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George Stigler's Rhetoric: Dreams of Martin Luther

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It is not surprising that the work of the mature economist can often be discerned in his earlier works. Ideas evolve over time and change but rarely do they mutate into unrecognizable theories and analysis. However it is rare that an economist accurately lays out the trajectory of his life's work in a series of lectures. Yet in a not sufficiently appreciated set of five lectures given at the London School of Economics in March of 1948, George Stigler made it clear not only what work he intended to accomplish but how he aimed to change the economics profession itself. For the post-war counter-revolution that aimed to displace Keynesianism as the prevailing doctrine, this set of lectures formed a parallel to Martin Luther nailing his 95 Theses to the Castle Church in Wittenberg. This article demonstrates the way in which these five short lectures form a complete doctrine and how in later years George Stigler implemented his blueprint.

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Waitress: I don't make the rules.

Dupea: OK, I'll make it as easy for you as I can. I'd like an omelette, plain, and a chicken salad sandwich on wheat toast, no mayonnaise, no butter, no lettuce. And a cup of coffee.

Waitress: A number two, chicken sal san, hold the butter, the lettuce and the mayonnaise. And a cup of coffee. Anything else?

Dupea: Yeah. **Now all you have to do is hold the chicken, bring me the toast, give me a check for the chicken salad sandwich, and you haven't broken any rules.**

Waitress (spitefully): You want me to *hold* the chicken, huh?

Dupea: I want you to hold it between your knees (Scene from *Five Easy Pieces* 1970).

I. A Time and a Place

How many goodly creatures are there here!

How beauteous mankind is! O brave new world,

That has such people in't (Shakespeare, *The Tempest*, act5, sc.1:1).

With the end of World War II, there was a generally held popular belief that the world would henceforth be a better place with greater opportunities for all within a broader political environment of equity and fair play¹. The victorious allies had overcome the depths of the Great Depression while defeating the totalitarian threat to liberty and democracy². The idea that planning for a brighter future was the key to these objectives seemed unarguable given the wartime experience³.

Events had also radically altered the contours of the economics profession. In an analogous fashion, the urge to create a better world permeated many academic endeavours during the post-war period. In this most ideological of centuries, economists were unlikely to remain immune. From being largely a church based on market principles, the Keynesian revolution had taken root and substituted active government policy for unfettered market forces⁴. The embrace of these Keynesian principles, which seemingly had been tested by the events of the thirties and by the subsequent war, was as rapid as it was widespread. Fears of another economic depression had shaken any unquestioned faith in the benevolence of market driven results. In a parallel fashion the work of Chamberlin, Hall and Hitch, Lester and others had thrown doubt at least on the universal employment of a marginal approach or the unique equilibrium results of perfect competition as the most useful framework for microanalysis⁵. It seemed inevitable that the brave new world of quantity adjusted aggregates, championed by the dominant Keynesians, would soon find an equally non-traditional micro-foundation to serve as its theoretical anchor.

Success unfortunately, often carries within it the seeds of its own demise. The faith in planning, intrinsic in the new consensus economics of this era, would eventually put the Keynesian approach, as well as alternative micro theories, on the wrong side of the Cold

War divide⁶. Planners become synonymous with the collectivism promoted behind the Iron Curtain. Markets, on the other hand, would become identified with the ingrained individualism which formed the basis for freedom and liberty⁷. *Free to choose* (1980), as unfolded by the master story spinner Milton Friedman, would become the sine qua non of true democracy and individual rights. The Chicago School's attempt to revive classic liberalism, of the type defined by Smith, de Toqueville, and Mill, would have at its core a strongly ideological basis. This would remain a defining characteristic despite the fact that one of its founding members, George Stigler, would consistently maintain the ineffectiveness of ideology and the peripheral nature of outside events and debates on the evolution of economic theory⁸.

Friedman can be accurately viewed as arriving at Chicago with an ideological imperative that served to shaped his subsequent career⁹. George Stigler, though a member of Columbia University until 1958, when he joined his close friend and ally at Chicago, shared common concerns with his former classmate Milton Friedman. For both, a counter-revolution in the field of economics needed to be launched if men and women were to remain moral beings able to bear the full responsibility for their decisions and actions. In a sense, this ostensible battle for the minds of the economic profession was in fact a desperate struggle for their souls. A fortuitous series of lectures in 1948 by George Stigler carefully laid out his tactical blueprint for the forthcoming struggle. This paper attempts to analyse this now only vaguely recollected event and how Stigler's tour de force came to be implemented in the following decades.

II. A Good Egg Gives Some Lectures – the Background

Now trends of evolution can change, and hitherto they almost always have changed. But they changed only because they met firm opposition. The prevailing trend toward what Hilaire Belloc called the servile state will certainly not be reversed if nobody has the courage to attack its underlying dogmas (von Mises 1980: 179).

Sometimes serendipity seems to direct the flow of historical events. There is an utter inevitability in retrospect, but the rather unromantic mechanics of every day life requires a number of individual items to fall into place before a given outcome appears in the role of destiny's child. That George Stigler, who was a relatively rare traveller outside the bounds of the United States¹⁰, found himself in London in March of 1948 seems inextricably linked with a book that had difficulty finding a publisher, though not an audience.

Near the end of World War II, in 1944, Hayek wrote a small book, *The Road to Serfdom*. In it he argued that the western democracies were proceeding down the same road that fascist Germany and Italy and communist Russia had already taken, and that that road led inevitably to the loss of individual freedom. The book had been rejected by numerous publishers but was finally accepted by the University of Chicago Press after being strongly supported by Aaron Director (Stigler 1988: 140).

According to Stigler in his autobiography the unexpected success of the book in the US translated into cash from the Volker Foundation to help von Hayek underwrite a meeting of conservative intellectuals in Switzerland (Stigler 1988:142). Just as the Protestant Reformation inevitably called forth a regrouping and reaction by the forces of Catholicism, the widespread acceptance of collective action by mainstream economists and the public at large created something of a backlash. Friedrich von Hayek viewed the need for strategic redeployment amongst the considered voices of conservatism to be urgent if the ever creeping encroachment on individual liberty was to be slowed. At his urging, thirty-six intellectuals, mostly economists, met at a resort hotel at Mont Pelerin, Switzerland, 1-10 April, 1947. Amongst the invited group were two young economists¹¹ who had become friends and sometime colleagues as graduate students in Chicago and later while working in Washington D.C. during the war. The Society's resulting statement of aims has an almost alarmist tone to it.

The central values of civilization are in danger. Over large stretches of the earth's surface the essential conditions of human dignity and freedom have already disappeared. In others they are under constant menace from the development of current tendencies of policy. The position of the individual and the voluntary group are progressively undermined by extensions of arbitrary power (Mount Pelerin Society 2003:1).

Given the company he kept, it is hard to imagine that at some stage the young George Stigler (and his close friend Milton Friedman) would not have found himself drawn into the field of attraction surrounding Friedrich von Hayek¹². However, timing in a career, as well as in matters of the heart, is everything. The subsequent lecture series in London, arising from this fateful meeting in Switzerland, not only allowed George Stigler a more international audience at an earlier stage in his career, but provided the opportunity for him to construct and present an integrated research program. This program would become part of the framework supporting a successful counter-revolution against the post-war Keynesian dominance.

Thus the trajectory; from the London School of Economics, to the University of Chicago, then over to Switzerland and back again to the LSE, describes the forces that fortuitously brought George Stigler, as a rising star of his profession, over to London to deliver a series of five lectures at the home of Robbins and von Hayek¹³. The London School of Economics at that time was one of the few academic bulwarks standing against the tide of Keynesianism sweeping the post-war landscape. Given the stated agenda of von Hayek, and the clear direction that Stigler's work had taken in those years following the war, it can hardly be described as purely accidental that Stigler found himself presenting his economic manifesto before such a potentially congenial group.

