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The Ethics of Competition: The Unfriendly Critics

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CENTER FOR THE STUDY OF THE ECONOMY AND THE STATE

WORKING PAPER SERIES

THE ETHICS OF COMPETITION:
THE UNFRIENDLY CRITICS

George J. Stigler*

Working Paper No. 013

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CENTER FOR THE STUDY OF THE ECONOMY AND THE STATE

The University of Chicago
1101 East 58th Street, Chicago, Illinois 60637

*Charles R. Walgreen Distinguished Service Professor, Department of Economics and Graduate School of Business, and Director, Center for the Study of the Economy and the State, University of Chicago.

PREFACE

The following paper is one of three Tanner Lectures given at Harvard University in April 1980. I wish to express my gratitude to Gary Becker, Richard Posner and Stephen Stigler for important assistance, and my immense debt to Aaron Director for discussions of these issues both during the preparation of the lectures and in the many years of our friendship. Most of the writing was done while I was a visiting scholar at the Hoover Institution at Stanford University, and I thank Glenn Campbell for providing this attractive setting.

George J. Stigler

The Ethics of Competition: The Unfriendly Critics

In the century following the appearance of the Wealth of Nations, the pace of economic progress accelerated to levels never before achieved on so continuous and comprehensive a scale. The technology, the economy, the lives, and even the politics of the western world underwent profound and lasting changes. The standard of living reached continually higher levels, longevity increased, and education spread over the entire society.

It was to be expected that the radical changes accompanying this astonishing economic development aroused deep opposition and bitter criticism from some groups. Important figures in the cultural circles of Great Britain were soon nostalgic for a romantic past. Robert Southey, the poet laureate, viewed the earlier cottage system and the factory system through bifocal spectacles with rose and black tints respectively:

... we remained awhile in silence, looking upon the assemblage of dwellings below. Here, and in the adjoining hamlet of Millbeck, the effects of manufactures and of agriculture may be seen and compared. The old cottages are such as the poet and the painter equally delight in beholding. Substantially built of the native stone without mortar, dirtied with no white-lime, and their long low roofs covered with slate, if they had been raised by the magic of some indigenous Amphion's music, the materials could not have adjusted themselves more beautifully in accord with the surrounding scene; and time has still further harmonized them with weather-stains, lichens and moss, short grasses and short fern, and stone-plants of various kinds. The ornamented chimneys, round or square, less adorned than those which, like little turrets, crest the houses of the Portuguese peasantry; and yet not less happily suited to their place, the hedge of chipt box beneath

the windows, the rose bushes beside the door, the little patch of flower ground, with its tall holyocks in front; the garden beside, the beehives, and the orchard with its bank of daffodils and snowdrops, (the earliest and the profusest in these parts,) indicate in the owners some portion of ease and leisure, some regard to neatness and comfort, some sense of natural and innocent and healthful enjoyment. The new cottages of the manufacturers are... upon the manufacturing pattern... naked, and in a row.

How is it, said I, that everything which is connected with manufactures presents such features of unqualified deformity? From the largest of Mammon's temples down to the poorest hovel in which his helotry are stalled, these edifices have all one character. Time cannot mellow them; nature will neither clothe nor conceal them; and they remain always as offensive to the eye as to the mind!¹

Of the innumerable voices that joined in this swelling chorus, I shall briefly notice two.

Thomas Carlyle, who gave the dismal science this name, wrote with his customary passion:

And yet I will venture to believe that in no time, since the beginnings of Society, was the lot of those same dumb millions of toilers so entirely unbearable as it is even in the days now passing over us. It is not to die, or even to die of hunger, that makes a man wretched; many men have died; all men must die, -- the last exit of us all is in a Fire-Chariot of Pain. But it is to live miserable we know not why; to work sore and yet gain nothing; to be heart-worn, weary, yet isolated, unrelated, girt in with a cold universal Laissez-faire: it is to die slowly all our life long, imprisoned in a deaf, dead, Infinite Injustice, as in the accursed iron belly of a Phalaris' Bull! This is and remains

¹Sir Thomas More, or Colloquies on the Progress and Prospects of Society (London, John Murray, 1829), I, 173-74.

forever intolerable to all men whom God has made. Do we wonder at French Revolutions, Chartisms, Revolts of Three Days? The Times, if we will consider them, are really unexampled.¹

