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CONGLOMERATE BIGNESS AS A SOURCE OF POWER

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The concept of "conglomerate bigness" is a useful tool for probing into problems customarily neglected. Economic thinking about questions of business organization has been concerned with markets for products, has assumed that business behavior in each market is explicable as an effort to maximize profits there, has interpreted monopolistic markets as involving the exercise of varying degrees of monopoly power by one or more business enterprises, and has appraised problems of monopoly power in the light of certain conceptions of monopolistic exploitation, on the one hand, and certain conceptions of business efficiency, on the other. The growth of diversified large enterprise[1] has made this conceptual scheme

[1] The term "conglomerate" has been used negatively in economics to refer to a business that is neither horizontally homogeneous nor vertically integrated, but the meaning of the term is not clear because the concepts of horizontal and vertical integration are imprecise and because there are also other forms of structure. More than 1,800 of the 5,625 central office companies covered by Monograph 27 of the Temporary National Economic Committee (1941) performed "divergent" or "convergent" functions. The term "divergent" was applied to functions in which unlike products emerge from a given material or process. The term "convergent" was applied to functions in which different materials or products were brought together to serve a particular need or market. Once these patterns are recognized, it is hard to be clear about the meaning of horizontal and vertical integration; for vertical integration may spread out horizontally, both backward toward the raw material and forward toward the consumer. A concern performing divergent functions may produce a series of joint products or byproducts and may integrate the production of any of them vertically down to the ultimate consumer. In connection with any of them, it may perform convergent functions by producing articles that are complementary or auxiliary, or that pass through the same distributive channels, or that reach the same customers. In connection with any of the secondary commodities, it may integrate vertically back to the raw material, and at any stage in the backward integration may take on new divergent functions that carry it into a new range of products. Thus there may be lines of functional congruity among business activities that at first glance sprawl across functions apparently unrelated; and where there is no such congruity, it probably could be introduced by adding appropriate intermediate activities. The true conglomerate is relatively rare.

Furthermore, the concept of a conglomerate is defective because it is derived from physical rather than operational characteristics. In practice, similarities in the business process may make activities functionally coherent as readily as similarities in basic materials or physical productive processes. For example, the limited-price variety store sells goods that have no common origin or destinainsufficient as a basis for the description and appraisal of business conduct. A concern that produces many products and operates across many markets need not regard a particular market as a separate unit for determining business policy and need not attempt to maximize its profits in the sale of each of its products, as has been presupposed in our traditional scheme. It may classify its products into such categories as money-making items, convenience goods, and loss leaders, and may follow different policies in selling the different classes. It may possess power in a particular market not only by virtue of its place in the organization of that market but also by virtue of the scope and character of its activities elsewhere. It may be able to exploit, extend, or defend its power by tactics other than those that are traditionally associated with the idea of monopoly. Public problems created by its activities may be of such a character that both the traditional idea of monopoly power and the traditional idea of internal efficiency are insufficient to give insight into the pros and cons of the policy issues.

Where these circumstances prevail, there is advantage in an abstraction that throws a spotlight upon a part of the situation that cannot be described and appraised in the traditional way. The conglomerate firm is such an abstraction. As a business type, a conglomerate can be as large as one chooses to conceive it without thereby acquiring a monopoly of any product and without deriving from its size the efficiencies that are traditionally associated with mass production. Thus the term conglomerate becomes a device for examining problems of size and power apart from the traditional focus upon monopoly and efficiency.

In making this examination, we should not forget the artificial character of the abstraction. If we find that bigness brings power and power creates public problems, we must remember that, where the large enterprise takes a form resulting in monopoly, the impact of bigness is likely to be superimposed upon the impact of monopoly. We must also remember that coherence and incoherence of business function are usually so intermingled as to make it difficult for a public agency to take action appropriate to the problems of size

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tion because the specialized business techniques of supplying customers with convenience goods at low prices and with low markups can be applied to a considerable range of commodities.

Thus the term conglomerate does not express a clearly defined type of enterprise, but is useful in calling attention to problems associated with significant degrees of incoherence in business function.

without producing collateral effects upon the internal functioning of the concern.

In what follows, I shall treat the problem of the conglomerate as synonymous with the problems of bigness in business enterprise and of diversification in business activities. I shall not attempt to cover all aspects of bigness or of diversification, but shall limit myself to consideration of the respects in which these attributes of business enterprise may jeopardize the interests of suppliers, competitors, or customers. This treatment of the subject should not be understood to imply that all large and diversified enterprises give rise to the problems I shall discuss nor to deny that such enterprises, as a class, also have other and more desirable attributes than those with which I am presently concerned. Though I can illustrate the points I shall make, I have no way of measuring the frequency and relative importance of the phenomena to be discussed. I shall draw illustrative materials not only from business structures that would be generally recognized as conglomerate but also, and perhaps chiefly, from those aspects of other business enterprises which appear to relate to diversity of operation or total size rather than to a proportionate place in particular markets. Such points as I shall make are, in my opinion, appropriate to bigness and diversity whether or not these are associated with monopoly. I shall, however, try to distinguish between monopolistic power (that is, power expressed in control of a particular market for a particular type of product) and power derived from bigness (that is, power that may inhere in a large enterprise) even if there is no such market control.[2]

[2] I shall use the monopoly concept in the sense it had in the older economic theory and still has in our antimonopoly laws, rather than in the later meaning given it by the theory of monopolistic competition. Although for some purposes any departure from the competitive pattern of traditional economic theory may usefully be described as monopolistic, the term monopoly cannot be stretched so thin if it is to describe a category of cases to which a special type of public policy is applicable. For such a purpose, monopoly ends where effective control of the market ends; and a concern may be nonmonopolistic even if it is substantially larger than many of its business rivals and even if it is one of so small a number of concerns that its competition takes the form of activities directed at identified enterprises rather than of adjustment to the play of anonymous forces. One effect of the use of this concept of monopoly is that, in an industry divided between several large companies and a considerable number of much smaller companies, advantages enjoyed by the large companies are treated as relevant to the bigness of these concerns rather than to the limited monopoly power enjoyed by them. Since the advantages in question are similar to those enjoyed by large concerns in settings to which even the broadest definition of monopoly could not easily be applied, this treatment is believed to be justified. But it is not crucial to the argument; for even if all differentials of

1. *Bigness and Power*

BIGNESS in a business enterprise is not a precise concept. The big concern may be big in several different ways:

1. Its assets, its income, its expenditures, its sales, or its employment may constitute a substantial part of the total for all business or of the subtotal for a broad range of economic activity such as manufacturing or retail trade.

2. Its holdings or its operations may be much larger than those of other successful business enterprises.

3. It may fall into a category of concerns capable of undertaking activities or using forms of organization that would not be feasible for smaller business enterprises.