That hostility to collectivist restrictions on personal freedom, as well as the liking for a competitive order, were somewhat stronger in the University of Chicago's economics department than at most other places (except, and especially, the London School of Economics) (Stigler 1988: 139).

III. Conservatives of the World Unite – How the LSE Manifesto Created an Economic Framework

I am writing mainly to swell your head – though God knows it must be big enough already. Hayek reports that your lectures were ‘brilliant’ & successful. Indeed, he said yours were by all odds the most successful series of lectures they had ever had. I didn’t realize the state of English Economics had sunk so low – though, come to think of it, Hayek was including pre-war experience, so I guess I’ll just have to take it to mean that the English are still smart enough to agree with the rest of us (Letter from Milton Friedman to George Stigler, April 7, 1948 in Hammond and Hammond 2006:80).

The use of the word ‘brilliant’, except when modifying a star or a diamond, tends to make any cautious academic inherently uneasy. The term smacks, especially today, of exaggerated praise. In these times when everyone is above average, a brilliant lecture may only be one which prevents you from easing into sleep. Even in 1948, years before the Hollywoodization of the language, to call a lecture brilliant would seem more than a bit overboard, especially coming from the traditionally reserved English. Hayek of course was not English but also was not known to give way to gushing. However, if Stigler’s five lectures delivered at the LSE were not brilliant, they were certainly incisive, displaying a masterful control of the mechanics of presentation. But it is not rhetorical skill alone or even the ostensible content of these lectures that sets them apart. Rather a careful reader needs to look for the underlying coherence of the blueprint presented as well as the persistent moral objective inherent in Stigler’s goals.

It is rare when an economist telegraphs the professional creed by which he or she is willing to live, but this was Stigler’s fearless aim in these nearly enigmatic discourses. It is then all the more a shame that they seem largely forgotten today. A few economists may still be aware of his lecture on monopolistic competition, but no one appears to have pointed out that these five individual presentations formed an integral part of a larger whole. Similarly lost to discussion is what Stigler’s overall objective might have been when he made so bold as to lecture some of England’s most distinguished economists.

The published version plays against expectations. The entire five lectures compose barely sixty pages even when expanded with charts and notes. They each would have been no more than thirty minutes in length when actually presented. Conciseness did tend to be symptomatic of most of his written as well as his oral presentations¹⁴. To assume that Stigler would present five unrelated lectures on topics of interest badly underestimates his ability, objectives and mode of operation. He never wasted his time or that of his audience.

About forty-five minutes into the class hour I found myself at the end of my notes! I was filled with consternation. I might last out the first session, but what about the rest of the quarter? I believe that this is not an unusual experience for new teachers, but I must admit that I have never reached the abundance of knowledge that made the time in the classroom seem inadequate (Stigler 1988: 39).

By the time of these lectures, Stigler had already established his reputation as one of the hard men battling the dominant Keynesian stream and that characterized by economic

planning, many of these opponents based at Harvard (and later at MIT)¹⁵. He had played a key role in holding back the micro-counterpart of the Keynesian revolution during the marginalist debates¹⁶. His LSE lectures were in fact a blueprint, building upon an interconnected approach that provided a basis for refounding the discipline. Stigler's objective was clear. The rationale for government intervention, so popular in this immediate post-war period, needed to be effectively closed off. Economic analysis had to be put on a tighter leash and refocused. This invitation to speak was a chance for Stigler not merely to react to and attempt to push back the forces of darkness but to establish a 'city on the hill' for the economics profession, an alternative to the current aims and objectives of those toiling within the discipline. It was in fact a very moral view harking back to the classic liberalism of Smith, Mill and de Tocqueville.

Few economists today would claim that their subject had any intrinsic relation with morality. Certainly, in the post Friedman/Stigler era, Chicago economics, as represented by Steven D. Levitt, seems determined to veer toward much more modest aims. The discipline has come to reflect a need for solving specific problems rather than building general systems. The key issue is to devise a method for testing a given hypothesis without any a priori judgements clouding the interpretation of results¹⁷.

Today it would be reasonable to assume that most in the profession would not see the objective of economic understanding to lie in moral action. Yet Stigler had broader goals in mind. Perhaps he was never a moralist to the same degree as Smith, Mill or Marshall. But if he doubted that economics could produce more moral men, he hoped it could insure that men were not made worse by means of government coercion. Planning and regulation inevitably led to a redistribution of income by forcibly changing contractual terms. Such intervention distorted individual choice by shifting the level of individual responsibility and accountability. For Stigler, moral action required that individuals bear the full weight of their decisions and choices. This involved the classical difference between license and liberty or freedom and coercion. Stigler did not want to prescribe moral behaviour but rather to allow individuals to achieve it. Given such an outlook, the only safeguard against collective tyranny was the marketplace. Markets ensured that power could not be exercised by any given individual. In a Hobbesian type of agreement, individuals ceded power to the market in order to achieve freedom of choice.

Stigler journeyed to London to substitute the liberating potential of markets for the heavy hand of government. Given this unarguable starting point, economics by necessity had to be structured so as to reflect this one self-evident fact. The five lectures are stepping stones in sketching out Stigler's vision of research. For the remainder of this section I will briefly demonstrate how each lecture contributed to this one overwhelming objective.

A. Banking on a Moral Imperative

The maxims are, first, that the individual is not accountable to society for his actions, in so far as these concern the interests of no person but himself. ... Secondly, that for such actions as are prejudicial to the interests of others, the individual is accountable, and may be subjected either to social or to legal

punishment, if society is of the opinion that the one or the other is requisite for its protection (Mill 1947:95).

As befits a crusade, the core of these lectures is a moral one. In his first lecture Stigler refers to the moral aims of the classical economist, namely to produce better men¹⁸.

Why, then, did the classical economists display such great and persistent concern with policies that maximize output? Their concern was with the maximizing, not with the output. The struggle of men for larger incomes was good because in the process they learned independence, self-reliance, self-discipline – because, in short, they became better men (Stigler 1949a:4).

The first lecture superficially seems concerned with economic equality. In particular it puzzles over the fact that classical economists appeared to have little concern for the topic in contrast to the post-war fixation by Stigler's contemporaries¹⁹. This point is exaggerated to heighten the contrast.

More recently the desire for greater equality has grown strong. Every policy is scrutinized for its effects on the distribution of income, and the results of this scrutiny weigh heavily in the final judgment of the desirability of the policy. A growing number of economists, indeed, implicitly argue that no other injustice equals in enormity that of large differences in income (Stigler 1949a:1).

The underlying theme however is that calls for government intervention imply a basic unfairness in market distributions of income²⁰. Stigler's ruling assumption equates distribution based on marginal productivity as necessarily flowing from equilibrium adjusted competitive markets. Where individuals receive compensation equivalent to their proportional economic contribution the outcome must be both efficient and equitable. Economists then must cease to support social engineering policy that lacks either theoretical or empirical justification. For these reasons the classical moral imperative is superior to present day concerns with income distribution. Economics cannot state what that moral objective might be but assumes that it can best be facilitated through the individual responsibility inherent in any competitive market.

There is not and can not be agreement on the precise character of man we seek to achieve ... But we are persuaded that an economic system will not help us to move in the right direction unless it grants both opportunity and responsibility to the individual: the very uncertainty of our ultimate ethical goals dictates a wide area of individual self-determination. We are not able to supply a blueprint of the ideal life, but we are persuaded that even if it were known it would be ideal only for the person who individually and knowingly and voluntarily accepted it. It is not necessary, however, to know what is best; it is enough to know what is better (Stigler 1949a:8).