Finally, John Ruskin's immense Victorian audience was repeatedly instructed in the vices of industrialism. He was prepared to sum up his entire message in the declaration: "Government and cooperation are in all things the Laws of Life; Anarchy and competition the Laws of Death."² A more explicit version runs:

It being the privilege of the fishes as it is of rats and wolves, to live by the laws of demand and supply; but the distinction of humanity, to live by those of right.³

A full tour through the modern critics of the competitive organization of society would be a truly exhausting trip. It would include the drama, the novel, the churches, the academies, the lesser intellectual establishments, the socialists and communists and Fabians and a swarm of other dissenters. One is reminded of Schumpeter's remark that the Japanese earthquake of 1924 had a remarkable aspect: it was not blamed on capitalism. Suddenly one realizes how impoverished our society would be in its indignation, as well as in its food, without capitalism.

It is no part of my present purpose to sketch this opposition, and still less to attempt to refute it. Many excellent replies have been penned: Southey's passage, with which I began,

¹Past and Present (Chicago, Henneberry, n.d.), p. 296.

²The Complete Works of John Ruskin (New York, Thomas Cromwell, n.d.), Vol. , p. 47.

³The Communism of John Ruskin (New York, Humboldt, 1891), p. 52n.

called forth the full scorn -- and that is truly a vast scorn -- of Macaulay:

Mr. Southey has found out a way, he tells us, in which the effects of manufactures and agriculture may be compared. And what is this way? To stand on a hill, to look at a cottage and a factory, and to see which is the prettier. Does Mr. Southey think that the body of the English peasantry live, or ever lived, in substantial or ornamented cottages, with box-hedges, flower-gardens, beehives, and orchards? If not, what is his parallel worth? We despise those mock philosophers who think that they serve the cause of science by depreciating literature and the fine arts. But if anything could excuse their narrowness of mind, it would be such a book as this.¹

Macaulay in fact would give Southey credit for only "two faculties which were never, we believe, vouchsafed in measure so copious to any human being -- the faculty of believing without a reason, and the faculty of hating without a provocation."²

Later and usually lesser defenders of laissez-faire have proved that the critics behaved as critics usually do: inventing some abuses in the system they attacked; denouncing some of its virtues as abuses; exaggerating the real shortcomings; and being singularly blind to the difficulties of any alternative economic system, when they faced this problem at all. But these characteristics are not unique to the critics of private enterprise, and may well be inherent in criticisms of any existing order.

I begin with this smattering of early critics only to suggest that important leaders of public opinion have long been

¹"Southey's Colloquies", Critical, Historical, and Miscellaneous Essays. (New York, Mason, Baker & Pratt, 1873), II, 148-49.

²Ibid., p. 132.

opposed to a competitive economic system. There is a natural temptation to credit to them and their numerous present day progeny the decline that has occurred in the public esteem for private enterprise, and the large expansion of state control over economic life. I urge you to resist that temptation. After a preliminary look at the so-called followers of opinion, I shall return to the leaders and seek to explain their attitudes and to question their importance. If my interpretation is correct, it raises interesting questions on the future of private enterprise.

1. Have Attitudes Changed?: The Lower Classes

History is written by and for the educated classes. We know more about the thoughts and actions of an eighteenth century lord than about 100,000 members of the classes which were at or near the bottom of the income and educational scales. No one can deduce, from documentary evidence, the attitudes of these lower classes toward economic philosophies, whereas the noble lord's words are enshrined in Hansard and several fat volumes of published correspondence. Hence we cannot determine from direct documentary sources what the attitudes toward laissez-faire of these lower classes has been.

Nevertheless, it is an hypothesis that is plausible to me and I hope tenable to you that these lower classes -- who have increased immensely in wealth and formal education in the last several hundred years -- have been strongly attracted to the economic

regime of laissez-faire capitalism. One highly persuasive evidence of this is the major spontaneous migrations of modern history: the armies of Europeans that came to the United States, until barriers were created at both ends; the millions of Chinese who have sought entrance to Hong Kong, Shanghai, and other open Asian economies; the millions of Mexicans who these days defy American laws designed to keep them home. These have not been simply migrations from poorer to richer societies, although even that would carry its message, but primarily migrations of lower classes of the home populations. An open, decentralized economy is still the land of opportunity for the lower classes.

