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Chapter Author: Armen A. Aichian, Reuben A. Kessel

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Competition, Monopoly, and the Pursuit of Money

ARMEN A. ALCHIAN AND REUBEN A. KESSEL

UNIVERSITY OF CALIFORNIA AT LOS ANGELES AND
UNIVERSITY OF CHICAGO

The Problem

GENERALLY speaking, the observations of economists on the subject of monopoly fall into two classes. One set of observations, which flows directly from monopoly theory, is that resources in the competitive sector of the economy would be underutilized if used by monopolists. The other, which does not arise as an implication of either monopoly or competitive theory, consists of a series of observations of empirical phenomena: that monopolistic enterprises, by comparison with competitive enterprises, are characterized by rigid prices, stodgy managements, and relaxed, easygoing working conditions. Alternatively, it is alleged that employees of competitive enterprises work harder, managements are more aggressive and flexible, and pricing is more responsive to profit opportunities.[1]

To regard this second class of observations as not an implication of either monopoly or competitive theory is only partly correct. More correctly, these observations are inconsistent with the implications of the standard profit or wealth maximization postulate. For analyzing the behavior described by Hicks, the pecuniary wealth maximization postulate is clearly inappropriate and should be replaced by a utility maximization postulate.

[1] Hicks concludes: "The best of all monopoly profits is a quiet life." This conclusion appears in a theoretical paper on monopoly; yet it does not flow from the theory presented.

Preceding the foregoing quotation is: "Now, as Professor Bowley and others have pointed out, the variation in monopoly profit for some way on either side of the highest profit output may often be small (in the general case it will depend on the difference between the slopes of the marginal revenue and marginal cost curves); and if this is so, the subjective costs involved in securing a close adaption to the most profitable output may well outweigh the meagre gains offered. It seems not at all unlikely that people in monopolistic positions will often be people with sharply rising subjective costs; if this is so, they are likely to exploit their advantage much more by not bothering to get very near the position of maximum profit, than by straining themselves to get very close to it. The best of all monopoly profits is a quiet life. John R. Hicks, "Annual Survey of Economic Theory: The Theory of Monopoly." *Econometrica*, January 1935, page 8.

Utility Maximization, Not Wealth Maximization

That a person seeks to maximize his utility says little more than that he makes consistent choices. In order to employ this postulate as an engine of analysis, one must also specify what things are regarded as desirable. This is the class that includes all those things of which a person prefers more rather than less: money, wealth, love, esteem, friends, ease, health, beauty, meat, gasoline, etc.[2] Then, assuming that a person is willing to substitute among these variables, that is, he will give up wealth in return for more peace and quiet, or better looking secretaries, or more cordial employees, or better weather, the behavior described by Hicks can be analyzed.

Economics cannot stipulate the exchange value that these things have for any particular person, but it can and does say that, whatever his preference patterns may be, the less he must pay for an increase in one of them, the more it will be utilized. This principle, of course, is merely the fundamental demand theorem of economics—that the demand for any good is a negative function of its price. And price here means not only the pecuniary price but the cost of whatever has to be sacrificed.

For predicting the choice of productive inputs by business firms, where only the pecuniary aspects of the factors are of concern, the narrower special-case postulate of pecuniary wealth is usually satisfactory. But this special-case postulate fails when a wider class of business activities is examined. Therefore we propose to use the general case consistently, even though in some special cases simpler hypotheses, contained within this more general hypothesis, would be satisfactory.[3]

[2] The following impression is not uncommon. "To say that the individual maximizes his satisfaction is a perfectly general statement. It says nothing about the individual's psychology of behavior, is, therefore, devoid of empirical content." T. Scitovsky, "A Note on Profit Maximization and Its Implications," *Review of Economic Studies*, 1943, pp. 57-60. But this is also true of profit or wealth maximization—unless one says what variables affect profit or wealth and in what way. And so in utility maximization, one must similarly add a postulate stating what variables affect satisfaction or utility. This leads to meaningful implications refutable, in principle, by observable events. For example, an individual will increase his use of those variables that become cheaper. Utility maximization, like wealth maximization, is not a mere sterile truism.

[3] Failure to give adequate heed to the special-case properties of wealth maximization may have been responsible for some complaints about the inadequacy of economic theory and may even have led to the curious belief that people themselves change according to which postulate is used. For example, Scitovsky says (*ibid.*):
"The puritan psychology of valuing money for its own sake, and not for the enjoyments and comforts it might yield, is that of the ideal entrepreneur as he was

An example of the power of the generalized utility maximizing postulate is provided by Becker.[4] He shows that under the more general postulate a person, deliberately and even in full knowledge of the consequences for business profits or personal pecuniary wealth, will choose to accept a lower salary or smaller rate of return on invested capital in exchange for nonpecuniary income in the form of, say, working with pretty secretaries, nonforeigners, or whites. The difference in money return between what an entrepreneur could earn and what he does earn when he chooses to discriminate is an equalizing difference that will not be eliminated by market pressures. If these persisting, equalizing differences exist, their size, and consequently the extent of discrimination, will differ when institutional arrangements lead to differences in the relative costs of income in pecuniary form relative to income in nonpecuniary form. Thus, if one can determine the direction in which relative costs are affected by activities or variables that en-

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conceived in the early days of capitalism. The combination of frugality and industry, the entrepreneurial virtues, is calculated to insure the independence of the entrepreneur's willingness to work from the level of his income. The classical economists, therefore, were justified in assuming that the entrepreneur aims at maximizing his profits. They were concerned with a type of business man whose psychology happened to be such that for him maximizing profits was identical with maximizing satisfaction.

"The entrepreneur today may have lost some of the frugality and industry of his forefathers; nevertheless, the assumption that he aims at maximizing his profits is still quite likely to apply to him—at least as a first approximation. For this assumption is patently untrue only about people who regard work as plain drudgery; a necessary evil, with which they have to put up in order to earn their living and the comforts of life. The person who derives satisfaction from his work—other than that yielded by the income he receives for it—will to a large extent be governed by ambition, spirit of emulation and rivalry, pride in his work, and similar considerations, when he plans the activity. We believe that the entrepreneur usually belongs in this last category."

Aside from the dubious validity of (1) alleged differences between the entrepreneurs of the "early days" of capitalism and those of today, and (2) the allegation that the early entrepreneur was one whose utility function had only a single variable—wealth—in it, the more general analysis obviates the urge to set up two different and inconsistent behavior postulates, as if people were schizophrenic types—utility maximizers when consumers and wealth maximizers when businessmen.