Economic analysis is therefore equilibrium analysis which provides the basis for distribution according to individual marginal productivity²¹. Government intervention should aim at removing obstacles to competitive markets rather than dictating specific outcomes.

The policy of ignoring inequalities of resources and battling vigorously against inequalities of income is a wanton subsidy to psychiatrists. Our concern should be much more with the ownership of resources that leads to the wide difference in income. We should seek to make labour incomes more equal by enlarged education systems, improvements of labour mobility, elimination of labour monopolies, provision of medical care for poor children, and the like (Stigler 1949a:10).

His first lecture then is less narrow than may originally appear. It is very much a 'back to the future' approach which calls on economists to return to the values underlying classical analysis. An economic system must encourage self-improvement. Markets represent the governance structure that allows individuals to achieve such a goal. It is then unsurprising that Stigler buttresses his lecture by sprinkling it so liberally with quotes from Alexis de Tocqueville²². In particular, he ends his first piece with an extended quote from Tocqueville. Its purpose is to underline the parallel drawn between the fixation with equality and the greater centralisation of power. With the Cold War soon to build up to the Berlin Blockade in 1948, Stigler would see the threat to freedom as palpable. Stage one of reforming economics by establishing a counter-revolutionary vanguard was to question the assumption that income equality should be a concern of economists, theoretically or as applied to policy directions. The invidious acceptance of such an assumption only sold out individual freedom for a spurious gain in material equality.

But, the only thing I can remember him [George Stigler] saying or writing, he wrote it somewhere but I can't remember where, was that he favored a capitalistic oriented system. He favored it because it created the kind of person that he'd like better to live with. And that kind of person was somebody who felt responsibility for himself, and not one who thought that others were responsible for him (Conversation with Harold Demsetz, September 1997).

B. A Gorgon's Look at Monopolistic Competition

He [Edwin Chamberlin] found the school to be distinguished "by the zeal with which the theory of monopolistic competition has been attacked," and called it the Chicago School of Anti-Monopolistic Competition. What was a minor recreational activity for us was the *raison d'être* to him! (Stigler 1988:150).

The objective behind George Stigler's second lecture is also clear. The theory of Monopolistic Competition must be destroyed and Stigler was just the man to deliver a body blow to the theory. This gunslinger position was of course nothing new to Stigler. Part of the Chicago counter-revolution was to maintain the profession's belief in price theory while undermining Keynesian economics. The latter could be left to the tactics of his comrade in arms, Milton Friedman. But it was largely George Stigler's responsibility to defend the basis of neo-classical theory. He does after all come to the task of leveling his aim at Monopolistic Competition with a few battles already under his belt. The most

important of these was his (1947b) successful war waged against the ‘kinked demand curve’, which would be the basis for his subsequent approach to torching all non-equilibrium alternative systems²³.

There were two reasons that compelled Stigler to attempt a ‘seek and destroy’ mission of Chamberlin’s work²⁴. In many ways monopolistic competition had a similar status within micro-economics that Keynesianism did within macroeconomic analysis. It was a threat to standard market theory both because it did not fit into a customary equilibrium analysis and because it had gained widespread credibility throughout the profession.

My recollection is not worth much, but for what it’s worth is that the Robinsonian emphasis on the individual firm’s economics, the analysis of marginal revenue and marginal cost, fitted in very well with what we were otherwise thinking. There were no problems about that. But the Chamberlinian attempt to make it into a theory of general equilibrium was not. The attempt, as it were, to discuss about closer or less close substitutes in different markets, that kind of thing, trying to talk of an industry of imperfect competitors was not. Now maybe it’s only that I’m really going back to George’s later discussion, but I think from the very beginning that we got on very much less well with that general approach and those preconceptions. (Conversation with Milton Friedman August, 1997).

How Stigler intended to destroy the theory’s credibility is to some degree telegraphed in a restrained but angry letter that he had written to Chamberlin in response to a critical review (1947) of Stigler’s (1946b) text on price theory.

In any event, it is not a sin to reject your orientation; in this I have very illustrious companions. I am prepared to argue (1) that your theory is indeterminate, and (2) that it is not useful (often in realistic analysis). I do not recall a single consistent application of it to a real problem, and this is the ultimate failure of a theory (Letter from George Stigler to Edwin Chamberlin August 1947 in Hammond and Hammond 2006:62-62).

This is not the place to do anything like a detailed analysis. However the attempt throughout is to dismiss Chamberlin’s theory as both unworkable and trivial. Let a theory become the target of a convincing act of demolition, then there is virtually no path to redemption having once landed in this hellish scholarly category. Stigler starts by indicating that only exceptional times would have seen such a theory being given any sort of credibility. The shock to accepted belief that the Great Depression represented, a veritable perfect storm of circumstances, provided acceptable camouflage for an essentially hollow theory. “... because it was the ‘thirties’, they were enthusiastically received” (Stigler 1949b:12). Note that the undertone is that this was a decade when all sorts of dangerous heresies were accepted because of the desperate times²⁵. Rational analysis became overshadowed as events somehow clouded the judgment of otherwise reasonable economists. Stigler could point to (what was for him) indisputable economic nonsense as typified by the administered pricing work of Gardiner Means, the kinked demand curve of Paul Sweezy and other similar theories that attempted to change the basic microeconomic framework of received wisdom. This occurred as frequently as the

more successful attempts to transform macroeconomic beliefs. Notice the way in which he could simply dismiss Joan Robinson's work as needing no critical evaluation because he recognized, quite correctly, that her approach presented no dangerous departure from standard price theory. Stigler even at this relatively early stage of his career had what was probably the best nose for dangerous heresy within the profession²⁶.

Her volume marks no break with the tradition of neo-classical economics; indeed it contains I think, too uncritical an acceptance of the substantive content of orthodoxy (Stigler 1949b: 12-13).

Stigler cleverly makes such departures from price theory a regrettable aberration by ironically labelling the period before the Great Depression as 'that chasm between darkness and light'

To Stigler "Professor Chamberlin was a true revolutionary.' (Stigler 1949b: 13). No harsher condemnation can be made by those seeking to defend market freedom against the incursion of regimented planners. Stigler points out that Chamberlin stresses the heterodox nature of markets, emphasizing what makes markets different from one another and the interdependencies of those markets and the firms within them. Stigler by necessity must stress the similarities in markets to insure that efficiency and equity flowed from individual choice. Moreover, for Stigler, in no other way but by abstracting and generalizing was it possible to generate a productive theory, one that could generate a testable hypothesis.

Well George did not think that differences were so important for economic analysis. You wanted to understand prices, demand and supply? You could use the same kind of model no matter where you applied it and you didn't have to have a really special model for it. I think that was why he was not a fan of the 1930s and '40s industry studies. They thought every industry was unique. I think that was one of the consequences of the Chamberlin monopolistic competition model and he didn't see any useful generalization coming out of that. He was always interested in generalizations. And he was not interested in explaining the particular as much as he was in the generalization that you could deduce (Conversation with Harold Demsetz October 1997).

The lecture is of additional interest for plugging an important whole in the fabric of price theory. What somehow finds its way into this effective demolition job of Chamberlin is a concluding and unexpected plunge into the uncongenial world of methodology. The approach sketched is remarkably similar to that which his friend, Milton Friedman (1953), would bring out as path-breaking work a few years later. (And serve much the same purpose for Friedman as for Stigler.)²⁷ It is ironic, but strategically appropriate, that Stigler uses a methodological argument to dismiss further discussion of methodology. These discussions had become fraught given that the charge of 'unrealistic assumptions' had been increasingly used as a lever to try to dislodge standard price theory.