The stake of the lower classes in the system of competition is based upon the fact that a competitive productive system is remarkably indifferent to status. An employer finds two unskilled workers receiving \$3.00 per hour an excellent substitute for a semi-skilled worker receiving \$8.00 per hour. A merchant finds ten one-dollar purchases by the poor more profitable than a seven-dollar purchase by a prosperous buyer. This merchant is much less interested in the color of a customer than in the color of his money.

If it is true that a large share of the population of modern societies (and many other societies as well) eagerly migrate to competitive economies when given the opportunity, why have they supported the vast expansion of governmental controls over economic life in the many democratic societies in which they constitute an important part of the electorate?

I shall postulate now, and argue the case later, that the lower classes have not supported regulatory policies and socialism because they were duped, or led by intellectuals with different goals. Instead, these classes have shared the general propensity to vote their own interests. Once the unskilled workers enter an open society, they will oppose further free immigration. The most poorly paid workers are aware of the adverse effects of minimum wage laws, and their representatives vote against such laws.¹ It would be feasible to devise numerous tests of this rational interpretation of lower class political behavior: as examples, have they been supporters of heavy governmental expenditures on higher education, or of the pollution control programs?

Studies such as I call for will demonstrate, I believe, that the lower classes have been quite selective and parsimonious in their desired interventions in the workings of the competitive economy, simply because not many regulatory policies work to their benefit. These classes will seek and accept all the transfer payments the political system allows, but they have little to gain from regulatory policies that reduce the income of society.

But these lower classes do not dominate our political system. In the long run they have more votes in the market place than they have at the ballot box, despite appearances to the contrary.

¹See J.B. Kau and P.H. Rubin, "Voting on Minimum Wages: A Time-Series Analysis", Journal of Political Economy, Vol. 86 (1978), pp. 337-42.

They do not have in full measure the necessary or useful attributes of successful political coalitions, such as common economic and social origins and interests, nor are they localized in space or cohesive in age and social background. They have access to the press or the electromagnetic spectrum only as receivers. They do not directly control the flow of information. These characteristics do not imply that they are the victims of some conspiracy or that they have no influence on political events. It does mean that the market place measures their preferences more finely and more promptly than the literature or the politics of the society, even if that society is as democratic as Great Britain or the United States.

This premium placed by politics on certain educational and social characteristics of the voting population is, I believe, the first of two reasons for the failure of the lower classes to play a larger role in modern regulatory policy. The second and more fundamental reason is that the lower classes are by no means a majority: the very efficiency of the competitive economic system has depleted the ranks of the poor and the ill-educated! The productivity of the economy has moved the children of immigrants or poor farm families into the middle classes. A fair fraction of the best economists in the United States are one or two generations away from the garment trade.

When private enterprise elevates many of its lower class supporters to the middle classes, they now find a much larger agenda

of desirable state action. The restrictions on entrance into skilled crafts and learned occupations will serve as an important example of the large number of profitable uses of political power that are open to the various groups in the middle classes. If Groucho Marx would not join a country club that would admit the likes of him, private enterprise has reversed the paradox and expels those who learned to play the game well.

2. Have Attitudes Changed?: The Intellectuals

The intellectual has been contemptuous of commercial activity for several thousand years, so it is not surprising that he has made no exception for the competitive economy. Yet the larger part of the present-day class that lives by words and ideas rather than by commodity processing owes its existence to the productiveness of modern economic systems. Only economies that are highly productive by historical standards can send their populations to schools for 12 to 18 years, thus providing employment to a large class of educators. Only such a rich society can have a vast communications industry and pervasive social services -- other large areas of employment of the intellectual classes. So it is at least a superficial puzzle why these intellectuals maintain much of the traditional hostility of their class to business enterprise -- contemptuous of its motives, critical of its achievements, supportive at least of extensive regulation and often of outright socialization.

An answer that many will give is that the competitiveness of economic relationships, the emphasis on profit as a measure of achievement, the difficulties encountered by those cultural activities that do not meet the market test -- are precisely the source of opposition: materialism is hostile to the ethical values cherished by the intellectual classes.

A second, and almost opposite, explanation is that these upper classes find their chief patrons and their main employment in government and its activities. Even though the growth of government relative to private economic activity is conditional on the productivity of the private economy, the self-interest of the intellectuals is in the expansion of the government economy.