The special-case property of the wealth maximizing postulate has been noted by M. W. Reder ("A Reconsideration of the Marginal Productivity Theory," *Journal of Political Economy*, October 1947, pp. 450-458). But in suggesting alternatives he did not postulate the more general one, which includes the valid applications of the special-case postulate as well as many more, without leading to the invalid implications of the special-case postulate.

[4] Gary S. Becker, *The Economics of Discrimination*, University of Chicago Press, 1957.

hance a person's utility, then it should be possible to observe corresponding differences in behavior.

Monopolistic Versus Competitive Behavior

The wealth-maximizing postulate seems to imply that both competitive and monopolistic enterprises pursue profits with equal vigor and effectiveness, that their managements are equally alert and aggressive, and that prices are just as flexible in competitive as in monopolized markets. Both the competitive and monopoly model imply that the assets of an enterprise, be it a monopolist or competitive firm, will be utilized by those for whom these assets have the greatest economic value. One might object to this implication of similarity between competition and monopoly by arguing that, when a monopolistic enterprise is not making the most of its pecuniary economic opportunities, it runs less risk of being driven out of business than a similarly mismanaged competitive enterprise. The answer to this is that despite the absence of competition in product markets, those who can most profitably utilize monopoly powers will acquire control over them: competition in the capital markets will allocate monopoly rights to those who can use them most profitably. Therefore, so long as free capital markets are available, the absence of competition in product markets does not imply a different quality of management in monopolistic as compared with competitive enterprises. Only in the case of nontransferable assets (human monopoly rights and powers like those commanded by Bing Crosby) does classical theory, given free capital market arrangements, admit a difference between competition and monopoly with respect to the effectiveness with which these enterprises pursue profits.[5]

The preceding argument implies that there is no difference in the proportion of inefficiently operated firms among monopolistic as compared with competitive enterprises. (Inefficiency here means that a situation is capable of being changed so that a firm could earn more pecuniary income with no loss in nonpecuniary income or else can obtain more nonpecuniary income with no loss in pecuniary income.) As Becker has shown, discrimination against Negroes in employment is not necessarily a matter of business inefficiency. It can be viewed as

[5] For a statement of this position, see Becker, *The Economics of Discrimination*, p. 38. Becker argues that, insofar as monopoly rights are randomly distributed and cannot be transferred, there are no forces operating to distribute these resources to those for whom they are most valuable. Consequently monopolists, when rights are nontransferable, would be less efficient, on the average, than competitive firms.

an expression of a taste, and one's a priori expectation is that discrimination is characterized by a negatively sloped demand curve. From this viewpoint, discrimination against Negroes by business enterprises, whether competitors or monopolists, would not lessen even if managements were convinced that discrimination reduced their pecuniary income. Presumably, the known sacrifice of pecuniary income is more than compensated for by the gain in nonpecuniary income. But if discrimination does not constitute business inefficiency, then the frequency of discrimination against Negroes ought to be just as great in competitive as in monopolistic enterprises, since both are presumed to be equally efficient. This implication is apparently inconsistent with existing evidence. Becker's data indicate that Negroes are discriminated against more frequently by monopolistic enterprises.[6] But why do monopolistic enterprises discriminate against Negroes more than do competitive enterprises? One would expect that those who have a taste for discrimination against Negroes would naturally gravitate to those economic activities that, for purely pecuniary reasons, do not employ Negroes. Free choice of economic activities implies a distribution of resources that would minimize the costs of satisfying tastes for discrimination. Consequently the managements of competitive enterprises ought to discriminate against Negroes neither more nor less than those of monopolistic enterprises.

If there is greater discrimination by monopolists than by competitive enterprises, and if it cannot be explained by arguing either that people with tastes for discrimination also have special talents related to monopolistic enterprises or that monopolists are in some sense less efficient businessmen, what, then, explains Becker's data and similar observations? More generally, what is the explanation for the contentions that monopolists pursue pecuniary wealth less vigorously, do not work as hard, have more lavish business establishments, etc.? It is to this problem that this paper is addressed.

Monopoly and Profit Control

Stigler and others have pointed out that monopolies, both labor and product, are creatures of the state in a sense which is not true of competitive enterprises.[7] Monopolies typically are protected against the

[6] *Ibid.*, p. 40, Table II.

[7] George J. Stigler, "The Extent and Bases of Monopoly," *American Economic Review*, June 1942, Supplement Part 2, p. 1; H. Gregg Lewis, "The Labor Monopoly

hazards of competition, not simply by their ability to compete, but by the state's policy of not permitting competitors to enter monopolized markets. Laws are enacted that encourage and lead to the creation of monopolies in particular markets. Monopolies so created are beholden to the state for their existence—the state giveth, the state taketh away. Accordingly, they constrain their business policies by satisfying the requirements that they shall do what is necessary to maintain their monopoly status.

Public utilities are an example. Under this head one should include not only gas, electric, and water companies, but all franchised and licensed industries. Railroads, busses, airlines, and taxis fall in this category of business for which permission of a public authority is required, and for which rate and profit regulation exists. For many other businesses, entry regulation exists: commercial and savings banks, savings and loan associations, insurance companies, and the medical profession. All these are formally regulated monopolies, since they are licensed and operated with the approval of the state. Their cardinal sin is to be too profitable.[8] This constraint upon monopolists does not exist for firms operating in competitive markets. This difference in constraints implies differences between the business policies of competitive firms and those of monopolies. The remainder of this paper is devoted to indicating specifically the character of the constraints that are postulated and exploring the observable implications of this postulate.

Even a firm that has successfully withstood the test of open competition without government protection may manifest the behavior of a protected monopoly. Thus a firm like General Motors may become very large and outstanding and acquire a large share of a market just as a protected monopoly does. If, in addition, its profits are large, it will fear that public policy or state action may be directed against it, just as against a state-created monopoly. Such a firm constrains its behavior much in the style of a monopoly whose profit position is protected but also watched by the state. This suggests that the distinction between publicly regulated monopolies and nonregulated

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Problem: A Positive Program," *Journal of Political Economy*, Aug. 1951, p. 277; C. E. Lindbloom, *Unions and Capitalism*, Yale University Press, 1949, p. 214; and Milton Friedman, "Some Comments on the Significance of Labor Unions for Economic Policy," in *The Impact of the Union*, David M. Wright, ed., Harcourt Brace, 1951, p. 214.

[8] The notorious suggestion of the medical profession that doctors not drive around town in expensive Cadillacs when visiting patients is an example of the point being made.

monopolies is a false distinction for this problem. As the possibility of state action increases, a firm will adapt its behavior to that which the state deems appropriate. In effect, state regulation is implicitly present.