The size and rank of large enterprises may differ according to the method of measurement used, and many concerns may look big or little if they are compared, respectively, with smaller and with larger enterprises. Where exact measurements are sought, these difficulties are vexing. There has been controversy, for example, as to whether growth of second-line big companies relative to both smaller companies and first-line big companies is to be conceived as an increase or a decrease in business concentration.

But to examine the types of power associated with bigness, precise measurement is not needed. It is enough to speak of concerns which would lie near the top of the business pyramid of size regardless of the measure used and regardless of the placing of the boundary line between the big and the little. The large concern in this sense is one among a relatively small number of companies each of which possesses resources and carries on operations on a scale substantially greater than most business enterprises.

An enterprise that is big in this sense obtains from its bigness a special kind of power, based upon the fact that it can spend money in large amounts. If such a concern finds itself matching expenditures or losses, dollar for dollar, with a substantially smaller firm, the length of its purse assures it of victory. In encounters with small enterprises it can buy scarce materials and attractive sites, inventions, and facilities; pre-empt the services of the most expensive technicians and executives; and acquire reserves of materials for the future. It can absorb losses that would consume the entire capital of a smaller rival. The advantage that lies in this difference

power within a single market are described as aspects of monopoly, manifestations of power based upon an aggregate position in a series of markets must still be considered.

of scale is not offset by the fact that the large operations of the large enterprise require purchases on a large scale, present more complex managerial and technical problems, and result in larger net revenues or deficits. Moment by moment the big company can outbid, outspend, or outlose the small one; and from a series of such momentary advantages it derives an advantage in attaining its large aggregate results.

Closely associated with differences in financial strength is a difference between the attitudes of large concerns toward one another and their attitudes toward smaller business enterprises. A large concern usually must show a regard for the strength of other large concerns by circumspection in its dealings with them, whereas such caution is usually unnecessary in dealing with small enterprises. The interests of great enterprises are likely to touch at many points, and it would be possible for each to mobilize at any one of these points a considerable aggregate of resources. The anticipated gain to such a concern from unmitigated competitive attack upon another large enterprise at one point of contact is likely to be slight as compared with the possible loss from retaliatory action by that enterprise at many other points of contact. There is an awareness that if competition against the large rival goes so far as to be seriously troublesome, the logic of the situation may call for conversion of the warfare into total war. Hence there is an incentive to live and let live, to cultivate a cooperative spirit, and to recognize priorities of interest in the hope of reciprocal recognition. Those attitudes support such policies as refraining from sale in a large company's home market below whatever price that company may have established there; refraining from entering into the production of a commodity which a large company has developed; not contesting the patent claims of a large company even when they are believed to be invalid; abstaining from an effort to win away the important customers of a large rival; and sometimes refusing to accept such customers even when they take the initiative.

Similar policies by a large company toward a small one are seldom encountered. The small concern's business is limited geographically, or in the commodities it covers, or in the classes of customers with which it is concerned, or in some other way; and the large company can seldom be seriously injured by aggressive tactics which the small one may undertake, or by retaliatory or disciplinary tactics which may be employed against it by the small company. The large company is in a position to hurt without being hurt. The attitude of the small company may range from eager deference to defiant independence; but, whatever its quality, it will take the policies of the large concern into account. The attitude of the large company may range from generosity through indifference to peremptory exercise of authority; but, whatever its quality, the policies underlying it will not be substantially modified by the probable course of action of small companies except in cases in which the small companies act in concert.

This aspect of the power of large concerns becomes more conspicuous as the diversity of operations becomes greater, that is, as the likelihood that the large concern has monopoly power in any particular market becomes less. When the large company spreads across many products throughout a wide geographical area and covers a series of stages in production and distribution, its opportunities for multiple contacts with other large concerns are at their greatest, and the advantage to be derived from an effort to get the best of another large company at a particular point is least evident. Similarly, such a company has the maximum chance to discipline or destroy any particular small company by a localized attack without serious inconvenience to itself, and has the minimum vulnerability to attack from a single small company. Monopoly prosecutions under the antitrust laws have contained frequent evidence of the use of local price-cutting by large nationwide companies to discipline localized competitors; but the opportunity to use such tactics usually depended, not upon monopolization of the national or regional market, but upon a difference in the resources and geographic spread of the aggressor and the victim. In recent decades, the antimonopoly agencies and the legislative bodies have received many complaints from specialized producers or distributors who assert that their business has been seriously injured by price reductions on their specialty that have been made by diversified business enterprises using the specialty as a loss leader. The diversified concern employing loss leader tactics often appeared to have no significant degree of monopoly power.

Differentials in size rather than in monopoly power are the source of such advantages. The large concern has a special status, even though it may operate in an industry so large that its percentage of the total market is small. The small enterprise lacks these advantages even though it may operate in an industry so small that it has a practical monopoly from which it derives other types of advantages. The consideration of the large company for other large companies and its authority over small companies can be seen in dealings with suppliers, distributors, and competitors alike, in each of the fields of operation in which the large concern is substantially engaged. If a concern as large as DuPont sells various products for which its share of the market ranges from 100 per cent to 5 per cent, it may monopolize some of these products and not others; but even where it sells only a small part of the total supply, the fact that the seller is very large is likely to be a source of significant power.

2. *Manifestations of Power: Discrimination*

ONE important way in which bigness contributes to power is by creating opportunities for self-sufficiency. A concern that uses any component of its products in quantities sufficient to constitute the whole output of an efficient establishment could produce the component instead of purchasing it. A concern that sells producer's goods in quantities sufficient to supply the requirements of a processing establishment could discontinue the sale and undertake the processing itself. A concern that sells a commodity or a group of commodities in quantities sufficient to supply the requirements of a distributive organization could undertake its own distribution instead of selling to distributors. A concern whose operations are extensive enough to permit it to spread its risks could provide its own insurance. A concern big enough to keep a transport service reasonably busy could operate its own transportation facilities instead of buying commercial transportation.

To the extent that these potentialities for self-service are actually realized, the large concern becomes not only large but vertically integrated. However, the mere existence of the capacity to integrate vertically, even where the opportunity is not seized, is likely to be a source of bargaining advantage. To continue to do business with the potentially self-sufficient enterprise, a supplier or customer must offer terms no less advantageous than the concern could achieve through integration. Thus, unless the law prevents, the large enterprise is in a position to receive discriminatory treatment as compared with smaller enterprises with which it may be in competition as a buyer or seller of goods or services. The discrimination is likely to appear not only in transactions for products and services in which the large concern has a monopoly or monopsony position, but also in the purchase or sale of any other product or service as to which the large concern is capable of self-sufficiency.

