THE FREEMAN
IDEAS ON LIBERTY

In Memoriam: Yale Brozen

by David R. Henderson

On March 4, at age 80, Yale Brozen, a prominent free-market economist, died. For a large part of his career, Brozen was a professor of business economics at the University of Chicago, where he was a colleague of Nobel prize winners Merton Miller and the late George Stigler and other members of the so-called "Chicago School" such as Lester Telser, Peter Pashigian, Sam Peltzman, and the late Reuben Kessel.

Brozen was one of the nation's leading experts on antitrust laws, and, in virtually all of his writing and speaking on antitrust, was critical of intervention by the antitrust authorities. A typical example was his paper "The Attack on Concentration," which is reprinted in his book *Is Government the Source of Monopoly? and Other Essays*, published by the Cato Institute in 1980. One issue he wrote about in that essay was a Federal Trade Commission complaint against Du Pont. What was Du Pont's alleged crime? That it had "adopted and implemented a plan to expand its domestic production capacity." Brozen commented: "In whatever way I torture the phrases in the antitrust law, I simply cannot get it to say that expanding trade is illegal despite the thunder in the FTC complaint."

Brozen's view of the harm done by antitrust was based on his belief that economies in which governments refrain from creating monopolies are intensely competitive. In Brozen's view, government was the source of virtually all monopolies that were harmful. His clearest statement of that view was his essay "Is Government the Source of Monopoly?" which first appeared in *The Intercollegiate Review*, Winter 1968/69. I still remember my thrill when, at age 18, I read that essay. In it, Brozen makes a detailed empirical case with example upon example of the use of government power to form monopolies. With the possible exception of George Stigler, Brozen did the most to spread that view in the economics profession and in popular writing on economics. His 1975 book, *The Competitive Economy: Selected Readings* (General Learning Press), is a collection of 42 punchy readings by various economists and the best such book I know of. It shows just how intensely competitive an unregulated economy is and how antitrust laws can do damage. One of its best sections includes six articles that refute the idea that predatory pricing is a sensible strategy for firms that would like to have a monopoly.

The dominant view among economists in the field of industrial organization in the 1960s was that industries with a few firms were monopolistic and that this explained why profit rates were higher in concentrated industries than in unconcentrated ones. Harold Demsetz, a former Chicago colleague who moved to UCLA in 1971, dubbed this the "market concentration doctrine." Brozen, with Demsetz, was a modern-day Schumpeterian who saw a dynamic competitive process at work. In industries in which a few

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companies had a large market share, they believed, concentration didn't cause high profits. Rather, concentration and high profits were caused by successful competition. In his 1982 book, *Concentration, Mergers, and Public Policy* (Macmillan), Brozen weaves together evidence from Demsetz and other economists, along with his own findings, to drive home that point.

Interestingly, although Brozen never seemed to come across an antitrust suit he liked (perhaps he just didn't write about those), to my knowledge he was never willing to advocate abolishing antitrust. I believe his hesitancy was due to his acceptance of the "perfectly competitive" model as an ideal. In fact, it was partly to nudge him gently toward abolition that I wrote my preface to his 1980 collection of essays.

But Brozen was much more than a scholar of industrial organization and antitrust. He was also a policy activist, in the best and most honorable sense of that term. In the early 1970s, Brozen noticed that economists around the country were writing solid academic articles critical of much government regulation—of trucking, oil prices, natural-gas prices, and pharmaceuticals, to name four prominent examples. So, as an adjunct scholar with the Washington-based American Enterprise Institute, he gently pushed many of these economists to write rigorous monographs that a general audience could understand. According to Marvin Kosters, director of economic policy studies at AEI, "Yale Brozen contributed more than any other scholar to establishing the credibility of the Institute's research studies in the 1970s."

Major deregulations occurred in oil, natural gas, and trucking within five to eight years of these studies. Often when I ship goods by truck, I silently thank my Hoover colleague Thomas G. Moore for his devastating 1972 study, *Freight Transportation Regulation*, and Yale Brozen for getting him to do it. In fact, as an economist with the Council of Economic Advisers in 1973, I used information from Moore's study to persuade my boss, chairman Herb Stein, to keep the council pushing for transportation deregulation within the Nixon administration.