The cardinal sin of a monopolist, to repeat, is to be too profitable. Public regulation of monopolies is oriented about fixing final prices in order to enable monopolists to earn something like the going rate of return enjoyed by competitive firms. If monopolists are too profitable, pressures are exerted to reduce profits through lowering prices. Only if monopolists can demonstrate to regulatory authorities that they are not profitable enough are they permitted to raise prices.

Implications

If regulated monopolists are able to earn more than the permissible pecuniary rate of return, then "inefficiency" is a free good, because the alternative to inefficiency is the same pecuniary income and no "inefficiency." Therefore this profit constraint leads to a divergence between private and economic costs. However, it is easy to be naive about this inefficiency. More properly, it is not inefficiency at all but efficient utility maximizing through nonpecuniary gains. Clearly one class of nonpecuniary income is the indulgence of one's tastes in the kind of people with whom one prefers to associate. Specifically, this may take the form of pretty secretaries, of pleasant, well-dressed, congenial people who never say anything annoying, of lavish offices, of large expense accounts, of shorter working hours, of costly administrative procedures that reduce the wear and tear on executives rather than increasing the pecuniary wealth of the enterprise, of having secretaries available on a moment's notice by having them sitting around not doing anything, and of many others. It is important to recognize that to take income in nonpecuniary form is consistent with maximizing utility. What is important is not a matter of differences in tastes between monopolists and competitive firms, but differences in the terms of trade of pecuniary for nonpecuniary income. And given this difference in the relevant price or exchange ratios, the difference in the mix purchased should not be surprising.[9]

[9] Usually in economics consumers are presumed to maximize utility subject to fixed income or wealth. What is the wealth or income constraint here? In one sense it is not merely wealth or income that is the pertinent limitation. Many people have access to the use and allocation of resources even though they don't own them. An administrator can assign offices and jobs; he can affect the way company or business resources are used. In all of these decisions, he will be

If wealth cannot be taken out of an organization in salaries or in other forms of personal pecuniary property, the terms of trade between pecuniary wealth and nonpecuniary business-associated forms of satisfaction turn against the former. More of the organization's funds will now be reinvested (which need not result in increased wealth) in ways that enhance the manager's prestige or status in the community. Or more money can be spent for goods and services that enhance the manager's and employees' utility. There can be more luxurious offices, more special services, and so forth, than would ordinarily result if their costs were coming out of personal wealth.

For the total amount of resources used, these constrained expenditure patterns necessarily yield less utility than the unconstrained. The man who spends a dollar with restrictions will need less than a dollar to get an equivalent satisfaction if he can spend it without the restriction. This constrained optimum provides the answer to the question: If a person does spend the wealth of a business as business-connected expenditures for thick rugs and beautiful secretaries, can they not be treated simply as a substitute for household consumption, since he can be regarded as voluntarily choosing to spend his wealth in the business rather than in the home? The answer is that business spending is a more constrained, even if voluntary, choice. This whole analysis is merely an illustration of the effects of restricting the operation of the law of comparative advantage by reducing the size of the market (or range of alternatives).

Employment policies will also reflect the maximization of utility. Assume that an employer prefers clean-cut, friendly, sociable employees. If two available employees are equally productive, but only one is white, native born, Christian, and attractive, the other will not get the job. And if the other employee's wages are reduced to offset this, it will take a greater cut or equilibrating difference to offset this in a monopoly. Why? Because the increase in take-home profits provided by the cost reduction is smaller (if it is increased at all) in the monopoly or state-sheltered firm. Thus one would expect to find a lower

influenced by the effects on his own situation. Therefore to gauge his behavior by the usual wealth or income limitation is to eliminate from consideration a wider range of activities that do not fall within the usual "wealth" or ownership limitation. By straining it is possible to incorporate even this kind of activity with the wealth constraint but we find it more convenient for exposition not to do so. In this paper, in a sense, we are discussing the institutional arrangements which determine to what extent constraints are of one type rather than another.

fraction of "other" employees in "monopolies" and other areas of sheltered competition.

What this means is that the wages paid must be high enough to attract the "right" kind of employees. At these wages the supply of the "other" kind will be plentiful. A rationing problem exists, so that the buyer, when he offers a higher price than would clear the market with respect to pecuniary productive aspects clears the market by imposing other tests, like congeniality, looks, and so on. For the right kind of employee the price is not above the market clearing price. In a competitive situation this price differential would not persist because its elimination would all redound to the benefit of the owners, whereas in monopoly it will persist because the reduction in costs cannot be transformed into equally large take-home pecuniary wealth for the owners.

The question may be raised: Even if all this is true of a regulated monopoly like a public utility, what about unregulated, competitively superior monopolies? Why should they act this way? The answer is, as pointed out earlier, that the distinction between regulated and unregulated monopolies is a false one. All monopolies are subject to regulation or the threat of destruction through antitrust action. And one of the criteria that the courts seem to consider in evaluating whether or not a firm is a "good" monopoly is its profitability.[10] It behooves an unregulated monopoly, if it wants to remain one, not to appear to be too profitable.

The owners of a monopoly, regulated or "not," therefore have their property rights attenuated because they do not have unrestricted access to or personal use of their company's wealth. This suggests that the whole analysis can be formulated, not in terms of monopoly and competition, as we have chosen to for present purposes, but in terms of private property rights. There is basically no analytic difference between the two since an analysis made in terms of monopoly and competition identifies and emphasizes circumstances that affect property rights. The same analysis can be applied to nonprofit organizations, governments, unions, state-owned, and other "non-owned" institutions, with almost identical results.

One word of clarification—the contrast here is between monopoly and competition, not between corporate and noncorporate firms. We

[10] See Aaron Director and Edward H. Levi, "Trade Regulation," *Northwestern Law Review*, 1956, p. 286 and ff.

are analyzing differences in implications for behavior that arise from factors other than the corporate structure of the firm. Although there may be differences between corporate, diffused ownership firms and single proprietorships that may affect the many kinds of behavior discussed in this paper, we have been unable to derive them from the corporate aspect. Nor are those features derived from considerations of size per se—however much this may affect behavior.[11]

The preceding propositions stated that more of some forms of behavior would be observed among monopolies. But more than what and of what? More than would be observed in competitive industries. It is not asserted that every monopolist will prefer more than every competitor; instead, it is said that, whatever the relative tastes of various individuals, all those in a monopolistic situation pay less for their actions than they would in a competitive context. And the way to test this is not to cite a favorable comparison based on one monopolist and one competitor. Rather the variations in individual preferences must be allowed to average out by random sampling from each class.