The advantage thus obtained by large concerns is particularly evident in their relations with suppliers. The most prevalent form of discrimination is a price differential. The potentially self-sufficient buyer is in a position to buy at prices whose ceiling is direct production cost plus a reasonable allowance for the minimum overheads involved in producing the quantities that he buys. He need not pay prices that include costs of selling, costs of intermittent operation due to the vagaries of the market, costs of stand-by equipment, costs of equipment bought at previous higher price levels, or high rates of profit. Indeed, his advantageous position may induce the seller to regard his purchases as a windfall increment, to rely upon other purchasers for overhead and profit, and to supply him at little more than the direct costs of production. Differentials in prices quoted to big buyers may come to be so taken for granted that these buyers need not make overt use of bargaining power in order to obtain a discriminatory advantage.

Another important form of discrimination is a preferential status for large buyers or sellers when customary trading relationships are disturbed. When production is not sufficient to fill all orders, a large buyer is likely to be more adequately and promptly supplied than a small one. Refusal to serve the large customer means cutting off a relatively large part of the seller's total sales. It involves the risk that the large buyer may be permanently lost to some other seller who can tide him over the emergency, or that, by integrating vertically, the large buyer may permanently cease to buy on the open market. To reduce sales by depriving small buyers permits a more flexible adjustment to the shrinking market, with less risk of future loss of business; and from time to time it enables a seller to acquire the fabricating facilities of a small customer at a valuation determined by the customer's distress.

Similarly, when demand is low and customers are scarce, distributors are likely to prefer the well-known products of large sellers to the less familiar products of smaller sellers. The large seller tends to hold his market, and the small seller must either suffer a sharper reduction in volume or retain his position by a deeper cut in prices. The large distributor or processor may be able to acquire, at a distress valuation, the productive facilities of certain small suppliers who cannot weather the storm.

Thus, in buyers' and sellers' markets alike, there may be incentives and opportunities for vertical integration involving acquisitions of small concerns by large ones; and there may also be advantages of preferred status for large concerns that make no acquisitions.

Discrimination between large and small buyers may appear, not only in prices and in continuity of trading relationships, but also in many other aspects of terms of sale. Examples are the privilege of selecting the best quality from a stock that varies in quality; more generous credit terms; less rigorous allowances for returned goods; provision of containers and package units appropriate to the buyer's type of business; and provision of sales aids, demonstrators, and technical advice. The privilege of choosing the best quality illustrates a type of case in which a similar concession cannot be granted generally and therefore, if granted at all, is likely to be extended to the most important customer. Preferential credit terms illustrate a class of cases in which only the large customer is likely to be thought important enough to be individually considered as a possible exception to a general policy. Provision of special containers is illustrative of cases in which there may be technical difficulties or prohibitive costs in varying the seller's practice unless the volume of sale that is subjected to the variation is relatively large. Generosity in returned goods allowances is representative of discriminatory concessions that are made, without inherent logic, because the large buyer's good will seems too important to be hazarded upon small matters. The common element in such varying types of preference is that bigness is translated into buying advantages which give the large concern a head start over its smaller rivals in the competitive race.

There is also a tendency to transfer risks and costs from the large enterprise to those who deal with it. During NRA, protests against the working-hour provisions of the upholstery code brought out the fact that the ability of automobile companies to operate with minimum inventories of upholstery rested upon the willingness of upholstery manufacturers to make large deliveries on short notice and to permit last-minute cancellation of orders by their automobile manufacturer customers, even though such changes of plan raised the costs of production and made it necessary for upholstery manufacturers to carry large inventories of fabrics for automobile upholstery. Such extreme examples of transfer of risk are presumably few and are likely to appear only where a large company's operations are so concentrated as to be of crucial importance to the concerns that deal with it. But there are many instances less suggestive of monopoly power in which the large concern buys or sells in accord with a standard contract form of its own devising, designed to impose upon others rather than itself such risks of the transaction as may arise from delays in shipment, loss in transit, damage not due to negligence, and the like.

Since discriminations and preferences tend to be granted to the large concern in each of the many different fields in which it might become self-sufficient, their cumulative effect is likely to be more significant than is apparent in the individual instances separately considered. A substantial buying advantage, associated with unusual security of buying relationships and with a tendency on the part of suppliers and customers to accept risks and burdens which could be assumed either by the seller or by the buyer—these may contribute significantly to the business success of the large enterprise.

3. *Manifestations of Power: Tie-in Selling*

WHERE a large enterprise markets a variety of goods, one way in which it may express its power as a seller is by the tie-in sale. Some of its products may enjoy a monopoly position. In such cases, a tie-in sale is a device to extend the power of the monopoly over other articles not monopolized. But tie-in sales may also be used in selling a product that enjoys a high degree of consumer acceptance, even if this product is in competition with other highly acceptable products and constitutes a portion of the total supply too small to be an expression of monopoly power. Similarly, a commodity that is peculiarly scarce or available only from scattered sources may be sold under a tie-in arrangement even if a substantial number of producers compete in the sale of the scarce article. Any influence, competitive or monopolistic, that might permit a seller to charge a relatively high price for a commodity may be used instead to enhance the sale of his other products by tie-in devices. The seller may refuse to sell his preferred items separately, but, instead, may make it a condition of their sale that buyers accept other goods which they do not want or which they prefer to obtain elsewhere.

The scope of such tie-in arrangements varies widely. In some instances, two or more selected items are tied together, and the purpose appears to be to sell an increased volume of the item that is hardest to sell. In other instances the tie-in may apply to all of the seller's products that can be distributed or used by a given class of buyers. The effects of such a comprehensive tie-in, and probably its purposes, are to bring about a coordinated distribution of the seller's full line, to make the buyer more dependent upon the seller by increasing the seller's importance as his source of supply, and to interfere with sales to the buyer by other sellers who can offer only part of the line.

Closely related to the tie-in sale is the exclusive dealing arrangement. In some instances, the requirement that a seller's full line be taken is sufficient to prevent the buyer from also acquiring the products of rival sellers. In other instances, the seller may refuse to sell to buyers who also make purchases from his competitors, or may stipulate in a formal contract that the buyer will turn to the seller for all of his requirements. Alternatively, the seller may establish a system of discounts of such a character that the buyer's failure to purchase his full requirements from one source would be unduly expensive. Any of these arrangements may be sufficient to close the buyer's door to rival sellers. In instances in which the buyer is large and powerful, an exclusive dealing arrangement may work in reverse to prevent a seller from finding more than one customer in a particular field, and to deprive the buyer's competitors of access to the pre-empted seller.

Not all exclusive dealing arrangements and tie-in arrangements are manifestations of power. Some tie-in arrangements are designed to safeguard quality by providing suitable auxiliary commodities or services. Some exclusive dealing arrangements are designed to providc an incentive for efforts which are hazardous or slow in producing results, by assuring the concern that makes the effort that it will also reap the reward.