Stigler notes that Chamberlin's vision was clearly a legitimate way of looking at economic life. One may even argue that it was more congruent with untutored observation, and in this sense more 'realistic'. The importance of this alternative

approach is immediately wiped away since Stigler claims quite emphatically that this is completely irrelevant on theoretical grounds. Instead such a characteristic only explained why it was accepted so readily. This criticism makes only partial sense since the realism of assumptions may be, by themselves, insufficient, but only if they don't lead to a useful theory that makes observations more comprehensible. Similarly, predictions alone are certainly not sufficient either since the goal is to gain understanding rather than simply predictions. Stigler sidesteps this issue by focusing instead on the question, "Does a theory incorporating this viewpoint contain more accurate or more comprehensive implications than the neoclassical theory?" (1949b:33) Notice the leeway this provides Stigler since he gets to define what the vague term 'accurate' and 'comprehensive' might mean.

Clearly the conclusion of this second and particularly vivid sermon is that "Thou shalt have no other price theory before you." Competitive markets eliminated market power and left individuals 'free to choose'. Only such an approach provided an effective bulwark against the planners who threatened ultimately to remove not only economic but political freedom. Systems lacking a competitive equilibrium could be used to opportunistically legitimise arbitrary distribution systems and thus provide a rationale for government intervention. Market systems made these dangerous justifications vanish.

C. Redeeming the Classical Economists

I just don't dare send you an article on how smart the classical economists were, or you'll give up completely (Letter from George Stigler to Milton Friedman, November 1947 in Hammond and Hammond 2006:67).

At this stage (lecture three) in Stigler's 1948 reconstruction of economics, time was ripe to point out to all the sinners among the congregation the always grave danger of backsliding when it came to government intervention. How better to do this than through case studies involving clear, if convenient economic history, especially if by doing so the bogeyman of unintended consequences can be cleanly demonstrated²⁸. Under such a scenario, what counts, are not the good intentions of the planners, but the economics that drive the results.

The lecture itself is ostensibly an attempt to rehabilitate classical economists given the then commonly held prejudices. (Today, the profound lack of awareness of such individuals as Senior, Leslie or McCullough, would make the issue of rehabilitation moot.)

For how little those venerable men knew. They did not know of marginal revenue and marginal cost, of marginal product and marginal propensity ... They did not know that one can draw economical diagrams ... nor that one can distil the essence of economics in the heat of the differential calculus ... Nor were the deficiencies merely terminological and expositional. The classical economists did not know that the demand curve is terribly important. They did not even know that competition is imperfect, and that monopolists do not charge all they may (Stigler 1949c: 25).

The claim is clearly ironical, since what Stigler intends to show is that they were able economists in terms of practical application and problem solving. This being the rightful aim of economics, the fact that retrospectively we can snub their theoretical apparatus as crude, should not provide the decisive measure with which to evaluate their work.

The discrepancies between pronouncements and practice are notorious in the field of methodology²⁹; can it not be so also in the theory of value? In writing their treatises, may not the classical economists have employed an apparatus which is different and in modern eyes inferior to that which they employed to analyse concrete problems? (Stigler 1949c: 25-26).

Whether Stigler's audience, or subsequent readers, were convinced that the implicit, but unspecified working methods of these early economists were more sophisticated than their explicit treatises is not without interest, but a step removed from the underlying purpose of Stigler's third sermon. As might be expected given the nature of nineteenth century debates, the issue chosen to illustrate the wisdom of these classical economists involved a policy controversy. This should hardly come as a surprise given the strong tradition that for these practitioners policy debates were very much intertwined with theoretical issues. Their modern counterparts are liable to forget that the economics of the time was heavily policy driven, certainly from the time of Adam Smith, but prior to his monumental work as well. However, what is more relevant in understanding the purpose behind Stigler's five lectures is how this particular one advances the overall objective of his performance at the London School of Economics.

The given example describes a situation that would touch familiar chords within the listeners of 1948, especially with the Great Depression as a shared recent experience. The introduction of the power loom had to varying degrees impoverished skilled weavers after the Napoleonic wars in England. Skilled weavers being independent contractors (via the putting out system) found it difficult to compete with power loom factories. The almost inevitable result was a general exploitation of family members to stay afloat. The governmental response (a not unfamiliar one), was to appoint a Royal Commission.

Their reports, published in 1839 and 1840, provided a wealth of material and confirmed the fact that the weavers were in pitiful circumstances (Stigler 1949c:27).

A portion of the labour market is in dire straits. The immediate issue for government officials is to ascertain the cause of such a condition and based on such investigations to consider whether any specific policy could improve their lot. Not surprisingly, a key conclusion (supporting Stigler's own predilections) is that such workers needed to shift out of this particular superseded occupation. Unfortunately, labour combinations in other trades ultimately blocked entry to these viable alternatives. Any government solution therefore must necessarily focus on removing such restraints to trade. Intervention should focus on removing such impediments to market operations. In addition such a solution might explore whether it might be possible to increase competitiveness within the industry by boosting productivity. However methods which seem to protect these workers from the rigor of competition; minimum wages, taxes on power looms or on imports, not

only hurt other sectors of the economy but ultimately impoverish the very group it seeks to serve³⁰.

Unintended consequences must almost inevitably undermine the best intentions of planners. Besides this consistent conclusion, Stigler is also able to introduce an important sub-theme in this middle lecture which would form the keystone to Stigler's own version of the Chicago School counter-revolution, namely the need for quantification and testing. This would be the visionary call of his AEA Presidential Address in 1964 (1982). One can hardly argue with his own conclusion concerning the overriding importance of applied, empirical work. Though the parishioners listening to this sermon would be well advised to recall Stigler's own warnings about the discrepancy between pronouncements and practice (1949c:25).

No intelligent person can fail to modify and adapt his general position to suit its peculiarities. There are obviously important pieces of evidence, and he must take account of them ... There are indisputable developments, and his theory must give an account of them. The theorists' eternal, and proper, striving for generality is disciplined by the facts. These, I repeat, are the effects of analysis of concrete problems (Stigler 1949c:35-36).

D. On Being Mathematically Dysfunctional

On Samuelson's definition, I suppose, one writes an essay on mathematics; on the conventional definition, one writes an essay on economics (Stigler 1949f:100)³¹.

There was a deeply held conviction developing within the Chicago School counter-revolution at this time that ran directly counter to the Cowles Commission which in this post-war period also chose Chicago as its working base. In fact such department members as Jacob Marashak or Don Patinkin split their time, also serving as researchers with the Commission. This fourth sermon by Stigler, in his role of evangelical prophet, scourges the sin of mathematization. The use of mathematics is of course by itself no sin. Stigler is in no way math phobic. However in the same way that eating is an innocent necessity while gluttony is a sin, mathematics obediently serving economics is admirable, while mathematics as an end in itself derails the entire enterprise of economics.

The increase of mastery over mathematics, however, is not free. The budget equation of the mathematical economist applies also to himself: he purchases mathematical literacy with economic illiteracy. An economist, after all, is not an unemployed mathematician (Stigler 1949d:44).

Following the lead of Friedman, the Chicago School, at least in the decades following the war, is deliberately Marshallian. Partial equilibrium analysis, while clearly unrealistic, proves far more serviceable for applied work than a Walrasian general equilibrium approach. (Notice the clear application of the methodological foundation articulated by Stigler in his second lecture.) The Marshallian approach also sternly suppresses mathematical exposition. The Chicago translation of this approach is that mathematics must remain consistently subservient to economic intuition and analysis.

Because the mathematical method is so powerful and beautiful, and its possession still sufficiently rare to command distinction, the mathematical economist is under constant temptation to use it just for the sake of using it (Stigler 1949d:43).