Tests of the Analysis

What observable populations can be compared in testing these implications? One pair of populations are the public utilities and private competitive corporations. Public utilities are monopolies in that entry by competitors is prohibited. Yet, as indicated earlier, the utility is not allowed to exercise its full monopoly powers either in acquiring or distributing pecuniary wealth as dividends to its owners. The owners therefore have relatively weak incentives to try to increase their profits through more efficient management or operation beyond (usually) 6 per cent. But they do have relatively strong incentives to use the resources of the public utility for their own personal interests, but in ways that will count as company costs. Nor does the public utility regulatory body readily detect such activities, because its incentives to do so are even weaker than those of the stockholders. The regulatory body's survival function is the elimination of publicly detectable in-

[11] We were originally tempted to believe that the same theory being applied here could be applied to corporate versus noncorporate institutions, where the corporate form happens to involve many owners. Similarly the size factor could also be analyzed via the effects on the costs and rewards of various choice opportunities. Subsequent analysis suggests that many of the appealing differences between corporate, dispersed ownership and individual proprietorship proved to be superficial.

efficiencies. Furthermore, the utility regulatory board has a poor criterion of efficiency because it lacks competitive standards.

Public utility managements, whether or not they are also stockholders, will engage in activities that raise costs even if they eat up profits. Management will be rational (i.e., utility maximizing and efficient) if it uses company funds to hire pleasant and congenial employees and to buy its supplies from salesmen who have these same virtues. They cost more, of course, but how does the regulatory commission decide that these are unjustifiable expenditures—even though stockholders would prefer larger profits (which they aren't allowed to have) and customers would prefer lower product prices? Office furniture and equipment will be of higher quality than otherwise. Fringe benefits will be greater and working conditions more pleasant. The managers will be able to devote a greater part of their business time to community and civic programs. They will reap the prestige rewards given to the "statesman-businessman" class of employers. Vacations will be longer and more expensive. Time off for sick leave and for civic duties will be greater. Buildings and equipment will be more beautiful. Public utility advertising will be found more often in magazines and papers appealing to the intellectual or the culturally elite, because this is a low "cost" way of enhancing the social status of the managers and owners. Larger contributions out of company resources to education, science, and charity will be forthcoming—not because private competitors are less appreciative of these things, but because they cost monopolists less.[12]

[12] We could compare a random sample of secretaries working for public utilities with a random sample of secretaries working for competitive businesses. The former will be prettier—no matter whom we select as our judges (who must not know what hypothesis we are testing when they render their decision). The test, however, really should be made by sampling among the secretaries who are working for equal salaried executives in an attempt to eliminate the income effect on demand. Another implication is that the ratio of a secretary's salary to her supervisor's salary will be higher for a public utility—on the grounds that beauty commands a price. Other nonpecuniary, desirable attributes of secretaries also will be found to a greater extent in public utilities (as well as in nonprofit enterprises) than in private competitive firms. In a similar way, all of the preceding suggested implications about race, religion, and sex could be tested.

Another comparison can be made. Consider the sets of events in the business and in the home of the public utility employee or owner having a given salary or wealth. The ratio of the thickness of the rug in the office to that of the rug at home will be greater for the public utility than for the private competitive firm employee or owner. The ratio of the value of the available company car to the family car's value will be higher for the public utility than for the private competitive firm. And similarly for the ratios of secretary's beauty to wife's beauty, decorations in the office, travel expenses, etc.

Job security, whether in the form of seniority or tenure, is a form of increased wealth for employees. Since it makes for more pleasant employer-employee relations, it is a source of utility for employers. The incentive or willingness of owners to grant this type of wealth to employees and thereby increase their own utility is relatively strong because profits are not the opportunity costs of this choice. The owners of a competitive firm, on the other hand, would have to pay the full price either in profits or in competitive disadvantage. Therefore the viability of such activities is lower in that type of firm. The relative frequency or extent of job security should be higher in monopolies and employee turnover rates lower. Also, the incidence of tenure in private educational institutions will be less than in nonprofit or state-operated educational institutions—if the foregoing analysis is correct.[13]

The relative incidence of employee cooperatives will also provide a test. Some employee cooperatives are subsidized by employers. This subsidy often takes the form of free use of company facilities and of employees for operating the cooperative. For any given set of attitudes of employers towards employee cooperatives, costs are lower for monopolists with "excess" profits. Consequently their frequency will be greater among these enterprises.

Inability to keep excess profits in pecuniary form implies that monopolists are more willing than competitive enterprises to forego them in exchange for other forms of utility-enhancing activities within the firm. Fringe benefits, cooperatives, and special privileges for certain employees will be more common. Employees whose consumption preferences do not induce them to use the cooperatives or fringe benefits are not necessarily stupid if they complain of this diversion of resources. But their complaints do reflect their differences in tastes and their ignorance of the incentives and reward patterns that impinge upon owners and administrators. Instead of complaining, they might better seek benefits of special interest to themselves. But since this involves a power play within the firm, the senior people are likely to be the ones who win most often. Hence one would expect to find such benefits more closely tailored to the preferences of the higher administrative officials than would be observed in a competitive business.

Wage policies will also differ in monopoly and nonmonopoly enter-

[13] See Armen A. Alchian, "Private Property and the Relative Cost of Tenure," *The Public Stake in Union Power*, P. Bradley, ed., University of Virginia Press, 1958, pp. 350-371.

prises. If business should fall off, the incentive to resort to fringe or wage reductions (unpleasant under any circumstances), will be weaker for a public utility because the potential savings in profits, if profits are not below the maximum permissible level, cannot be as readily captured by the management or stockholders. One would expect to find wages falling less in hard times, and one would also expect a smaller turnover and unemployment of personnel. The fact that these same implications might be derived from the nature of the demand for the utility's product does not in itself upset the validity of these propositions. But it does make the empirical test more difficult.

Seniority, tenure, employee cooperatives, and many other fringe benefits—instead of increased money salaries or payments—can be composed of mixtures of pecuniary and nonpecuniary benefits, though the inducement to adopt them despite their inefficiency is enhanced by the relatively smaller sacrifice imposed on the owners of organizations in monopolistic situations, as defined here. The relative cost of take-home wealth for the owners is higher; hence they are more willing to utilize other consumption channels.[14]

Constraints on the opportunity to keep profits that are above the allowable limit reduce the incentive to spend money for profitable expansion of services. An upper limit on profits, with strong protection from competition but no assurance of protection from losses of over-expansion, will bias the possible rewards downward in comparison with those of competitive business. An implication of this is "shortages" of public utility services. Despite the fact that prices are above the cost of providing some services, the latter will not necessarily be available. It is better to wait until the demand is already existent and expansion is demanded by the authorities. The possible extra profits are an attentuated inducement.