Some exclusive dealing arrangements are extensions of monopoly power. Where there is a dearth of alternative sources of supply, the exclusive arrangement shuts rival buyers out of the market, and extends monopoly from the seller's level of business activity to the buyer's level as well. Where there is monopsony power, the reverse effect may appear.

But other instances of exclusive dealing are likely to reflect the cumulative importance that the seller (or the buyer) has derived from his bigness, from the multiplicity of his products (or market outlets), and from his ability to integrate vertically and thus expose the buyer (or seller) to new competition. In cases where there is neither monopoly nor monopsony, an exclusive arrangement may give a large seller or buyer an advantage from the closeness of the tie that is established with concerns on the other side of the market. A distributor dependent upon a single source of supply is likely to be more docile than one who has a free choice. He is likely to observe the seller's wishes as to resale prices, display of goods, and similar matters, and to give all his energy to promotion of the seller's products. A producer dependent upon a single buyer is likely to conform closely to that buyer's desires as to delivery dates, product specifications, and the like. Once dependence is well established, the dependent concern cannot effectively resist price changes that narrow its operating margins to enhance the profits of the concern upon which it depends.

Moreover, when a substantial buyer and a substantial seller have made an exclusive arrangement, other enterprises, aware of the shrinkage of the open market and desirous of forestalling risks to the continuity of their supply or to the adequacy of their market outlets, often protect themselves by making similar exclusive arrangements. The principal concerns on each side of the market pair off as dancing partners, and there is likely to be a remainder of smaller enterprises that must accept the disadvantages and risks incident to purchase and sale in a thin market.

4. *Manifestations of Power: Reciprocal Favors*

WHERE large and powerful concerns encounter each other as seller and buyer, there is sometimes a reciprocal exchange of favors, by which each of the great enterprises strengthens the other.

The most common form of such a relationship is probably reciprocal buying. A reciprocal buying arrangement may arise either through formal contract or through an informal understanding that may be scarcely distinguishable from a mere policy of cultivating the good will of a large customer. The essence of the arrangement is the willingness of each company to buy from the other, conditioned upon the expectation that the other company will make reciprocal purchases. The goods bought are typically dissimilar in kind, and in the usual case could be obtained from other sources on terms which, aside from the reciprocal purchases, would be no less advantageous. Where such a relationship is well established, it prevents the competitors of each company from selling to the other company, and affords to each company whatever increase of size and strength can be derived from an assured place as supplier to the other.

Purchase and sale relationships are by no means the only, and probably not the most significant, reciprocal arrangements. Large companies occupying related but different fields may work out arrangements for the reciprocal exchange of technology, for the joint enjoyment of transportation facilities, or for the joint development of sources of raw material.

Arrangements for joint ownership of transportation facilities or productive facilities fall into two broad classes. One, which eliminates direct competition between the cooperating companies, is a part of the monopoly problem rather than the problem of bigness. The other consists in joint activity by companies engaged in different lines of business at a point where the activity will contribute to the operations of each company. Thus, a petroleum refiner and a chemical manufacturer may pool their interest in developing a petro-chemical process for which neither possesses all of the needed technology and resources. Again, a paper manufacturer and a lumber manufacturer may collaborate in developing a logging railroad. In instances such as these, monopoly is not necessarily promoted. Indeed, projects may be undertaken that would not otherwise get started so promptly, if at all; and different groups of companies may undertake several such projects in competition with one another. Nevertheless, the broad effect of such alliances is that the strength of each participating company contributes to the position of the other participants in the projects. The benefits of the venture are not likely to be made generally available, either by allowing all interested parties to participate in the investment or by letting them buy the products or services on equal terms. If there are few opportunities to launch similar projects or if the cost of such an undertaking is beyond the reach of small companies, the fact that the venture is a partnership of big users of the product, rather than a cooperative project by all users or an enterprise designed to sell to all comers, deprives third parties of opportunities that might otherwise be open to them. Such partnerships among the big companies are likely to foster industrial progress, but at the same time to sharpen the differentials in power between the big and the little.

Arrangements for exchange of technology usually enable each participant to enjoy the collateral uses of the other participant's inventions, so far as these are applicable to its own field, without an increase in its own expenditures for research. To its own patents it can add the patents it obtains in the exchange, thus strengthening the hedge of patents which it has available to prevent its competitors from using its technology or to control the conditions under which they use it. When the technologies and patent rights of the partners to a comprehensive technological exchange have been thoroughly intermingled, each concern acquires, in practice, a veto upon the right of the other to work out similar technological exchanges with third parties, since such exchanges could not possibly be confined to the technology of one of the two parties exclusive of the technology of the other. Where such a reciprocal veto is enjoyed, each partner has an incentive to persuade concerns with which it is negotiating to make appropriate alliances with the other partner that will delimit fields of operation or establish mutually agreeable terms upon which to operate in overlapping fields. Consequently, technological partnerships tend to grow into complex systems of mutual accommodation among large business enterprises, within which the permissible sphere of activity of each enterprise is defined with ever-increasing precision as one agreement after another establishes a boundary, or a mutually satisfactory joint occupancy, between that enterprise and some other enterprise with reference to additional products and additional markets.

Reciprocal exchanges of technology may take place between small companies as well as large, but such exchanges are kept narrow by the limited research and the limited patent holdings of the small concerns. The typical pattern appears to be one in which large companies make broad exchanges among themselves and smaller companies are gradually fitted into the pattern through technological exchange arrangements with some one of the large companies, usually accompanied by commercial understandings as well. In such a system, the advantage of the large concern is apparent in the scope of its alliances and the tightness of the patent fences that it can build. This advantage is often further demonstrated, however, by the terms of the technological agreement between the large company and the small; for such agreements frequently contain provisions obligating the small company to convey to the large one the improvements it may make upon the large concern's patented processes, without reciprocal obligation as to the large company's improvements upon the small company's processes. In most such arrangements, the large company acts as an assembly point for technological knowledge and for patent rights, but each small company obtains only a segment of what has been assembled. The small companies are thus fitted into the interstices of the technological pattern established by agreements among large companies.

In summary, the large enterprise has advantages over the small in its capacity to spend money or take losses at any selected point at which it encounters a small rival, in its enjoyment of discriminations and preferences, in its ability to control distributors, customers, and sources of supply by tie-in sales and exclusive dealing arrangements, and in its opportunities to strengthen its position through exchange of favors with other large enterprises.

These various advantages may be important enough to assure the survival and growth of big concerns, relative to small ones, whether or not the big are functionally as efficient as the small.

5. *Nonmarket Uses of Power*

BY VIRTUE of its size, the large concern also has substantial advantages in activities that lie outside the processes of production and sale. These advantages are particularly evident in litigation, politics, public relations, and finance.