A memorial note on Yale Brozen is not complete without a reference to his sense of humor, his passion, and his humanity. Yale was a man who liked a good laugh and who cared passionately about his work because he cared about people. I remember the first time I met him, while I was a junior economist in the Nixon White House in the summer of 1973. One of my UCLA professors, George Hilton, was in town and had organized a dinner to which he invited Yale, Ross Eckert (since deceased), and me. We had a great time, laughing about the Washington absurdities we were seeing all around us and exchanging information about how, like McGruff the crime dog, we could take our little bite out of government. At that dinner, Yale encouraged me a lot, as did Hilton, to push for transportation deregulation. Of course, that was also Watergate summer, when the hearings on the scandal were capturing the whole town's attention and Nixon was stonewalling Congress's attempt to make him cough up crucial information. It was also price-control summer, when Nixon's hated economic program (hated by everyone at that dinner, at least) was causing serious shortages of gasoline and many other goods, including with poetic justice, steak in the White House mess. Toward the end of the evening, Eckert, who was also working in the Nixon administration, announced, "Well, gentlemen, I'm leaving. I've got to get up early in the morning and work for my President."

I decided to take a chance. "I'd better leave, too," I announced, grinning. "I've got to get up even earlier to work *against* my President." Yale laughed spontaneously and his eyes twinkled.

From then on I was friends with Yale. I just wish that I had called him sometime in the last five years. I hadn't even known that he had moved to San Diego four years ago. I'm not unusual. While researching this article, I talked to one economist who, after leaving Chicago over 20 years ago, was never again in touch with him even though he liked both Brozen and his work. There's a lesson here. We, especially men, need to break our pattern of isolation and express our appreciation of people before they die. I'm doing way better than I did years ago, and I've still got a long way to go. □

The Attack on Concentration

by Yale Brozen

(Editor's Note: Yale Brozen, former member of FEE's board of trustees and a retired professor of business economics at the University of Chicago, died March 4. Reprinted below as a memorial is his article published in *The Freeman*, January 1979. It is especially timely because of the government's current legal action against Microsoft.)

Once we gave high regard to those who created great enterprises by designing desirable products, producing them at low cost, and offering them at such attractive prices that they won a large body of customers. Henry Ford, in his day, was looked upon as an industrial hero. Today, he would be regarded as a monopolizing fiend upon whom the antitrust prosecutors should be unleashed. The 1921 Ford Company, with its more than 60 percent share of the market, would today be called a dominant firm and charged with violating the antitrust laws.

Just a few months ago [1978], an antitrust complaint was served upon Du Pont because it developed a low-cost method for producing titanium dioxide pigments. There was no objection to the development of a lower-cost method of production, but Du Pont made the fatal error of passing enough of the cost saving on to buyers to win 40 percent of the market served by domestic producers. Not only did it do that but it is going on to enlarge its capacity, building a new plant at De Lisle, Mississippi, in order to serve even more customers (who also would like to obtain domestic titanium dioxide at low cost). Can you imagine that any enterprise would engage in such a nefarious activity? It should, according to the Federal Trade Commission (FTC), behave like a monopolist. It should restrict its output, instead of expanding, and charge higher prices (and let the business go to foreign firms).

Antitrust Upside Down

That is a total perversion of the intent of our antitrust law. If the FTC is not standing antitrust law on its head, then I simply do not understand what our antitrust law says. The words "every contract, combination, or conspiracy, in restraint of trade is hereby declared to be illegal" say that it is *restraint of output* that is in violation of the law. But the FTC contends that Du Pont is violating the law because it has "adopted and implemented a plan to *expand* its domestic production capacity."[1] That quite plainly says that the FTC regards Du Pont as breaking the law by *expanding* trade. Is that what the law says is illegal?

In whatever way I torture the phrases in the antitrust law, I simply cannot get it to say that expanding trade is illegal despite the thunder in the FTC complaint. Whenever anyone builds more capacity and uses it to produce

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