But these implications hold only if the public utility is earning its allowable limit of profits on investment. If it is losing money—and there is no guarantee against it—stockholders' take-home pay will be curtailed by inefficiency. Until profits reach the take-home limit, profit-

[14] The other commonly advanced reasons for such benefits or "inefficiencies" are the income tax on pecuniary wealth and the influence of unions. The former force is obvious; the latter is the effect of desires by union officials to strengthen their position by emphasizing the employee members' benefits to the union administration, as is done in many fringe benefits. But whether or not these latter factors are present, the one advanced here is an independent factor implying differences between monopoly and competition.

able and efficient operations will be desirable. If the state regulatory commission is slow to grant price increases in response to cost increases, the utilities should find their profits reduced below the allowable limit during a period of inflation. As a result there should be a tightening up or elimination, or both, of some of the effects predicted in the preceding discussion.[15] One would expect the opposite to occur during periods of deflation.

The present analysis also suggests that there may be an economic rationale for the "shock theory" of wage adjustments. This theory asserts that the profit-reducing wage increases imposed by labor will shock management into greater efficiencies. Suppose that monopolies are induced to trade pecuniary wealth (because they are not allowed to keep it) for nonpecuniary forms of income financed out of business expenditures. This means that, under the impact of higher wage costs and lower profits, the monopolies can now proceed to restore profit rates. Since some of their profit possibilities had been diverted into so-called nonpecuniary forms of income, higher labor costs will make realized profits, broadly interpreted, at least a little smaller. In part, at least, the increased pecuniary wages will come at the expense of nonpecuniary benefits, which will be reduced in order to restore profit levels. Actually, the shock effect does not produce increases in efficiency. Instead, it revises the pattern of distribution of benefits. Left unchanged is the rate of pecuniary profits—if these were formerly at their allowable, but not economic, limit.

Evidence relevant for testing the hypothesis presented here has been produced by the American Jewish Congress, which surveyed the occupations of Jewish and non-Jewish Harvard Business School graduates. The data consist of a random sample of 224 non-Jewish and a sample of 128 Jewish MBA's.[16] The 352 Harvard graduates were classified by

[15] This analysis suggests that, with the decline in profitability of railroads, the principle of seniority advancement in railroad management has become relatively less viable. Similar arguments are applicable for other fringe benefits. With respect to negotiation with unions, it implies that railroad managements will more vigorously resist giving the unions extravagantly large concessions because these costs are being borne by owners.

The analysis also implies that unions do better in dealing with monopolistic as contrasted with competitive industries.

[16] The existence of these data became known to the authors as a result of an article that appeared in the New York Times on the first day of the conference at which this paper was presented. Subsequently the American Jewish Congress released a paper, "Analysis of Jobs Held by Jewish and by Non-Jewish Graduates of the Harvard Graduate School of Business Administration," which contains the data reported here.

ten industry categories: (1) agriculture, forestry, and fisheries, (2) mining, (3) construction, (4) transportation, communication, and other public utilities, (5) manufacturing, (6) wholesale and retail trade, (7) finance, insurance, and real estate, (8) business services, (9) amusement, recreation, and related services, and (10) professional and related services.

Categories (4) and (7) must be regarded as relatively monopolized. Therefore, if the hypothesis presented here is correct, the relative frequency of Jews in these two fields is lower than it is for all fields combined.[17] The relative frequency of Jews in all fields taken together, in the entire sample, is 36 per cent. These data show that the frequency of Jews—74 MBA's—in the two monopolized fields is less than 18 per cent. If a sample of 352, of whom 36 per cent are Jews, is assigned so that 74 are in monopolized and 278 in nonmonopolized fields, the probability that an assignment random with respect to religion will result in as few as 18 per cent Jews in monopolized fields (and over 41 per cent in nonmonopolized fields) is less than 0.0005. This evidence, therefore, is consistent with the hypothesis presented.

One might object to classifying all finance, insurance, and real estate as monopolized fields. This classification includes the subcategories of banking, credit agencies, investment companies, security and commodity brokers, dealers and exchanges, other finance services, insurance, and real estate. Of these, only insurance and banking are regulated monopolies. If only these two subcategories are used, then there are 6 Jews among a group of 39 or a frequency of less than 15 per cent. If a sample of 352, of whom 36 per cent are Jews, is assigned so that 39 are in monopolized and 313 in nonmonopolized fields, the probability that an assignment that is random with respect to religion will result in as few as 15 per cent Jews in the monopolized fields (and over 39 per cent in the nonmonopolized fields) is less than 0.005. This evidence is also consistent with the hypothesis presented.

Applications to Labor Unions

This application of monopoly analysis need not be restricted to public utilities. Any regulated activity or one that regulates entry into work

[17] Similarly, one would expect Jews and Negroes to be underrepresented among enterprises supplying goods and services to monopolists for the same reason that they are underrepresented as employees.

should show the same characteristics. Labor unions, because of their control over entry or because of exclusive union representation in bargaining, have monopoly potential. Insofar as a union is able to use that potential to raise wages above the competitive level, unless the jobs are auctioned off, the rationing problem is a nonprice one. A "thoroughly unscrupulous" agent could, in principle, pocket the difference between the payment by the employer and the receipts to the employee, where this difference reflects the difference between the monopolistic and the competitive wage. The moral pressures and the state regulation of union monopoly operate against the existence of thoroughly unscrupulous union officers. But so long as the fruits of such monopoly are handed on to the employed members of the union, the state seems tolerant of monopoly unions. Because of the absence of free entry into the "union agent business," competitive bidding by prospective union agents will not pass on the potential monopoly gains fully to the laborers who do get the jobs.

The necessity of rationing jobs arises because the union agents or managers do not keep for themselves the entire difference between the monopoly wage and the lower competitive wage that would provide just the number of workers wanted. If they did keep it, there would be equilibrium without nonprice rationing. If any part of that difference is captured by the laborers, the quantity available will be excessive relative to the quantity demanded at the monopolized wage rate. The unwillingness of society to tolerate capture of all that difference by the union agents means that either it must be passed on to the workers, thus creating a rationing problem, or it must be indirectly captured by the union agents—not as pecuniary take-home pay, but indirectly as a utility derived from the expenditure of that difference in connection with union business.