The large company's advantage in litigation is derived from the fact that it can afford to maintain its own law office and to disregard the costs of litigation in determining its legal tactics. In general, the big companies hire the best lawyers. In general, they do not hesitate to start lawsuits, to defend lawsuits, or to appeal cases that they have lost. In general, they do not skimp expenses incident to the thorough preparation of their side of a case. Small companies may have weaker counsel, may prepare a case less thoroughly, and may be less tenacious of their full legal rights.

These differences have important practical consequences. They not only tend toward a fuller protection of the legal rights of large companies but also enable them to win bargaining victories based upon their advantages as litigants even where there is no sound legal basis for the victories. The records of antitrust proceedings contain impressive evidence that certain patents held by large companies were not believed by the holders to be legally valid, but were nevertheless serviceable as parts of a system of asserted legal rights which gave the large company a protected position. Every patent may be the basis for a lawsuit, and an enterprise holding 500 patents has great capacity for legal harassment of those it may accuse of infringement, whether or not the patents are eventually found to be valid. Moreover, if some of the patents are good, acknowledgment of the validity of the rest may be one of the provisions of a license under the good patents, and thus consent may be invoked to bolster the weak parts of the patent holdings. Moreover, the holder of a patent may choose to sue not only the manufacturer who infringes it but also the customer who buys from that manufacturer. By adopting a policy of instituting such suits, the large concern can force the customers of its small rival to stop dealing with him unless they are willing to buy a lawsuit with their purchase. Thus the effect of a boycott may be created by a persistent litigant whether or not the patent upon which he relies is eventually sustained in the courts.

In exploiting patent claims, the general financial strength of the large company furnishes a strong base for its aggressiveness in litigation. If a small concern accuses a large one of infringing patents, the contingent liability associated with a possible adverse verdict is unlikely to affect the large company's credit or to induce it to compromise a doubtful case. A single small concern's patents can seldom cover more than a minor segment of a large diversified concern's business activity. When the large company sues the small, however, the alleged infringement may apply to the small company's whole business or to a large part of it, and the contingent liability may be so great as to impair the small company's opportunity to borrow money for current operations. Under these circumstances, the large company may be able to strike a strong bargain even though it has a weak case.

Patent litigation is merely illustrative of the advantage a large company is likely to enjoy in litigation arising out of questions about the interpretation of contracts and about the validity of titles to land, claims of damage from unfair business conduct, and similar matters. The law courts may be used as a basis for an attack upon a competitor or potential competitor or as a bargaining device in dealing with suppliers and customers. Recourse to law may supplement, or be a substitute for, the strategies of the market. Current advantages may be transformed into contractual rights in such a way as to establish an enduringly protected business position.

The political strength of the great concern is likewise an aspect of its ability to spend money. Large companies start with certain initial political disadvantages because they are in the spotlight, because there is some suspicion of their power, and because small companies are more numerous. However, the large company can often overcome its handicap and obtain a decided advantage by political expenditures. The campaign contributions of large companies and the occasional case of direct or indirect bribery are probably the least significant sources of the large company's political power. More important, the large company spends whatever money is needed to argue effectively on behalf of its interest where a political issue affects it. To know what decisions affecting a particular business interest are pending in Congress, in the many administrative agencies of the federal government, and in state governments is a task for one or more full-time persons. The work of many people may be required in assembling facts and preparing persuasive arguments relevant to these decisions. Detailed acquaintance with governmental processes is necessary to know what official will actually formulate a particular decision. Close attention to timing is indispensable if the case for a particular business interest is to be presented to that official at a time neither so early that he will disregard it nor so late that he cannot use it. Large concerns are increasingly skilled in these processes, primarily because they take such work seriously and do it on a large scale. While some smaller business interests make a comparable showing through associations set up for the purpose, the experience of a Washington official is that small companies generally find out what is happening too late and prepare their case too scantily and hastily to be fully effective where their interests conflict with those of large companies. A government policy may be designed in broad terms to be neutral as between large and small business or to give preference to small business and yet may be translated into a series of decisions not fully expressive of the policy because the presentation by large companies of fact and persuasive argument relevant to each decision has not been sufficiently offset by similar presentations by small companies.

The political advantages of large companies are significant because of the increasing tendency of businessmen to seek from government laws and administrative rulings that directly affect business activity. Tariffs, labeling laws, licensing laws, taxes, subsidies, health regulations, and the like are invoked in an effort to give one type of enterprise or product an advantage over another.

The large concern has an advantage in public relations like its advantage in politics. It must overcome an initial suspicion based upon its size, although this suspicion is blended with admiration for success and presumption that success reflects efficiency and usefulness. Large companies have developed a wide variety of techniques for winning public respect and sympathy by devices ranging all the way from ballyhoo to substantial contributions of public service. By institutional advertising, they tell the public directly and indirectly how good they are. By speeches, pamphlets, and subsidized studies, they present to various audiences reasoned statements of their points of view. By a wide variety of devices they cultivate contacts with people who are influential in community affairs, in journalism, and in education. They participate in charities, educational projects, and many other nonprofit activities well regarded by the public. Increasingly, they use public opinion research, psychological findings, and careful analyses of group interests to develop well-planned and heavily financed campaigns for the purpose of achieving specific objectives in public relations. There was such a campaign a few years ago, for example, by segments of American business that desired legislation to modify the law applicable to basing point systems.

Many of these devices are not new, and few, if any, are used exclusively by large business enterprises. However, they cost money, and the large concern, being able to spend substantial sums in this way, and to employ expert advice as to how to do it, is capable of guiding a substantial part of public opinion to such views as it may think desirable. Within wide limits, it can buy its own reputation. Good repute, in turn, may be used for market advantage, political advantage, or advantage in controversies with other economic groups.

The large concern also has an advantage in finance. It is a large user of the services of commercial banks and investment banks, keeps large sums on deposit, and therefore receives the consideration given a valued customer. Being well known throughout a wide area, it has an unusually broad field of choice of banks to deal with. If its operations are widely diversified, the consequent diversification of risk is attractive to those who extend credit or place investments.

These characteristics of large companies give them a preferred status in financial transactions to such an extent that the operations of investment bankers and of important commercial banks have been planned with the large company in mind. Investment bankers, particularly, have not developed procedures appropriate to small-scale flotations. The federal government has repeatedly sought to encourage the establishment of financial institutions better suited to the requirements of small business, especially in the provision of equity capital, but has not succeeded in eliminating the institutionalized advantage of the large concern.

