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**Policy Issues and Research Opportunities
in Industrial Organization**

NATIONAL BUREAU OF ECONOMIC RESEARCH
General Series 96

Economic Research: Retrospect and Prospect

Policy Issues
and Research Opportunities
in Industrial Organization

Fiftieth Anniversary Colloquium III

Edited by

VICTOR R. FUCHS

National Bureau of Economic Research



NATIONAL BUREAU OF ECONOMIC RESEARCH
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Relation of National Bureau Directors to Publications
Reporting Proceedings of the Fiftieth Anniversary Colloquia

Since the present volume is a record of colloquium proceedings, it has been exempted from the rules governing submission of manuscripts to, and critical review by, the Board of Directors of the National Bureau.

*(Resolution adopted July 6, 1948, as revised
November 21, 1949, and April 20, 1968)*

Prefatory Note

This volume of the Fiftieth Anniversary Series contains papers presented at the Roundtable on Policy Issues and Research Opportunities in Industrial Organization held at the University of Chicago on November 5, 1970. We are indebted to the members of the Bureau's Board of Directors who served on the committee to plan and coordinate the industrial organization session: Joseph A. Beirne, Robert A. Charpie, Nathaniel Goldfinger, Lloyd G. Reynolds, Murray Shields, George Soule, Thomas A. Wilson, and Theodore O. Yntema; and to Virginia Meltzer, Ester Moskowitz, and Ruth Ridler, who prepared the manuscript for publication.

Finally, it is with great pleasure that we dedicate this volume to Professor George J. Stigler, a pioneer in theoretical and empirical studies of industrial organization and a valued member of the National Bureau's senior research staff since 1943. His generous advice and assistance contributed substantially to the success of the roundtable session.

VICTOR R. FUCHS

Fiftieth Anniversary Colloquium and Publication Series

To commemorate its fiftieth anniversary the National Bureau of Economic Research sponsored a series of colloquia to explore the effects of pending and anticipated policy issues on future research priorities for areas of long-standing Bureau concern. As a basis for the panel and audience discussions, economists specializing in the subject area prepared papers in which they reviewed relevant research advances through time and presented their opinions for the direction of future effort. These papers, and in some instances edited transcripts of panelists' comments, appear as part of the National Bureau's Fiftieth Anniversary publications series. Papers developed for the colloquia and publications series and participants in the program included:

THE BUSINESS CYCLE TODAY September 24, 1970—New York City

Moderators:

Morning session: Paul A. Samuelson
Afternoon session: F. Thomas Juster

Presentations:

- | | |
|---|--|
| "Dating American Growth Cycles" | <i>Ilse Mintz</i> |
| "The 'Recession' of 1969-1970" | <i>Solomon Fabricant</i> |
| "The Cyclical Behavior of Prices" | <i>Geoffrey H. Moore</i> |
| "Forecasting Economic Conditions: The Record and the Prospect" | <i>Victor Zarnowitz</i> |
| "Econometric Model Simulations and the Cyclical Characteristics of the U.S. Economy" | <i>Victor Zarnowitz</i> |
| "A Study of Discretionary and Nondiscretionary Monetary and Fiscal Policies in the Context of Stochastic Macroeconometric Models" | <i>Yoel Haitovsky and Neil Wallace</i> |

Panelists:

Morning session: Otto Eckstein, Henry C. Wallich

Afternoon session: Bert G. Hickman, Arthur M. Okun

FINANCE AND CAPITAL MARKETS

October 22, 1970—New York City

Moderator: Robert V. Roosa

Presentation:

“Finance and Capital Markets”

John Lintner

Panelists: William J. Baumol, Sidney Homer, James J. O’Leary

**A ROUNDTABLE ON POLICY ISSUES AND RESEARCH
OPPORTUNITIES IN INDUSTRIAL ORGANIZATION**

November 5, 1970—Chicago, Illinois

Moderator: Victor R. Fuchs

Presentations:

“Industrial Organization: Boxing the Compass”

James W. McKie

“Antitrust Enforcement and the Modern Corporation”

Oliver E. Williamson

“Issues in the Study of Industrial Organization in a Regime of Rapid
Technical Change”

Richard R. Nelson

“Industrial Organization: A Proposal for Research”

Ronald H. Coase

PUBLIC EXPENDITURES AND TAXATION

December 2, 1970—Washington, D.C.

Moderator: Walter W. Heller

Presentation:

“Quantitative Research in Taxation and Government Expenditure”

Carl S. Shoup

Panelists: James M. Buchanan, Richard R. Musgrave

ECONOMIC GROWTH

December 10, 1970—San Francisco, California

Moderator: R. Aaron Gordon

Presentation:

“Is Growth Obsolete?”