To the extent that the monopoly gains are passed on, the preceding rationing problem and its implications exist. But to the extent that they are not, the union agents or persons in control of the monopoly organization will divert the monopoly gains to their own benefit, not through outright sale of the jobs to the highest bidder, but through such indirect devices as high initiation fees and membership dues. This ties the monopoly sale price to the conventional dues arrangement. Creation of large pension funds and special service benefits controlled by the unions redounds to the benefit of the union agents and officers in ways that are too well publicized as a result of recent hearings on union activities to need mention here.[18]

The membership of monopoly unions will tolerate such abuses to the point where the abuses offset the value of monopoly gains accruing to the employed members. We emphasize that these effects are induced by *both* the monopoly rationing problem and by the desire to convert the monopoly gains into nonpecuniary take-home pay for the union officers or dominant group. We conjecture that both elements are present; part of the monopoly gain is passed on to the workers, and part is captured as a nonpecuniary source of utility. When the former occurs the rationing problem exists, and the agents or those in the union will exclude the less desirable type of job applicants—less desirable not in pecuniary productivity to the employer but as fellow employees and fellow members of the union. Admission will be easier for people whose cultural and personal characteristics conform to the interests of the existing members.[19] And admission will be especially difficult for those regarded as potential price cutters in hard times or not to be counted on as faithful members with a strong sense of loyalty to the union. Minority groups and those who find they must accept lower wages because of some personal or cultural attribute, even though they are just as productive in a pecuniary sense to the employer, will be more willing to accept lower wages if threatened with the loss of their jobs. But these are the very types who will weaken the union's monopoly power. All of this suggests that young people, Negroes,

[18] Relevant for the analysis of monopoly power is the character of the protection afforded by the state. For utilities the state actively and directly uses its police powers to eliminate competition. For other monopolies—and this is especially relevant for union monopoly—the state permits these monopolies to use private police power to eliminate competition. The powers of the state passively and indirectly support these monopolies by refusing to act against the exercise of private police power. This suggests that there ought to exist a link between those who have a comparative advantage in the exercise of private police powers (gangsters), and monopolies that eliminate competition through "strong arm" techniques.

[19] If the employer is the nonprice rationer, i.e., if the employer does the hiring and not the union, as is true for airplane pilots, he too will display a greater amount of discrimination in nonpecuniary attributes than with a competitive wage rate. If the wage rate has been raised so that he has to retain a smaller number of employees, he will retain those with the greater nonpecuniary productivity. If the wage rate would have fallen in response to increased supplies of labor but instead is kept up by wage controls, then the supply from which he could choose is larger, and again he will select those with the greater nonpecuniary attributes—assuming we are dealing with units of labor or equal pecuniary productivity.

Jews, and other minority or unorthodox groups will be underrepresented in monopolistic unions.[20]

There exists a symmetry in effects between nonprice rationing of admission to monopolistic trade unions and the allocation of rights to operate TV channels, airlines, radio stations, banks, savings and loan associations, public utilities, and the like. In the absence of the sale of these rights by the commission or government agency charged with their allocation, nonprice rationing comes into play. This implies that Negroes, Jews, and disliked minority groups of all kinds will be underrepresented among the recipients of these rights. The symmetry between admission to monopolistic trade unions and the allocation of monopoly rights over the sale of some good or service by a government agency is not complete. The rights allocated by the government, but not by trade unions, often become private property and can be resold. Therefore this analysis implies that entrance into these economic activities is more frequently achieved by minority groups, as compared with the population as a whole, through the purchase of outstanding rights.

The chief problem in verifying these implications is that of identifying relative degrees of monopoly power. If the classification is correct, there is a possibility of testing the analysis. A comparison of the logic of craft unions with industry-wide unions suggests that the former have greater monopoly powers. Therefore if this classification is valid, the preceding analysis would be validated if the predicted results were observed.

For classic economic reasons, we conjecture that the craft unions are more likely to have monopolistic powers than industry-wide unions. Therefore we would expect to observe more such discrimination in the first type of union than in the second. And included in the category of craft unions are such organizations as the American Medical Association, and any profession in which admission involves the approval of a governing board.[21]

Conclusions and Conjectures

This analysis suggests that strong nonrestrained profit incentives serve the interests of the relatively unpopular, unorthodox, and individualistic

[20] See Reuben A. Kessel, "Price Discrimination in Medicine," *Journal of Law and Economics*, 1958, p. 46 and ff.

[21] For evidence of the existence of discrimination, see H. R. Northrup, *Organized Labor and the Negro*, Chap. I, New York, Harpers, 1944; and Kessel, *Price Discrimination in Medicine*, p. 47 and ff.

members of society, who have relatively more to gain from the absence of restrictions. Communists are perhaps the strongest case in point. They are strongly disliked in our society and, as a matter of ideology, believe that profit incentives and private property are undesirable. Yet if this analysis is correct, one should find communists overrepresented in highly competitive enterprises. Similar conclusions hold for ex-convicts, disbarred lawyers, defrocked priests, doctors who have lost their licenses to practice medicine, and so forth.

The analysis also suggests an inconsistency in the views of those who argue that profit incentives bring out the worst in people and at the same time believe that discrimination in terms of race, creed, or color is socially undesirable. Similarly, those concerned about the pressures toward conformity in our society, i.e., fears for a society composed of organization men, ought to have some interest in the competitiveness of our markets. It is fairly obvious that the pressures to conform are weaker for a speculator on a grain or stock exchange than they are for a junior executive of A.T. and T. or a university professor with or without tenure.

COMMENTS

GARY S. BECKER, Columbia University

I

Sociologists, psychologists, and other social scientists have tried to explain why people differ in their prejudices or, better still, attitudes, towards others and have also tried to determine the extent of observable discrimination. There has, however, been little interaction between these investigations, so that scant attention has been paid to how attitudes get translated into actual discrimination. The economist is singularly well prepared to analyze how attitudes combine with different structural and institutional arrangements to produce actual discrimination, but, unfortunately, he has not considered this a worthwhile or manageable problem, and has made only a few contributions to its solution.[1]

In their fine paper Alchian and Kessel consider this problem worthy of attention and fill part of the void by analyzing how one important

[1] In this connection it is interesting to note that sociologists in the South are preoccupied with the racial question while economists there almost completely neglect it.

institutional arrangement—governmental restrictions on profits—combines with attitudes towards minority groups and with other attitudes to produce discrimination, nepotism, and other types of nonpecuniary choices. The theoretical argument showing why these restrictions on profits induce firms (or unions) to choose more nonpecuniary income is carefully laid out, and numerous empirical tests of the analysis, ranging from pretty women to seniority rules, are indicated. While they do not try to demonstrate empirically that their analysis is important, I am inclined to believe that it is sufficiently important to merit much further attention from economists.