Moreover, there appear to be important instances in which certain large companies have preferential access to the funds of certain financial institutions. Such access may mean not only greater ease in borrowing money but also a reluctance on the part of the financial institution to finance companies whose business policy is regarded by the favored customer as unsound or dangerous. Moreover, the favored customer's loans may be protected at times when its business position is precarious or when credit is stringent. Such protection is peculiarly likely if the financial commitments to the favored company are so heavy that its fall would be a blow to the credit of the financial institution itself.

The significance of advantages in access to credit is apparently great, for some of our largest companies have been developed in close affiliation with important banks, and many others have become interconnected with large banks by interlocking directorates and interlocking stock holdings.

Thus, in various ways, bigness and diversity may become a source of special advantage. Certain advantages spring from bigness when the bigness is concentrated in a single industry but falls short of monopoly there; certain advantages inhere in bigness regardless of the degree of internal coherence in the enterprise; others may increase or diminish as the activities of the enterprise become more diverse. Traditional concepts of monopoly are insufficient in analyzing the character and extent of these advantages.

How much importance should be attached to the advantages derived from bigness is not clear. That an effort should be made to curb the exercise of some types of power derived from bigness is, to me, obvious. That unless such an effort is successful big companies are likely to have a larger place in the economy than would be justified by their relative functional efficiency is a reasonable inference. No conclusion can be drawn, however, as to whether or not a progressive concentration of economic activity in the big companies is to be anticipated. Bigness is only one source of power. The effective balance of power in industry is the result of the interaction between the power of the big and other types of power, including, for example, the monopoly power that may be exercised by concerns that are not big and the power that small concerns may derive from organized association. Moreover, the trend of economic organization is not determined by power alone. A tendency for bigness to generate power and for power to enhance bigness may be offset in various ways—by a technological trend toward decentralization, bureaucratic inefficiencies associated with excessive size, sustained public encouragement of small enterprise, selective public action against concentrations of power, and many other influences. The trend of concentration is determined by many forces and cannot safely be predicted from an analysis of one alone.

Some of the important consequences of bigness depend, not upon the power of certain large enterprises, but upon the relative place of large-scale business organization in the economy as a whole. The farther we move toward an economy of a few large business units, the less we can count upon automatic competitive adjustments to harmonize production, demand, prices, and costs. In a big diversified company the checks and balances upon which economic theorists have relied for the protection of the public interest do not operate in the traditional way. The diversification of the large concern minimizes risk by setting loss in one part of the business against profit in another and thereby providing an automatic business risk insurance. This kind of stability is one source of strength for such a concern. In economic terms, however, such a spreading of risks sets aside the effect of changes in prices, costs, and profits as guides to economic activity and as selective factors in assuring the survival of well-designed and well-conducted operations and the elimination of ill-designed and ill-conducted ones. The essential feature of the spreading of risks is that the profits from one activity shall subsidize the continuance of another. In such a system, the selective forces of competition are ineffective; activities are selected and adjustments made within diversified concerns by managerial decisions as to the extent of subsidy.

Doubtless there is a possibility that the management of such an enterprise, desiring to maximize profits, will reduce or eliminate the unprofitable activities and expand the profitable ones. However, even if the broad strategy of the company does not make the continuance of unprofitable activities desirable, the chance to eliminate them is no greater than the ability of management to detect them. Within the diversified company a considerable number of expenditures take the form of overhead costs or joint costs when they would be directly attributable to particular types of activity if the same operations were carried on by specialized companies. The allocation of many of these costs is the result of a policy decision more truly than it is the source of one, and consequently the accuracy with which the profits from different types of activity can be determined tends to decrease as activities become more diversified. Furthermore, the large diversified company may not establish a system of records detailed enough to segregate income, costs, and profits by lines of activity. The FTC recently sought to obtain from the largest manufacturing companies the value of their shipments of each 5-digit product class from each plant. A considerable number of the companies were unable to give important parts of even so limited a body of information except on an estimated basis. To the extent that the data are not available, managements cannot be expected to provide through managerial decision the type of adjustment that competition between companies can no longer make. Thus one effect of diversification is to promote the survival of groups of business activities that are historically or strategically related, so long as somewhere in each group there are enough profitable activities to support the unprofitable ones.

Apart from these effects of bigness upon the functioning of the market, the replacement of small business enterprises by large ones has significant consequences for personal opportunity and for the process of making business decisions. So far as our economic organization takes the form of a small number of large enterprises, the points at which decisions of business policy are made are relatively few, and each policy decision applies to a relatively wide area of business activity. This necessarily means that a few business executives carry responsibility for basic business decisions, while the executives down the line in the large concern have limited discretion within the boundaries set by the decisions of their superiors. Entrepreneurship becomes scarce, and much of what was once entrepreneurship is converted into bureaucracy. Insofar as diffusion of ownership is associated with bigness, the persons making entrepreneurial decisions at the top of large corporations may be guided less by the simple pursuit of profit and more by a miscellany of considerations reflecting their personal attitudes and the various pressures that focus upon them, of which the pressure of the owner's interest is only one. Moreover, a small proportion of the persons who hold responsibility as business executives can reach the top, and the ascent to final authority in some business enterprise is up a few very long ladders.

That part of the business community is organized in this manner seems to me to furnish no ground for concern, provided it is a small enough segment of the whole to be effectively checked by other types of business organization. But if the business community should come to be typically thus organized, the impact of the institutional change would be far-reaching. Its general direction would be toward an authoritarian system of business, within which the significant checks and balances would be, not those of the market, but whatever safeguards might be built into the structure of the corporation or into the relations between the corporation and the state.

The important questions as to this kind of institutional change are highly controversial: How important can large enterprises become before there is a significant change in our institutions? Do large enterprises now have, or is there danger that they will have, this degree of importance?

COMMENT

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ECONOMISTS in their study of the economics of the firm have used simplified models. On the basis of their rigorous assumptions, these models afford a coherent and consistent theory of entrepreneurial behavior. Despite the unreality of their underlying assumptions, they are useful in analyzing price behavior in industrial markets. The prevalence of numerous and complex monopoly elements in the world about us makes the purely competitive model seem wholly unreal, yet it still affords a useful norm with which to compare actual conditions and by which to evaluate the significance of departures from the norm. The Chamberlinian models make a closer approach to reality by taking account of two significant characteristics which differentiate the real world from the nineteenth century neoclassical economists' conception of it—few sellers and differentiation of product. But these, too, have necessarily been simplified models, helpful in understanding aspects of entrepreneurial behavior but inadequate to explain all the ramifications of market behavior under the complex conditions of modern business. In truth, business behavior is too complex and varied to permit of a single generalized explanation. As John M. Clark has pointed out in trying to classify markets, hundreds or thousands of combinations are possible.[1]

The tool makers, as well as the tool users, are aware of the shortcomings of their instruments and are constantly striving to perfect them. Edwards, recognizing the inadequacies of generalized monopoly theory to explain fully the concrete and intricate industrial situations that have come within his experience, has made a fresh approach. In doing so he points out that the economists have appraised "problems of monopoly power in the light of certain conceptions of *monopolistic exploitation*, on the one hand, and certain conceptions of *business efficiency*, on the other." (Italics supplied.) What he means by the appraisal of "monopoly power in the light

[1] John M. Clark, "Toward a Concept of Workable Competition," *American Economic Review*, June 1940, pp. 241-256.

of certain conceptions of monopolistic exploitation" and its relevance to his subsequent discussion, I can readily understand. What he means by the appraisal of "monopoly power in the light of . . . certain conceptions of business efficiency" is more obscure. I infer that he has in mind the argument that the economies of mass production in many industries permit so few firms that each will have some power over the market, and this is one of my assumptions in commenting on his discussion.