All of this is quite true. If anything, the contrast with the overuse of mathematics emphasizes the essential point of the previous sermon, namely the importance of empirical work. On a surface level the discussion is a warning against such economists as Gerald Debreu who confuses ends with means. But perhaps a deeper purpose is revealed in the fact that one of the few contemporary economists he bothers to name in the lecture is one of his persistent targets. Samuelson appears in a cameo role to provide a rendition of Poisson's idea that 'mathematics has no symbols for confused ideas (Stigler 1949d: 39). The appearance allows Stigler to dismiss the way in which Samuelson has utilised mathematical tools.

The Poisson view is objectionable not merely because it is untrue, but because it is almost the opposite of the truth. It is an insulting restriction on the usefulness of mathematics to credit it with the ability to deal only with clear concepts. The history of science gives us good reason to believe that every concept of modern science will be found to be ambiguous at some future time. Therefore a snobbish mathematics would be unusable at present. It is as if one were to assert that language is only for the expression of pure thoughts: we have also mathematical pornography (Stigler 1949d: 30-40).

As pointed out previously, Stigler had an exceptionally fine nose for sniffing out heresy. This pertained not only narrowly to neoclassical theory but to any approach that surreptitiously undermined the efficiency of markets and promoted government intervention. Perhaps then the problem was not solely with the methods mathematical economists used but also with the work such economists did. Those at the Cowles Commission who were not simply developing econometric theory seemed determined to place the Keynesian approach into a more rigorous general equilibrium framework. Optimality itself, seemed purposely constructed to point out market failures rather than market efficiency. In the hands of Paul Samuelson or Kenneth Arrow (Cowles Commission) theoretical results could all too easily translate into policy demands. Innocent recreation in the form of abstract theoretical constructions when manipulated by Keynesian economists would become transformed into an unambiguous basis for demanding greater government intervention. These perhaps unconsciously dangerous planners had captured the high ground offered by burying economic intuition under a barrage of symbolic expression. Mathematics as a weapon of shock and awe mesmerized opponents with its Gorgon like glance. A successful counter-revolution would need to initially neutralize the effect of such a potentially commanding weapon.

This is almost the way George would be talking if he was sitting here. 'Having you and your six friends argue about a lemma, that's progress!' He wouldn't be indignant. He would be laughing. He would be dismissive. He'd say, 'You're dopes. You're dopes.' What should you do with them George? 'Exile them to Samoa.' He'd dismiss them with a wave of the hand (Conversation with Sam Peltzman, October 1997).

E. An Economist Plays a Game of Monopoly

He once wrote an article about monopoly, that you should break up companies. He eventually abandoned that theory. And the reason he abandoned the theory was very interesting. In those days he thought, you could tell the government what to do and the government would do it; but his later view was, no. He adopted the view that there are politics and politics is worse than monopoly, or can be worse than monopoly. So he changed, drastically changed his point of view on that. And he began to take this view that you are better off having a rotten something that doesn't work perfectly in the market than having the government get involved (Conversation with Gary Becker October, 1997).

The idea of monopoly has always been the open sesame of government intervention. It had been the driving force behind anti-trust legislation in the US as well as other countries. Stigler would have been well aware that Gardiner Means' (1939) contention of an America ruled by administered prices basically posited a monopolised economy. For Means, such a structural defect accounted for the seeming unending length of the Great Depression. In developing an economic blueprint for professional work that would staunchly minimise the requirement for planning or intervention, the obsession with monopoly needed to be rendered benign.

His required five sermons to the English devout needed to reflect his own long journey of escape from the old Chicago School of Knight and Simons. Stigler started to change his views on the issue of monopolisation between the years of 1942 and 1949. It is not that his basic belief in the competitive nature of most industries changed, but rather his reading of the evidence does. His 1942 piece is very open ended, explaining the limitations of available techniques and data. By 1949 his use of many of the same studies became a battering ram applied to the views of rival theorists. Something does happen; post-war, to George Stigler's professional approach. Seemingly he came to fear that neoclassical price theory was under serious attack. For its proponents, compromise, or even the smallest concession, would be equivalent to surrender.

In 1942 the question of how competitive an economy as a whole might be, held no real meaning for Stigler. Certainly it was not a question that could be quantitatively answered.

The second major problem is concerned with the much discussed question: How competitive is the economy as a whole? Despite the frequency with which dogmatic answers are given to this question, it is doubtful whether any meaningful answer is attainable ... it is difficult to find any important purpose in asking how competitive an economy is. There is some intellectual curiosity in knowing how much smaller national income is than it would be under workable competition (where practicable!), but the curiosity does not merit huge expenditures for a crude and unsatisfactory answer (Stigler 1942: 4).

Stigler questions whether any of the methods employed resolve the problem. Workable competition could only be ideally rather than practically used. As Stigler points out

... we do not yet possess the information to classify industries accurately as workably competitive or otherwise ... and more important, we do not know how far the monopolistic industries depart from workable competition (Stigler 1942: 5-6).

For this reason, though he considers Wilcox's (1940) efforts at classification to be admirable, it yields no definitive answers. Certainly to Stigler (1942), concentration ratios are ambiguous since there is no established relationship between any such ratio and a level of competitiveness.

Stigler in his fifth and final lecture repeats his belief that these estimates have little if any scientific value. He does however let the proverbial cat out of the theoretical bag by admitting that such figures seem to have an unfortunate effect on social policy. This is what distinguishes his 1942 remarks from those of 1949 and gives a thoroughly accurate trajectory to where his views would evolve as the decades advanced in his career. By 1949 he is engaged in an open battle with an opposing blueprint for the economics profession as well as for consequent policy.

There is no necessary relationship between one's views on the extent of competition and on the type of economic policy that should be pursued. One can believe that the economy is 99 per cent monopolized, and still argue for policies designed to revive competition and private enterprise; or one can believe that the economy is 99 per cent competitive and still argue for syndicalism or socialism. Such positions, however, are not popular ... Most economists would probably change their policy views if they were convinced that their appraisal of the relative roles of competition and monopoly was fundamentally wrong (Stigler 1949e: 46).

Given the role that he is assuming in this lecture, he has no trouble leaning on the very same Wilcox (1940) study he previously regarded with some scepticism. It is clear that this has become a purely rhetorical battle where nuances are considered self-imposed hindrances to one's argument³².

At this point his series of sermons draw to a close. He has indicated the necessary direction economics must take if it is not to become the unwilling dupe of totalitarianism but remained aligned to the forces of freedom. He has done so by eradicating the five plagues afflicting modern (circa 1948) economics.

- Sacrificing growth and efficiency for ersatz equality
- Focusing on more realistic but fundamentally useless non-equilibrium alternatives
- Ignoring the law of unintended consequences
- Sacrificing economic content for mathematical eloquence
- Obsessing over the monopoly phantasm.

IV. Future Directions – How these Lectures Influenced Stigler's Future Work

I don't know how important ideology is, but think it is unimportant. You don't know how important it is, but think it is important. My position is better

because I try – feebly and so often unsuccessfully – to use a trusted theory of human behaviour to explain social phenomena. Your position is worse because you try – with marvellous ease – to explain the mysteries by a deus ex machine (Letter from George Stigler to Milton Friedman, March 29, 1984).

The blueprint sketched out in his London School of Economic lectures is uncannily accurate in foreshadowing the course of Stigler's own career as he set about overturning the commonly held wisdom of his day. In this, he worked the micro-economic seams of the counter-revolution leaving the more macro aspects to his team mate, Milton Friedman. The thesis of his work, as developed in those five lectures, stated that government intervention into market economies represents incursions against individual choice and thus liberty. In a Hobbesian like compact, competitive markets remove the issue of private power. To convince the economic profession (and the wider public) of the validity of his thesis he had to perform three distinct labours, not quite up to the rigours demanded of Hercules, but still a daunting task.