I believe that this is true in the short run, and the short run is at least a generation or two. The extensive regulatory activities of the modern state are, both directly and in their influences on the private sectors, the source of much of the large demand for the intellectual classes. For example, if higher education in America were private, so its costs were paid directly by students rather than so largely by public subventions, the education sector would shrink substantially not because of increases in efficiency, although such increases would surely occur, but because for large numbers of older students, school attendance would no longer be a sensible investment of their time. The state has greatly reduced the relative cost of higher education for the individual students, although it has raised the relative cost for society.

Similarly, the immense panoply of regulatory policies has generated a public employment of perhaps half a million persons, with a larger number of people occupied in complying with or evading the policies the first group are prescribing.

In short, the intellectuals are the beneficiaries of the expansion of the economic role of government. Their support is, on this reading, available to the highest bidders, just as other resources in our society are allocated. Have not the intellectuals always been respectful of their patrons?

I am not striving for paradox or righteousness, so I would emphasize, like Adam Smith, that no insinuations are intended as to the deficient integrity of the intellectuals, which I naturally believe to be as high as the market in ideas allows. No large number of intellectuals change positions after wetting a finger and holding it in the wind: they cultivate those of their ideas which find a market. Ideas without demands are simply as hard to sell as products without demands. If anyone in this audience wishes to become an apostle of the single tax after the scripture of Henry George, for example, I recommend that you acquire and cherish a wealthy, indulgent spouse.

3. Ideology and the Intellectuals

A self-interest theory of the support for and opposition to private enterprise will shock many people, and not simply because the theory I propose is so elementary and undeveloped (although

these are admitted defects). Many and perhaps most intellectuals will assert that the opposition of intellectuals to private enterprise is based upon ethical and cultural values divorced from self-interest, and that the intellectuals' opposition has played an important leader role in forming the critical attitude of the society as a whole.

An invariably interesting scholar who urged the powerful influence of the intellectuals on social trends was Joseph Schumpeter. Schumpeter's full argument for the prospective collapse of capitalism contains an elusive metaphysical view of the need for legitimacy of a social system, and a charismatic role for its leading classes, that was, he felt, incompatible with the rational calculus of the capitalist mind. The intellectuals were playing their customary role of critics of social order:

On the one hand, freedom of public discussion involving freedom to nibble at the foundations of capitalist society is inevitable in the long run. On the other hand, the intellectual group cannot help nibbling, because it lives on criticism and its whole position depends on criticism that stings; and criticism of persons and of current events will, in a situation in which nothing is sacrosanct, fatally issue in criticism of classes and institutions.¹

The intellectuals are credited in particular with radicalizing the labor movement.

That intellectuals should believe that intellectuals are important in determining the course of history is not difficult to

¹Capitalism, Socialism and Democracy (3rd. ed., Harper Torchbooks, 1950), p. 151.

understand. The position is less easy for even an intellectual economist to understand since it sets one class of laborers aside and attributes special motives to them. On the traditional economic theory of occupational choice, intellectuals distribute themselves among occupations and among artistic, ethical, cultural and political positions in such numbers as to maximize their incomes, where incomes include amenities such as prestige and apparent influence. On the traditional economic view, a Galbraith could not do better working for Ronald Reagan and a Friedman could not do better working for Carter or Kennedy, and I could not do better telling you that intellectuals are terribly important. It is worth noticing that Schumpeter partially accepted this position in pointing out that the declining market prospects of the intellectual class were one basis of their criticism of the market.¹

On the self-interest theory, applied not only to intellectuals but to all of the society, we should look for everyone to support rationally the positions that are compatible with their long run interests. Often these interests are subtle or remote, and often the policies that advance these interests are complex and even experimental. For example, it would require a deeper and more comprehensive analysis than has yet been made of the effects of the vast paraphernalia of recent regulations of the energy field to identify and

¹Ibid, pp. 152-53.

measure the costs and benefits of these policies. But at least in principle, and to a growing degree in practice, we can determine the effects of public policies and therefore whose interests they serve.