Like monopoly, the conglomerate as he uses the term is an abstraction, useful because it "throws a spotlight upon a part of the situation that cannot be described and appraised in the traditional way." His conglomerate, the chief attributes of which are bigness and diversification, "can be as large as one chooses to conceive it without thereby acquiring a monopoly of any product and without deriving from its size the efficiencies that are traditionally associated with mass production. Thus the term conglomerate becomes a device for examining problems of *size* and *power* apart from the traditional focus upon monopoly and efficiency."[2] (Italics supplied.)

With this tool in hand Edwards examines various manifestations of business power which he thinks are the product of size unassociated with monopoly, and various aspects of size which he thinks are not associated with efficiency. I propose to test some of his specific illustrations or arguments in the light of these two criteria. Specifically, I shall concern myself with two questions: Does the power of Edwards' conglomerate inhere in its size and diversification (as he thinks) or stem from an element of monopoly (as I argue)? Does its size reflect economic efficiency or a search for efficiency? In applying the first test I shall resort to conventional theory. In applying the second I shall have in mind the distinctions made by E. A. G. Robinson in his discussion of the optimum firm: (1) the technological optimum; (2) the managerial optimum; (3) the marketing optimum; (4) the financial optimum; and (5) the security optimum.[3] In arguing that Edwards' conglomerate may

[2] Since presenting his paper at the Princeton Conference, Edwards has added a footnote to it (note 2) expressly limiting his interpretation of the monopoly concept to "the sense it had in the older economic theory and still has in our antimonopoly laws, rather than in the later meaning given it by the theory of monopolistic competition." This limitation excludes all that Chamberlin and his refiners have brought within the scope of neoclassical monopoly theory and thereby enhances the apparent theoretical significance of Edwards' concept of "conglomerate power," although Edwards readily concedes that its actual significance lies in dealing with concrete market situations.

[3] E. A. G. Robinson, *The Structure of Competitive Industry* (rev. ed., London: Nisbet, 1935), Chap. 2.

reflect a search for one of these optimums, I do not mean to imply that the optimum scale of operation as judged by these criteria, with a single exception, is so large as necessarily to eventuate in monopoly. That exception is the security optimum. A firm in a competitive industry may enhance its security by joining a cartel or by monopolizing the market. The security optimum, in short, may be inconsistent with competition. The other optimums, although falling short of monopoly, may contribute to an oligopolistic market structure, and this I believe is likely to lessen the vigor of competition, although generalization about their consequences may be risky. My criticism of Edwards is that in the illustrations he cites either the size of the conglomerates reflects economic efficiency or their power reflects monopoly.

As Edwards sees it, bigness has a "special kind of power," based upon the fact that a big concern can spend money in large amounts. "In encounters with small enterprises it can buy scarce materials and attractive sites, inventions, and facilities; pre-empt the services of the most expensive technicians and executives; and acquire reserves of materials for the future." All of these advantages I believe can be expressed in traditional terms with a gain, not a loss, in clarity. Apparently it is the indivisibility and the limited supply of the better raw material deposits, the more attractive sites, the new inventions, and the more expensive technicians and executives that account for the inability of small firms to buy them. Exceptional factors, scarce and indivisible, may have such a high differential rent that they can be used economically only when their total cost is distributed over a large output. That is to say, only large firms can afford to buy them. Here business efficiency is a function of size. If without achieving monopoly power big firms pay more for these factors than their economic rent, they cannot long survive in competition with their smaller rivals. The problem is thus reduced to one of monopoly exploitation, one of efficiency, or both.

"Closely associated with differences in financial strength is a difference between the attitudes of large concerns toward one another and their attitudes toward smaller business enterprises." Big firms manifest a live-and-let-live attitude towards each other not displayed by any of them towards their smaller rivals. But is relative size the significant variable? Or is it power over the market? "The interests of great enterprises are likely to touch at many points [geographical or points of diversification], and it would be possible for each to mobilize at any one of these points a considerable aggregate of resources. The anticipated gain to such a concern from unmitigated competitive attack upon another large enterprise at one point of contact is likely to be slight as compared with the possible loss from retaliatory action by that enterprise at many other points of contact." This situation suggests the well-known monopolistic solutions of division of markets and division of fields. And even if such do not take place, the live-and-let-live policy can readily be brought within the scope of oligopolistic theory. The problem apparently is one of fewness of sellers or relative, not absolute, size.

"This aspect of the power of large concerns becomes more conspicuous as the diversity of operations becomes greater, that is, as the likelihood that the large concern has monopoly power in any particular market becomes less. . . . The large company . . . has the maximum chance to discipline or destroy any particular small company by a localized attack without serious inconvenience to itself, and has the minimum vulnerability to attack from a single small company." Again, neither absolute size nor diversification seems to be the significant variable, but relative power. Local price cutting to destroy a rival is a long-recognized monopoly device. And unless the large firm can (1) recapture the temporary losses involved in the price war by above-normal (monopoly) returns elsewhere on the same or some other product, (2) eventually obtain a local monopoly by driving out its little rival, or (3) force the rival to follow its price leadership, what has it profited? Surely all this can be brought within traditional monopoly theory. Why does the little firm need disciplining in the first place? Presumably because it has cut prices. Below what? Below competitive levels or below noncompetitive prices charged by the little company's sole rival? The little company, unless it is more efficient than the big or unless the big company as price leader has been charging monopoly prices, has nothing to gain in the long run by price cutting. Traditional theory seems adequate to explain this behavior.

"One important way in which bigness contributes to power is by creating opportunities for self-sufficiency." The big nonintegrated concern, Edwards believes, can use the threat of integration in bargaining with either its suppliers or its distributors and thereby get better terms than its smaller rivals can get, at the expense of those from whom it buys or to whom it sells. Although the motives prompting entrepreneurs to integrate their business may be complex, if one assumes profit maximization as the goal of business enterprise the economics of integration can be succinctly stated.