- The initial task required a demonstration that competitive markets are pervasive. Given the freedom of choice, efficiency and growth generated by such market structures, any justification for government intervention is forestalled.
- He next had to demonstrate that the stated objectives behind government intervention could not be substantiated. This implies that not only isn't such interference necessary but it is incapable of accomplishing its presumed goals.
- Lastly, given that government interventions are not motivated by social welfare concerns, he had to locate such objectives within the self-interest of government agents such as politicians or bureaucrats. In this case, not only does such interference fail to raise the general well being but it instead aims at redistributions that lower overall social benefits.

The years George Stigler spends after this sermon, given as a still somewhat youthful preacher, fulfil his stated agenda. Until the early sixties he focuses mainly on those aspects of economics that reinforce his vision of a world dominated by competitive markets. This culminates in two of his key (and perhaps best) articles. With his theory of oligopoly (1964), Stigler is able to demonstrate that no such theory need be developed. Any attempt to limit competition, if successful, in the short run would tumble over into the realm of monopoly. While in the far more likely case of a failure to maintain such limits, the market returns to its naturally competitive status. He had only to wait for Harold Demsetz (1968) to demonstrate that even monopoly markets are essentially competitive. Competition for the market could effectively replace any competition within the market itself. Next, by tackling information, Stigler deliberately took on such noted economists as Kenneth Arrow head on. Economists in the fifties and early sixties widely came to believe that information, or more accurately the lack of accurate, reliable information produced market failures. Inevitably, given this starting point, the peculiar nature of information yielded imperfect markets. Stigler's approach and that of the Chicago School emphasises not what makes these markets differ but rather what these economists see as the remarkable similarities between all such governance structures.

Starting from the assumption that a market is a market, Stigler is able to demonstrate that the market for information is not different than any other market and thus does not provide the occasion for government intervention³³.

The second stage of his career parallels the change in the sixties of political regimes with the Democrats replacing Republicans and the subsequent Washington migration of many of Stigler's traditional foes from Harvard and MIT. Given that such a changed environment brought with it more aggressive anti-trust enforcement and other calls for a more activist government, what could be a more appropriate conservative response than demonstrating, with hard facts, the clear futility of expecting that government objectives could be achieved? Stigler, with the help of Claire Friedland, (1962) does this by reopening questions that had seemingly been too obvious to investigate. Does regulation, for instance, of public utilities yield benefits to consumers? The surprising finding that such regulation had no effect roused the profession from its dogmatic sleep and spurred it to investigate additional regulatory aspects³⁴. Some of these were done by Stigler himself (1975).

In the seventies, with the Vietnam War and the coming of age of the baby boom generation serving as the occasion to mount a panoply of demands for radical reform in the economy (and in the economics profession), Stigler responded with the concluding chapter of his blueprint. Since governments are nothing but a collection of self-interested agents, government intervention via the regulatory path will serve special interest groups and associated politicians at the expense of general welfare measures. At the height of the call for revolution in the country, Stigler (1971) brings out "A Theory of Regulation", to demonstrate the exact opposite. If his previous work displayed the futility of government intervention, he would now explore why governments were so fixed on passing regulations that did not achieve those objectives. With any abiding fortune, this would put the nail in the coffin of government regulation. All such action could be reduced to an elementary economic drive to further self interest. Again, under Stigler's analysis, a market is a market³⁵. Thus a political market may best be analysed by the standard economic methodology of supply and demand. The very simplicity of the approach is effective in driving home Stigler message of non-intervention.

He often convinced himself they were actually true. Like when he was confronted with some fact about regulation, he would say 'Ah, you're going to find some Congressman was bought off. [laughter] You are actually going to find that. That's what you're going to find. Are you sure that you didn't find that this Congressman Y?' You know, that kind of writing, that kind of a very strong view (Conversation with Sam Peltzman October 1997).

Stigler then presents the relatively rare case where the unfolding of his career can be clearly discerned in his visionary statement to those gathered at the LSE in 1948. The four decades that followed clearly refined that vision and put it into practise. Time may have made him more consistent but did not shift him from his self-allocated task.

I think he went to a more satisfactory position, absolutely. The earlier view, as you say, he picked up, that was the literature, he hadn't really thought it through. I mean, you know, he hadn't thought through everything at that

point, and he hadn't really thought it out. As he thought through more and more, I think he came to a more satisfactory thesis on the issue. I think you're absolutely right, he did. ... But his views did become more consistent. I agree with you on that. Other people may not think so, but I think definitely that was true. He began to re-think some positions he had just inherited. Inherited you know, from his teachers and so on, or from the literature and he put it in a more consistent framework (Conversation with Gary Becker, October 1997).

V. The Race is to the Swiftest – What has Chicago Wrought?

The way to freedom was to unleash the millions of individual actions that made up a working economy, and never to seek to control them (*The Economist* commenting on Ralph Harris, 2006:92).

Because so much was at stake, not only personally but morally as well, the marketing of ideas dominated Stigler's professional strategies. Debates and academic discussions transmuted into an adversarial or winner-take-all approach. The discipline became akin to the legal battlefield of the courtroom where opposing lawyers search for a winning rather than a correct argument.

It often seems that economists when following this approach are quick to note each others' attempts to sermonize but slow to acknowledge their own. The corrosive effect of preaching and the way it closes off rival theologians from considering alternative approaches is clearly exemplified by George Stigler's own career. Not that Stigler was unusual in practising such exclusion but rather that even the best of economists are afflicted with this failing. His extended contests with Gardiner Means and John Kenneth Galbraith display these traits to an embarrassing degree. For instance, charges of theology and dogma are swapped equally between Galbraith and Stigler. To an extent it is true about both. Stigler is determined to see competition as the dominant market structure while Galbraith stands steadfastly for market power as his prevailing doctrine. It is nearly impossible to think of any evidence that would change their respective stands. (The same can be said of his sustained battle with Gardiner Means.) Stigler is intent on measuring percentages of dominated markets. Galbraith allows that many markets are competitive but that a number of key markets are dominated by only a few firms. There is no common ground for debate or any effort to reach shared terms of discussion. Ideology inevitably trumps any empirical evidence. Thus the most useful conclusion to be drawn after evaluating the type of evangelical barnstorming perfected by the Chicago School is that economics, like all disciplines, requires a clear separation between Church and State. Economists should decide whether the objective of their profession is to achieve understanding or to provide the foundations for pre-ordained theological goals.

Men cannot live without an economic theology – without some rationalization of the abstract and seemingly inchoate arrangements which provide him with his livelihood. For this purpose the competitive or classical model had many advantages. It was comprehensive and internally consistent. By asserting that it was a description of reality the conservative could use it as the justification of the existing order. For the reformer it could be a goal, a beacon to mark the path of needed change. Both could be united in the central

faith at least so long as nothing happened to strain unduly their capacity for belief (Galbraith 1957: 17).

VI. References

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Notes

¹ Allied governments and especially that of the US nurtured this belief during the war. This is exemplified by a series of seven documentaries directed by Frank Capra and collectively known as *Why We Fight*.

To be inspired with the will to win, Capra told his associates as they embarked on this work, Americans needed to be shown that they were fighting for the existence of their country, and at the same time were carrying the “torch of freedom” for a better postwar world – a world in which conquest, exploitation, and economic evils had been eliminated and peace and democracy prevailed (Dower 1986:16).

² The irony that this democratic triumph would not have been possible without the collaboration of the Stalinist Soviet Union seemed lost to many at the time (and often forgotten today). Pragmatic cold warriors could subsequently invoke strategic amnesia on the issue or confess the periodic need for flexible pragmatism.

³ Like those corporate interests who came away from World War I with a similar idea of economic planning (see Weinstein 1968), these latter day planners tended to disregard a basic difference in a wartime economy. Namely, in such an economy demand for output is virtually guaranteed in the form of necessary munitions. Producing for an unpredictable market (the standard peace time condition) is not analogous to producing for a given wartime demand.

