Cochrane, and R.W. Herdt, Economics of American Agriculture, (3d ed), Chap. 23, "The Growth of Government in Agriculture", pp. 420-49.

(R) James Rhodes, The Agricultural Marketing System, Chap. 20, "Public Issues: Maintaining Competition", pp. 401-414.

c. Oil and Gas

WS-II, John M. Blair, "The Implementation of Oligopolistic Interdependence: International Oil, a Case Study", pp. 239-60.

(R) John M. Blair, The Control of Oil, 1976

Fred Allvine and James Patterson, Competition Ltd.: The Marketing of Gasoline, Chap. 9, "Vertical Integration and Monopoly Power", pp. 211-41.

Michael Crommelin and Andrew Thompson (eds.), Mineral Leasing as an Instrument of Public Policy, selections.

M. Gaffney, "Benefits of Military Spending", selections.

d. Perverse dynamics of cartels

S-13, "Market Structure, Administered Prices, and Macro-economic Stability"

pp. 349-54, "Administered prices".

(R) pp. 354-74, more on the same topic.

Unit 8: Natural Monopolies

John D. Hicks, Republican Ascendancy

Chap. 5, "Prosperity Plus"

S-11, "Price Discrimination"

WS-II, H. Trebing, "Realism and Relevance in Public Utility Regulation", pp. 93-117.

Unit 9: Evolution

S-15, "Market Structure and Technological Innovation"

Thorstein Veblen, Theory of Business Enterprise, Chap. VIII, "Business Principles in Law and Politics".

WS-II, Stephen Hymer, "The Internationalization of Capital, pp. 145-66. Comments by Aliber and Benoit follow, pp. 167-78.

WS-II, Robert E. Smith, "Private Power and National Sovereignty:..." pp. 179-210. Comments by Charles K. Wilber, pp. 211-214.

WS-II, Ronald Muller, "Global Corporations and National Stabilization Policy: ...", pp. 215-38.

(R) WS-I, G. Means, "Problems and Prospects of Collective Capitalism", pp. 124-37.

Unit 10: Government Contracting

Seymour Melman, works to be cited (if we have time, which is doubtful. But if you are interested in this topic, Melman is your author.)

Unit 11: Hope for the Future

S-18, "Policy Approaches to the Monopoly Problem"

Eric Goldman, Rendezvous with Destiny,

pp. 269-73 on the decline and fall of the NRA approach.

pp. 280-89 on the revival of free enterprise under Thurman Arnold et al.

M. Gaffney, Prospectus on Corporate Concentration and tax Policy.

(R) S-20, "Anti-trust Policy"

(R) S021, Anti-trust Policy 2", esp. pp. 582-94.

"Of making many books there is no end, and much study is a weariness of the flesh." -- Ecclesiastes 12:11.

Therefore here endeth the reading list. However be advised that there are few subjects as popular with American readers as business and its organization. During the course I will put together a further list of recommended readings, in case you want to pursue these topics further after the final.