William D. Nordhaus and James Tobin

Panelists: Moses Abramovitz, Robin C. O. Matthews

HUMAN RESOURCES

May 13, 1970—Atlanta, Georgia

Moderator: Gary S. Becker

Presentation:

“Human Capital: Policy Issues and Research Opportunities”

Theodore W. Schultz

Panelists: Alice M. Rivlin, Gerald S. Somers

THE FUTURE OF ECONOMIC RESEARCH
April 23, 1971—South Brookline, Massachusetts

Presentation:

“Quantitative Economic Research: Trends and Problems”

Simon Kuznets

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Foreword

Whither industrial organization? That all is not well with this once flourishing field is readily apparent. To cite just one piece of evidence, fewer than 2 per cent of the publications in the *American Economic Review* in 1969 or 1970 were concerned with industrial organization. In former years this field accounted for at least 5 per cent of all publications.

There is nothing wrong in principle with shifts in the relative importance of different research fields; indeed, a static distribution should be highly suspect. It does seem worthwhile, however, to raise a few questions concerning the change. Have the problems that were formerly viewed as important all been solved? Do the problems, albeit unsolved, seem less pressing? Is current inquiry limited by the absence of new theoretical insights or by the inability to find relevant data to test these theories?

To explore these and related questions the National Bureau invited papers from four economists who have all done distinguished work in industrial organization. Their views of policy issues and research opportunities have contributed substantially to the Bureau's plans for work in this field, and we are pleased to make their papers available to a wider audience. Each author makes his own distinctive contribution to the discussion, but rather than summarizing each paper I should like to identify a few common themes that run through all or most of them.

The most prominent is the call for more attention to behavior and organization *within* the firm. As Richard Nelson states it, we must go beyond the view of the firm as simply a "competent clerk" who carries out "certain well defined, widely known activities using generally available resources, picking the activities and their levels according to well defined, easily computable (and optimum) decision rules."

Both Coase and Williamson stress the need to study why firms are formed and why they assume certain activities and not others. According to Coase, "the source of the gain from having a firm is that the operation of a market costs something and that by forming an organization and allowing the allocation of resources to be determined administratively these costs are saved." In a similar vein, Williamson concludes

that “. . . the question of organizational design is intrinsically interesting and inseparably associated with efficiency considerations. . . . The study of firm and market structures . . . can benefit from a more systematic examination of the sources and consequences of market failure and by a fair assessment of the powers and limits of internal organization.”

A second theme, closely related to the first, is the need to define industrial organization broadly to include all kinds of organizations that use scarce resources to satisfy competing wants. Thus we are urged to pay more attention to public sector activities, nonprofit organizations, and presumably even household production. I find this emphasis particularly welcome, because, as I understand the matter, the distribution of productive activities (by type of organization) is much influenced by public policy, but economists have no theory to explain the observed distribution, to explain differences over time or space, or to predict the consequences of changes in the distribution.

A third subject that receives repeated emphasis is technological and organizational change. McKie notes that the “. . . simple equivalence of marginal cost and marginal social return is the test of welfare that we apply to practically every other allocation of resources; yet we are not remotely able to apply it at the present time to technological progress, which is itself an organic change in the use of resources.” Nelson states flatly, “I do not think that the traditional theory of the firm is adequate for analysis of industries in which technical change is important”; and Williamson writes, “If one of the most remarkable attributes of American capitalism is its adaptive capacity to invent efficient viable organization forms in response to changing technological, market, and organizational conditions, to characterize the system in conventional industry terms to the neglect of internal organization easily misses much of what accounts for its most significant accomplishments.”

There are, to be sure, significant differences in emphases among the papers as well as points of similarity. Williamson sees many interesting research opportunities arising out of the need to guide antitrust and regulatory policy, while Coase argues that at this stage research will proceed best in an atmosphere not directly related to policy issues. Both Nelson and Williamson appear to believe that a satisfactory theoretical framework is available; Coase, on the other hand, urges wide-ranging empirical studies on the grounds that “it is unlikely that we shall see

significant advances in our theory of the organization of industry until we know more about what it is that we must explain.”

Whether they are agreeing or disagreeing, however, all four authors make their points crisply and provocatively. The papers, though brief, reflect their long and varied research experience, and should prove of great interest to economists in a variety of settings—academic, business and government.

VICTOR R. FUCHS
Vice President-Research

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