Integration may lower costs by economizing in the use of some factors, by eliminating some steps in the process of production, or by insuring a more even flow of materials. Here an increase in size through integration brings greater efficiency: the technological optimum is large. It may bring greater security in the short run by guaranteeing that supplies will be available when they are wanted and in the long run by freeing a concern from reliance on the decisions of those who have no stake in the nonintegrated enterprise. It may stabilize profits by freeing an enterprise from the ill effects of uneven price movements at different levels of the productive process. It may relieve a firm of the necessity of paying tribute to a monopolistic supplier. In each of these illustrations an increase in size brings greater security; that is to say, the security optimum is large. It may lower administrative expenses by using managerial talents more effectively: the managerial optimum is large. By bringing a manufacturer closer to the ultimate consumer, integration may insure a more certain and continuous market for his product at profitable prices: the marketing optimum is large. Thus all of these advantages may be comprehended under the traditional concepts of monopoly power and efficiency of scale. By integrating, firms may increase their profits by escaping from the power of others or by reducing their costs, or they may obtain greater security. If this analysis is correct, Edwards is wrong in attributing to a conglomerate as such the power to exploit suppliers or distributors by threatening to integrate. If a conglomerate is obtaining materials from a supplier at a competitive price, it has no economic advantage in integrating unless integration lowers costs or brings greater security. If it lowers costs or brings greater security, these are advantages inherent in size. This of course is not to argue that large, integrated firms do not possess monopoly power, but to argue that their power inheres in an element of monopoly, not in integration *per se*. Nor is it to argue that the nonintegrated conglomerate may not buy on such scale as to have monopolistic power. If the situation is one of bilateral monopoly or oligopoly, the conglomerate may by threat of integration get its goods for less than the little buyer can hope to do.

Edwards recognizes that *some* tie-in sales may stem from monopoly power, "but tie-in sales may also be used in selling a product that enjoys a high degree of consumer acceptance, even if this product is in competition with other highly acceptable products and constitutes a portion of the total supply too small to be an expression of monopoly power." Surely this is a typical case of product differentiation comprehended by the Chamberlinian concept of monopolistic competition and characterized many years earlier by Veblen as a monopoly of prestige (see note 2). No firm could exact a tie-in contract for products sold in a purely competitive market. A monopolist of one product in great demand may use his monopoly power to sell other products which otherwise he could not so profitably sell. But a conglomerate without monopoly power could not do so.

Similarly, the practices which conglomerates resort to of extending reciprocal favors, exchanging patents, and owning transportation facilities or developing raw materials or new processes jointly can be explained in the traditional terms of monopoly power or economic efficiency. Firms may exchange patent rights either to increase their efficiency by a more complete use or development of technology or to monopolize markets or for both purposes. They may pool resources to develop new processes, to find new sources of raw materials, or to provide joint transportation facilities because by doing so they reduce risks in conducting large-scale enterprise. They do so because they believe that the security optimum is large.

A rose by any other name will smell as sweet. But this is not merely a problem of nomenclature. To designate a plant as a rose may identify it to the undiscriminating man in the street. But the horticulturist or expert gardener will find it edifying to know whether the particular rose in question is of the polyantha, the Noisette, or the hybrid perpetual class. Different care may be required in growing each class.

Edwards' conglomerate, as I understand his discussion of it, is a firm that is large and diversified but whose size and diversification do not reflect a quest for efficiency and whose power over the market cannot be explained in traditional terms of monopoly or oligopoly. If antisocial power inheres in the conglomerate purely because it is large and its activities are diversified, I should think Congress should limit by statute the right of firms to grow indefinitely and to diversify. Such a policy might seem to have the advantage of simplicity, but it raises the questions of how big is too big and how varied may a firm's activities become without constituting a social menace? Our antitrust policy may need overhauling to bring it into harmony with the complex structure of modern industry, but I am not convinced that the conglomerate as such is a useful target at which to aim.

Despite these criticisms, I think Edwards' discussion enriches the literature by calling attention to the many and complex ways in which monopoly power may be exercised—and therefore in showing antitrust agencies what to look for—and to the various factors which make for an increase in size; and I think he breaks new and important ground in his discussion of the nonmarket uses of power, be it conglomerate or monopoly. Some of his ideas on this issue, too, can be fitted within the traditional concepts, but to so fit them might tend to conceal rather than reveal their social and economic significance. For example, as Edwards points out, large companies can afford to maintain elaborate law offices or use expensive lawyers. Small firms cannot. This might be regarded as an economy of scale, but it also may be contrary to the general welfare because, as Edwards makes clear, the large companies not only can win their *lawsuits*, they can win *bargaining victories* even when they have no sound legal or economic basis for doing so. Such power tends to keep small companies small and to make big companies bigger with no social *quid pro quo*. Similarly in politics and more particularly in public relations, bigness brings advantages to those possessing it quite apart from its relation to economic efficiency. And I suspect not the least of them is the power to mold individual thinking and thereby to create public opinion. The modern techniques of mass communication—the periodical, the radio, television, and the privately made propaganda film—are giving our giant corporations a subtle and ominous power, a power over the human mind. They are enabling the big and powerful corporation with a vested interest in a particular pattern of business control to shape attitudes, arouse prejudices, coin good will, form public opinion, create habits of thought, with their readers and listeners unaware that their ideas are being fabricated for them.

The giant corporation is indeed one of the most significant institutional developments of all time. I would agree with Edwards that it is an instrument of power—social, economic, and political. About its origin, the factors making for its growth, the factors which influence the decisions of its managers, and the exercise of its power, we know too little. I would also agree with Edwards that traditional tools of analysis are inadequate to an understanding of these phenomena. The key figure in contemporary theory is the enterpriser. But the enterpriser is a conceptual product of simpler institutional arrangements. Traditionally he was both owner and decision-maker. The modern corporation has brought a separation of these functions. Thus the large corporation has acquired power not exercised by those who own it. Corporate executives, although not insensitive to pecuniary considerations, may be more interested in security than in maximizing earnings. The corporation affords a way of life for those who run it. They have power and prestige which they want to preserve and enhance. Although they cannot ignore market considerations in their decision-making, neither can they ignore the impact of their decisions on their organized labor force, the public, and the politicians. In brief, they may be more concerned with a socio-political than with a pecuniary calculus. Contemporary theories of entrepreneurial behavior may be institutionally obsolete. What we need is a new "conceptual framework," to use the jargon of our profession, in our study of business enterprise. But I am not convinced that Edwards' conception of the conglomerate is the answer to our problem. I am convinced, however, that Edwards' informed and realistic appreciation of the social, political, and economic significance of bigness (whether it be described in terms of the conglomerate or monopoly) and the clarity with which he presents his views represent an important contribution to an understanding of the problem.