⁴ It is easy when working within the Anglo-American tradition to over generalize the existence of market driven economics. The German Historical School or that of the American Institutionalists certainly took radically different departures from this mainstream price theory approach.

⁵ Freedman (1995) points out that the immediate post-war period witnessed a struggle to maintain the marginalist micro framework against alternative approaches. Ultimately this failure to provide micro foundations for the Keynesian revolution would provide a perfect Achilles heel for more neoclassical economists to aim at in the seventies.

This lack of compatibility between the two systems of economics was due to the failure of either side during the decades of the thirties and forties to achieve complete victory. The forces of each camp won conditional strategic battles. Perhaps the traditional price theorists surreptitiously occupied the high ground since they denied the Keynesians a dominant microeconomics compatible with their model. The Keynesian position was left with an inherent vulnerability (Freedman, 1995:202).

⁶ It can be argued that Keynes saw responsibility for economic policy to depend on a small group of highly intelligent and well trained professionals with the virtues exemplified by him and his Cambridge associates.

⁷ In a broadcast with BBC radio aired shortly before his death (16 November 2006) Milton Friedman when asked how he would like to be remembered answered, ‘As a friend of freedom.’ He went on to explain that he meant both economic freedom and political freedom. Political freedom was a requirement (usually though not always) for economic freedom.

⁸ For someone so wedded to the perceived classical liberalism of Adam Smith, George Stigler demonstrates a noticeable blind spot to the way these early economists perceived analysis. Economic theory remained policy driven and quite concrete. The purpose of such explorations was closely wedded to the changing policy debates of the nineteenth century. Stigler chooses to trivialise such a relationship rather than coming to terms with the way in which the policy tail could wag the theoretical dog.

⁹ Friedman stuck with Chicago despite initially being awarded the position only when the preferred candidate, George Stigler, was deemed too quantitative by University of Chicago President Cowell. As an underpaid associate professor he was tempted to accept a more generous offer from John Hopkins. ‘Tell me, from the fullness of your experience, together with my indifference curves, how large a price ought I to pay for the privilege of being at Chicago?’ (Hammond and Hammond 2006:80) In those early days he also despaired that he and his allies at Chicago were losing too many battles to the dark forces (the Keynesians).

The dep’t has voted to make Samuelson an offer. We don’t yet know the end of the story. But whatever it is, I am very much afraid that it means we’re lost. The Keynesians have the votes & mean to use them. Knight is bitter & says he will withdraw from active participation in the dep’t. Mints, Gregg, & I are very low about it (Letter from Milton Friedman to George Stigler in Hammond and Hammond 2006:46).

¹⁰ In this he departed from his close friend Milton Friedman who would turn up almost anywhere on the face of the earth to promote his particular economic agenda. Stigler maintained an almost provincial outlook which is in some ways distinctly American.

Another story about George, I’ve always found it to be a problem, which is how incredibly American he was. I used to be shepherding these Latinos through and here they would come

to some question in his Price Theory examination. ‘ Explain something, something about the Dred Scott Decision’ (Conversation with Arnold Harberger, October 1997)..

¹¹ Though Stigler claims not to have met von Hayek before the gathering at Mr. Perlerin it is clear that he exchanged correspondence prior to that date.

Hayek writes: A junket to Switzerland in April is contemplated, to save liberalism. I assume you & Aaron would go. If this comes off, (1) train Aaron on bridge, and (2) let’s find a fourth liberal; and teach him (Letter from George Stigler to Milton Friedman in Hammond and Hammond 2006:49).

¹² That Stigler became regarded by this conservative intellectual elite as a good egg, can be traced to his relationship with Aaron Director and indirectly to his then closer ties to Frank Knight. Hayek would have quite naturally invited Director to such a meeting, if for nothing else than to reciprocate the help provided in publishing his book. Director, who was one of Knight’s protégés and close friends, would have brought Knight along as well as his brother-in-law, Milton Friedman. Stigler, who was close friends with Friedman and the student of Knight, would have almost automatically completed the four innocents journeying abroad. Much of the account of that first Mount Pelerin meeting comes from the PBS produced program *Commanding Heights*. The show interviewed some of the surviving original participants. Milton Friedman remembers it as a meeting of ‘good eggs’. He also recalled a heated debate on distribution where von Mises turned on the other members denouncing them as ‘a bunch of Socialists.’

¹³ Friedrich von Hayek would himself shift in 1950, from the London School of Economics to the University of Chicago, becoming a professor in the Committee on Social Thought (he was barred from entering the Economics department because of his Austrian economic views by one member whom he would not name and many speculate was Frank Knight). (See article in Wikipedia on Hayek for these and other details.) It is hard to know the exact series of events leading to the lectures Stigler presented at the LSE. Letters from Hayek to Stigler stored at the University of Chicago may prove to elucidate the missing links.

¹⁴ To get some sense of this, compare his text on price theory (any edition) to contemporary texts of the day.

¹⁵ The battle was fought by Chicago stalwarts as a no quarter offered, winner take all affair. For instance, Milton Friedman himself played no small role in detaching the Cowles Commission from its post-war home in Chicago. (It re-established itself at Yale where it has been ever since.) The sort of theorists laying the foundations of General Equilibrium theory and the new science of econometrics tended toward grand theory and abstraction. Friedman always styled himself as a follower of Marshallian partial equilibrium. Moreover, such theorising by economists like Kenneth Arrow led to an emphasis on market failure instead of market success. The Cowles Commission represented an attempt to establish a more rigorous framework for Keynesian economics, itself anathema to both Friedman and Stigler.

On the whole, I admit I was wrong on Colin. He is not the man you or I would want in that perfect University Arthur [Burns] wants to found, but he is personally nice, many of his instincts are on the right side, and he’s much more interesting and provocative, and fundamentally no sloppier, than Kuznets or some other people in NY or Chicago. And he would be marvellous in infuriating the Cowles boys, although probably not your equal (Letter from George Stigler to Milton Friedman, December 1947 in Hammond and Hammond 2006:73).

¹⁶ This can be seen in those works attacking the labour demand approach of Richard Lester and the price setting analysis of Hall and Hitch. (See Stigler 1946, 1947a and 1947b). For a retrospective look at the marginalist debate from the viewpoint of the marginalist forces see Machlup 1967.

¹⁷ Some attitudes in the profession never change. Economist within the profession like to take pot-shots at Levitt, sneering at the notoriety earned for his popular work *Freakonomics* (2005). Stigler himself sneered at popularisers, even shaking his head at his close friend Milton Friedman who he judged was too interested in making policy pronouncements

Aaron Director (AD): But he [Stigler] preferred to study them, not to change them.

Milton Friedman (MF): He preferred to say that he preferred to study them.

AD: He preferred to study them. I should quit this argument.

MF: It was partly a long-running difference between him and me.

AD: You’re right.

MF: And he liked to stress, “I just want to understand the world and Milton wants to change it.”

AD: That’s right. And predominantly I think that George was correct.

(*Conversation with Milton Friedman, Rose Friedman and Aaron Director, August 1997*).

His longest entrenched feud was with John Kenneth Galbraith. Each new book by Galbraith would inevitably elicit a withering review by George Stigler even in later years when Galbraith’s fame and popularity had waned. Galbraith, perhaps came too close to the bone, when he implicitly pointed out this nettle in Stigler’s professional achievements.

As Galbraith related the story, Stigler had said on more than one occasion that it was a tragedy of our time that so many had read Galbraith and so few had read Adam Smith.

Galbraith replied, the deeper tragedy is that no one much read Stigler at all (McCann and Perlman 1993: 996n).