The case is rather different with respect to the role of ideology, if that ambiguous word is appropriated to denote a set of beliefs which are not directed to an enlarged, long-run view of self-interest. If an anti-market ideology is postulated, and postulated to be independent of self-interest, then what is its origin and what is its content? Do we not face an inherently arbitrary choice if we follow this route: anti-market values are then some humanistic instinct for personal solidarity rather than arms-length dealings, or a search for simplicity and stability in a world where competitive technology is the sorcerer's apprentice, or a wish for a deliberately inefficient egalitarianism, or something else. Choices in this direction are surely as numerous and arbitrary as choices of ethical systems, and indeed that is what they are. Perhaps no one, and certainly no economist, has the right to disparage such non-utility maximizing systems, but even an economist is entitled to express scepticism about the coherence and content, and above all the actual acceptance on a wide scale, of any such ideology.

In the event, ideology is beginning to make fugitive appearances in the quantitative studies of the origins of public policies. Thus if one wishes to know why some states lean to

income taxes and others to sales taxes, the most popular measure of the higher values (or is it intellectual confusion?) entertained by a state is the percentage of its vote cast for McGovern in 1972! At this level, ideology is only a name for a bundle of vague notions one refuses to discuss.

The simplest way to test the role of ideology as a non-utility 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.

4. The Calculus of Morals

I arrive by the devious route you observe to the thesis that flows naturally and even irresistibly from the theory of economics. 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. He can and often errs: perhaps the calculation is too difficult but more often his information is incomplete. He learns to correct these errors, although sometimes at heavy cost.

What we call ethics, on this approach, is a set of rules with respect to dealings with other persons, rules which in general prohibit behavior which is only myopically self-serving, or which

imposes large costs on others with small gains to oneself. General observance of these rules makes not only for long term gains to the actor but also yields some outside benefits ("externalities"), and the social approval of the ethics is a mild form of enforcement of the rules to achieve the general benefits. Of course some people will gain by violating the rules. More precisely, everyone violates some rule or other occasionally, and a few people violate important rules often.

Two difficulties with enlarging and elaborating this approach to ethical codes are worth mentioning. The first is the constant temptation to define the utility of the individual in such a way that the hypothesis is tautological. That difficulty is serious because there is no accepted content to the utility function; -- I gave my interpretation at the end of the second lecture, and it made a person's utility depend upon the welfare of the actor, his family, plus a narrow circle of associates. Still, the difficulties in using utility theory can be exaggerated. A rational person learns from experience so it is a contradiction of the utility-maximizing hypothesis if we observe systematically biased error in predictions -- thus one cannot surreptitiously introduce the theory of mistakes. The development of a content-rich theory of utility-maximizing is a never-ending task.

A second difficulty with the utility-maximizing hypothesis is that it is difficult to test, less because of its own ambiguities than because there is no accepted body of ethical beliefs which can

be tested for consistency with the hypothesis. In the absence of such a well-defined set of beliefs, any ad hoc ethical value can be presented, and of course no respectable theory can cope with this degree of arbitrariness of test.

In particular a system of ethics of individual behavior is all that one can ask a theory of individual utility-maximizing behavior to explain. Political values -- values that the society compels its members to observe by recourse to political sanctions -- include such popular contemporary policies as income redistribution and prohibition of the use of characteristics such as race and age and sex in certain areas of behavior (but not yet in other areas such as marriage). An individualistic theory can hardly account for policies and goals whose chief commendation to a substantial minority of people is that their acceptance avoids a term in jail.

With these disclaimers, 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 behavior, and to test their concordance with utility-maximizing behavior for the preponderance of individuals. In fact Rawls' proposal of a method of constructing an inductive ethical system, which I briefly described earlier, is ~~exa~~ exactly the procedure that would show that the ethical system was based on utility-maximizing behavior. 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.

5. Conclusion

I have presented the hypothesis that we live in a world of reasonably well-informed people acting intelligently in pursuit of their self-interests. In this world leaders play only a modest role, acting much more as agents than as instructors or guides of the classes they appear to lead.

The main contours of social development all have a discoverable purpose and should run predictable courses. It is precisely the great virtue -- and the great vulnerability -- of a comprehensive theory of human behavior that it should account for all persistent and widespread phenomena within its wide domain.

If the hypothesis proves to be as fertile and prescient in political and social affairs as it has been in economic affairs, we can look forward to major advances in our understanding of issues as grave as the kinds of economic and political systems toward which we are evolving. Even if it does not achieve this imperial status, I am wholly confident that it will become a powerful theme guiding much work in the social sciences in the next generation. I would give much to learn what it will teach us of the prospects of my friend, the competitive economy.