An empirical measure of these nonpecuniary effects that yields a more quantitative estimate of their importance than do the measures suggested by Alchian and Kessel can be developed. Suppose a firm was using $100 worth of real capital and that the competitive rate of return was 5 per cent. If the firm was in a competitive industry its equilibrium income would be $5 per annum and its market value would be $100. If the firm had monopoly power its income would be greater than $5; let us assume that it would have an income of $10 in the absence of government restrictions. If the monopoly power were perfectly transferable, competition in the capital market would establish a market value for this firm equal to $200 and a market rate of return equal to 5 per cent (10/200), the competitive rate. Government regulation might limit the monopolist to receiving no more than, say, $5 of money income, and this would induce him to take some nonpecuniary income. Let it be assumed that he could get $3 worth of nonpecuniary income. The total income of the monopolist would be $8, and if this monopoly power were also perfectly transferable, the equilibrium market value of the firm would have to be $160. The market rate of return on total income would still be 5 per cent (8/160), but the observed money rate of return would only be about 3 per cent (5/160), *less* than the competitive rate. This positive difference of 2 percentage points between the competitive and monopolistic money rates of return would measure the importance of nonpecuniary income to the monopolist.[2] It would be larger the greater the monopoly power, the greater the restrictions on money income, and the greater the ease of substitution between pecuniary and nonpecuniary income.

[2] More generally, it measures the difference between the nonpecuniary income in monopolistic and competitive firms, for firms may receive nonpecuniary income even in the absence of government restrictions on money income.

The assumption of perfectly transferable monopoly power requires, among other things, that capital markets operate smoothly, and that any separation between owners and managers is limited. Dropping this assumption would affect many details of the analysis, but the principle would tend to remain the same. For example, if there were separation between owners and managers, the difference between competitive and monopolistic money rates of return would appear in the price that could be obtained for control of a firm by those in control, be they some owners or some managers. The apparent paradox of monopolists receiving less than the competitive money return would still be with us, and the difference between these returns would still tend to measure the greater nonpecuniary income in monopolies.

II

Although the authors emphasized the effects of government restrictions on monopoly profits, many other private as well as public institutions also encourage a substitution between pecuniary and nonpecuniary income. In the remainder of this comment, I try to fit their discussion into a framework of general institutional influences on nonpecuniary behavior, with especial emphasis on discrimination.

Any restriction on the money incomes of working persons, be they employees or employers, would tend to induce a substitution of psychic for monetary income. It is well known that the ordinary income tax provides an incentive for all earners to take more psychic income since it is not taxable. It is seldom mentioned, however, that this includes an incentive to discriminate in employment against minority groups. Many private institutions also tend to limit money income and induce a substitution towards psychic income. For example, I have argued elsewhere[8] that the use of nonprice techniques to ration entry into certain unions encourages this kind of substitution and yet could not entirely be explained by government influence.

Perhaps an even more important example can be found in the separation of owners from managers in modern corporations. If managers really had *complete* control they would have little incentive to maximize profits less diligently than owners, but they would keep the profits for themselves in the form of salaries, bonuses, etc., rather than distribute them to owners. The more interesting situation arises when managers

[8] See my "Union Restrictions on Entry," *The Public Stake in Union Power*, Philip H. Bradley, ed.: University of Virginia Press, 1959, pp. 209-224.

do not have such complete control and when open attempts to capture profits would lead to their being turned out of office. Nevertheless, they might succeed in capturing profits if their income could be concealed, say, by complicated stock options or large expense accounts. Another way to conceal it would be to take psychic income since this is less readily observed or quantified than money income. (The argument in the Alchian and Kessel paper is really based on the same consideration, since governments want to limit the total income of monopolies but can limit the monetary part more readily.) So it would seem that much of the economic content in the separation of owners from managers lies in the impetus given to psychic income, be it from discrimination, nepotism, or corporate support of education.

It is possible to generalize the analysis still further to include a wider variety of situations by looking at the problem differently. A group would try to offset any prejudice against them by offering compensating advantages. For example, in the market place they would receive lower wages than equally productive persons not subjected to prejudice, so that the difference between these wages could be offered to offset the prejudice against them. It has been seen that restrictions placed on money incomes received, such as profit restrictions or the income tax, prevent discriminators from collecting the income difference offered them and thus make it difficult or impossible for disadvantaged groups to offset prejudices. Precisely the same situation occurs when restrictions are placed on the money income gain that can be *offered* by a disadvantaged group.

Institutions limiting the amount offered, like those limiting the amount received, appear in very different clothing. Take the "equal pay for equal work" movement which is exceedingly popular and resulted in legislation in some states and countries. The aim of the movement and legislation is to prevent various minorities, especially working women, from receiving lower wages than other apparently equally productive workers; that is, the aim is to reduce discrimination against them. But the direct[4] effect is quite different, for by preventing disadvantaged groups from offsetting the prejudice against them, the legislation tends to increase rather than decrease the observable discrimination. Legislation is not the only source of a direct restriction on the incomes of minorities. Trade unions have reduced the dispersion

[4] I abstract here from indirect, although possibly very important, effects of this legislation, such as the effect on attitudes.

in wages among union members and may well have reduced the dispersion between disadvantaged members and others. The important point is that, whatever the *intent* of the legislation, unions, or other institutions, the *effect* may well be to increase the observable discrimination, and in precisely the same manner as the previously discussed restrictions on the "collection" of money income.

The analysis can be further generalized by introducing the concept "cost of discrimination." The money cost of discriminating against a particular group is, at the margin, equal to the difference between the money cost of associating with this group and another equally productive one. In a private-enterprise competitive system with no controls on income it would also equal the difference between the unit wages of these groups. Controls placed on the money incomes that can be received by discriminators, such as the income tax, reduce the cost of discrimination below the difference in wages and thus encourage discrimination; controls placed on the wage difference, such as equal pay for equal work legislation, directly reduce the cost of discrimination and encourage discrimination.

All the institutions discussed so far either reduce the money incomes received by or offered to discriminators, and thereby reduce the cost of discrimination and increase discrimination. But the effects of some institutions are quite different: laws of the type administered by the Fair Employment Practices Commission, for example, tend to have just the opposite effect. Through litigation, fines, unfavorable publicity, imprisonment, etc., they increase the cost of not hiring some disadvantaged groups, which discourages discrimination against them. Thus that type of legislation has a very different direct effect on observed discrimination than equal pay for equal work legislation, although both are often strongly supported by the same persons.

I have reviewed the effects of various institutions on nonpecuniary choices, especially on discrimination against minorities. This review was motivated by the discussion by Alchian and Kessel of the effects of a government restraint on money profits. We are indebted to them not only for working out many implications of this restraint, but also for emphasizing that the phrase "nonpecuniary motive" is more than just a camouflage for ignorance; it can be given empirical content. Progress in this field has been hindered not so much by an intractable concept as by the economist's reluctance to take the concept seriously.

MARTIN BRONFENBRENNER, Carnegie Institute of Technology

Alchian and Kessel raise the simple question: When a monopolist chooses not to maximize profits, or when regulation prevents his maximizing profits, in what ways will his behavior as a buyer of inputs differ from the behavior of a competitive firm with the same profit level?

Their answer to this question is also simple. Or rather, it involves a multiplicity of illustrations, which can be boiled down to one or two simple propositions. Let us call the sort of firm Alchian and Kessel have in mind a potential rather than an actual monopolist. Then the basic Alchian-Kessel proposition is that a potential monopolist (unless specially regulated) will run his business in such a way as to satisfy his noneconomic preferences for pretty secretaries and sumptuous offices, or his noneconomic prejudices against Jewish or Negro employees, under circumstances where a competitor would be guided by purely economic considerations. This is particularly true if the extra costs of these noneconomic preferences and prejudices can be passed on to the public on a cost-plus basis.

A second proposition, a corollary of the first, is that the potential monopolist (unless specially regulated) will pad his costs with unnecessary and inefficient employees, reputable expenditures for charity, education, publicity, and "research," fancy landscaping and interior decoration, whereas the competitor will not.

These propositions are both more or less interesting. Their interest to the labor economist is naturally concentrated on their implications for the potential monopolist's demand for labor inputs, but their interest to the general economist transcends this limitation. These propositions are also more or less obvious. Simply raising them among one's friends with or without professional training in economics will suffice to show how obvious they are. It is not a happy comment on the development of economics that they retain their interest nonetheless.

Special cases and corollaries of the Alchian-Kessel propositions are in many cases testable in principle. This adds to their interest to the empirically-minded economist. Alchian and Kessel have in fact tested only one of them here. Their paper would have been more significant if tests had not only been considered feasible in principle but had actually been carried out for a few more of the various specific statements they make.

I have no doubt that the Alchian-Kessel propositions would emerge unscathed from statistical testing of most of the special-case conclusions to which they lead. If they did not, my initial impulse would be to suspect the test procedures rather than the propositions themselves. I should, however, like to concentrate here on one important corollary which Alchian and Kessel might have to modify as a result of testing on a sufficiently large scale. This is their argument that employment of minority groups subject to racial or religious prejudice will be concentrated in competitive rather than monopolistic industry.

This argument was formulated with special reference to the Negro in America; I am not inclined to doubt its validity there. But the American Negro minority is a special kind of minority, which I should like to call a "manual labor" minority. The stereotype of the Negro makes him out too stupid, lazy, irresponsible, and shiftless for anything but unskilled manual labor. It is easy to see how this stereotype arose. Negroes were brought to a relatively advanced America as slaves from a relatively primitive Africa. They were put as slaves to manual labor jobs in which they had no interest and which they performed inefficiently. They have not yet overcome the handicaps with which they were burdened over 300 years ago. One can find plenty of similar "manual labor" minorities all over the world—the Indian "untouchables" are examples—to whom, as well as to the American Negro, the Alchian-Kessel argument applies. Excluded by prejudice from monopoly industry they congregate in the competitive sectors of the economy.

At the same time there are despised minorities aplenty with different characteristics and greater economic resources. These are the "business" minorities who are or have traditionally been more advanced economically than the majority among whom they live. The Jews are a western example; the overseas Chinese are an eastern one. Their stereotypes involve such traits as craftiness, dishonesty, clannishness, heartlessness, and scorn for physical labor. Does the Alchian-Kessel argument apply to these business minorities as well as to the manual labor ones? My suggestion is that it must be modified to take account of the "countervailing power" of these minorities to set up little monopoly enclaves of their own. Their position may accordingly be found less rather than more competitive than the position of the majority which discriminates against them.

Consider a business minority, subject to racial or religious prejudice and excluded from the more reputable monopolies and potential monopolies of their economy. These monopolies include the civil service, the public utilities, the educational system, absentee ownership of the land, "the Army, the Navy, the Church, and the stage." Where do such people make their living?

As owners or employees in competitive business, say Alchian and Kessel, and they are partially correct. But I should like to call your attention to another sort of business in which they congregate, which I propose to call the racial or religious cartel. Here their countervailing power is exercised. Here they themselves monopolize opportunities in their turn, excluding and exploiting members of the majority. It often happens that these racial or religious cartels, these originally despised and neglected occupations, increase in importance as economic development progresses. When this occurs, the business minorities often find themselves charged with stifling and strangling the entire economy for their own selfish benefit—meaning the maintenance of their monopoly power.

Gambling, banking, money lending, wholesale and retail trade are the most usual examples of racial or religious cartels in both eastern and western culture. In some cases, the service trades and "foreign" types of manufacturing also are included in the general category of middleman's services and get into minority hands. Thus barbering, tailoring, and rice milling are all characteristically "Chinese" trades throughout much of Southeast Asia. The several racial or religious cartels, moreover, are accused of interrelations which exclude the majority. In the Southeast Asian case, the Chinese banks, money lenders, wholesale traders, and retailers are allegedly in league with each other against outsiders. No Filipino or Thai or Occidental retailer can get credit from the Chinese banker or money lender on the same terms as his Chinese competitor. Nor can he get merchandise from the Chinese wholesaler on the same terms as this same Chinese competitor. The Filipino or Thai or Occidental banker or wholesaler, on the other hand, is tacitly boycotted by the whole Chinese business community. And as is well known to immigrants from Central and Eastern Europe, these charges against the Chinese of Southeast Asia have their counterparts in charges against the European Jews. Nor, for that matter, is the overseas American community exempt from identical charges, particularly in Latin America.

It is no part of my intention to become involved here in the Chinese problem of Southeast Asia, the Jewish problem of Central Europe, or the Yankee problem of Latin America. I simply wish to present the overseas Chinese, the European Jew, and the Latin American Yankee as three examples of economic minorities who react against discrimination (or anticipate it) by forming racial or religious cartels of their own as well as concentrating in competitive industry. My suggestion as to the Alchian-Kessel argument is therefore one of limitation to a particular sort of minority—the noneconomic or manual labor sort typified by the American Negro. When it comes to the economic sort of minority, the argument should be expanded to take account of the minority's countervailing power as exercised through racial or religious cartels.