The Chicago School approach to economics as instituted by Stigler and Friedman emphasised empirical testing of all hypothesis. Stigler’s presidential address (29 December 1964) to the assembled conclave of economists at the annual AEA convention is to some extent a visionary look at the quantification of economics. In this sense someone like Levitt is in fact carrying on this longstanding tradition. However, Stigler himself sometime strayed from standards of impartiality when judging his own statistical results.

He would come across empirical work which was contradictory to other empirical work.

Somehow it always seemed to him that the empirical work which favoured his side was done better than the empirical work which didn’t (Conversation with James Kindahl, October 1997).

¹⁸ The problem of a discipline that aims to make better men was clearly pinpointed by Milton Friedman. Given a draft of the lecture, he responded by worrying what such an objective might be in more concrete terms.

Re your solution? “the improvement of the individual” is about as ambiguous a touchstone as “equality.” I don’t know how to define either. You cite Marshall. In him, “the improvement of man” equals the remaking of other peoples into the image of the Englishman, which is warning enough that this slogan has danger of leading to the narrowest kind of presumptuous provincialism (Letter from George Stigler to Milton Friedman, February 1948 in Hammond and Hammond 2006:78).

¹⁹ For effect, Stigler overstates his claims in this lecture as he does in the others as well. Perhaps something of what Stigler has in mind is reflected in a later presentation provided by John Kenneth Galbraith (1954). Ironically, this was a session in which Stigler (1954) himself gave a rather savage rejoinder to what he perceived as Galbraith’s overstatements.

To many of us the notion that one individual shall be in position to control the real income of others remains more than slightly obscene. We react to it much as a Puritan to Professor Kinsey – adultery exists no doubt, but how much better not to talk about it (Galbraith 1954:5).

²⁰ Ironically, classical economists do have quite a bit to say about income distribution. Ricardo starts a tradition whereby property rights (in the ownership of land) create a vestigial power which determines income distribution. Such distributions do not by necessity encourage either economic or moral growth.

²¹ Stigler maintained a career long interest in questions of income distribution, in particular the efficiency and morality of those generated by markets. As one of the few graduate students ever to complete a dissertation under Frank Knight, his work focused on what would continue to be in an implicit sense, the underlying theme of his economic analysis. Stigler maintained that *Production and Distribution Theories* (1941) was far too heavily influenced by Knight. Stigler’s introduction of uncertainty is certainly a deliberate bow to Knight and seems in line with what a disciple of Knight might conclude. But even at a rather early age, Stigler’s future break from his teacher is foreseeable. For Stigler, Knight’s central concern with uncertainty need not seriously distort market outcomes, nor call for a planned policy of income redistribution. Market outcomes may still remain efficient as well as equitable.

Once uncertainty is introduced, the theory of distribution is altered greatly. Anticipations rule economic activity, and many of the anticipations must be erroneous because of the very fact of uncertainty. The entrepreneur becomes a residual claimant, and the exhaustion-of-product problem disappears. Anticipated marginal productivity becomes the basis for remunerating all productive services except entrepreneurship (Stigler 1941: 386).

²² Alexis de Tocqueville, like Adam Smith, has become one of the icons of self-styled classical liberals. Like all those with strong ideological predilections it is sometimes difficult to discern how much such people really understand of their idol's work. A recent biography of Alexis de Tocqueville (Brogan 2006) questions the degree to which Tocqueville was a Tocquevillian.

²³ See Freedman (1995) for an analysis of Stigler's approach. Essentially the method was to create an ersatz version of the original theory and then destroy his own purposefully crafted straw man. As was the case with Monopolistic Competition, the kinked demand curve provided something of a micro-foundation for the Keynesian approach to macroeconomics. In the case of the kinked demand curve it established a justification for labor market outcomes within such a quantity adjusted system. Stigler was sufficiently successful in the case of kinked demand curves as to replace Sweezy's (1937) original version with his ersatz variant in the professional literature.

²⁴ There was also a very personal reason as well. Chamberlin (1947) had reviewed Stigler's textbook *The Theory of Price* (1946b). This represented Stigler's first attempt to expand his narrower text *The Theory of Competitive Price* (1942) beyond the narrow confines of a perfectly competitive market structure. Chamberlin's review was rather scathing. Chief of the book's insufficiencies seems to have been a lack of regard and space for Chamberlin's own theory of monopolistic competition. Though offered a right of reply by *The American Economic Review*, Stigler declined. His LSE lecture represents his far more deadly and effective response.

I am not inclined to do this [write a reply] because

(1) of a general feeling against replies to reviews, and

(2) the inappropriateness of a short note in dealing with this matter (and the disinterest in a long one). All I gain by a reply is creation of doubts in the minds of those economists (numerous, alas) who think Chamberlin is a great man (Letter from George Stigler to Milton Friedman, August 1947 in Hammond and Hammond 2006:61).

²⁵ Stigler makes such departures from price theory a clear aberration by ironically referring to the Great Depression as 'that chasm between darkness and light' (Stigler 1949b:12) As Coase (1994) points out, the acceptance in the thirties of the theories put forward by Chamberlin (1933), Robinson (1933) and Keynes (1937) has very little to do with their ability to predict as yet unobserved phenomena. The thirties represented a crisis for economic theory and these systems both seemed to offer a way out of the existing problems.

These books were certainly an instant success, and their contents were quickly absorbed and used by economists interested in price theory. ... These new books by Chamberlin and Mrs. Robinson, which started the analysis with the decisions of the individual firm and used new tools such as the marginal revenue schedule, seemed to offer the way out (Coase 1994:22).

²⁶ George Stigler had the same attitude to heretics as any religious fundamentalist. Such apostates hadn't simply gone astray. There could not be a scintilla of anything good or useful in such a doctrine.

I think you're getting at something that is (a) the atmosphere at Chicago, and (b) intensified by Knight. That an academic is concerned not with being diplomatic, not with trying to avoid hurting people's feelings, but an academic is concerned with saying what's right. Telling the truth, or trying to get at it. And if you disagree with somebody you don't say, 'Well, now there may be something in what you say.' (Conversation with Milton Friedman August 1997).

²⁷ Methodological discussion between Stigler and Friedman arose from Stigler's reaction to Chamberlin's review (1947). In fact Milton Friedman in conversation with the author freely admitted his debt to George Stigler. To some degree, as related to the author by his former student, Mark Blaug, Stigler felt he had never been accorded recognition for the positivist approach to economics.

I should like to offer the general proposition that every important scientific hypothesis almost inevitably must use assumptions that are descriptively erroneous. It is of the very nature of a really important scientific generalization that it provides a simpler rationalization of a mass of facts than was available before. It is likely to obtain its objective by an inspiration about the particular basic elements of the situation that are important and by discarding what after the event can be shown to have been irrelevant complicating assumptions. In a way, the better the hypothesis the greater the extent to which it simplifies, the more sharply will its

assumptions depart from reality (Letter from Milton Friedman to George Stigler, November 1947 in Hammond and Hammond 2006:65).

²⁸ The quality of Stigler's recounting of this slice of nineteenth century economic history strays beyond the bounds of this discussion. The temptation to embellish history, including intellectual history, is a shared weakness among economists who hold objectives to be far more critical than the path leading to them. The most polemical are often those most prone to this failing. This would include Stigler's close colleague Milton Friedman as well as their bete noire, John Maynard Keynes.

As a historian of thought in areas in which he was emotionally involved as a protagonist and prophet, Keynes seemed to me to be seriously lacking in the unexciting but essential qualities for the intellectual historian of objectivity and of judiciousness. Even when he was engaged in selecting those upon whom to bestow laurels for having in some degree anticipated his discoveries, his selection seemed to me then, and still seems to me now that I have acquired more knowledge of the older literature, often to have been random when not eccentric (Viner 2003: 418).

²⁹ In light of Stigler's methodological announcement in his second lecture and his subsequent adherence to such practise, his statement here is to some degree an indictment of his own work and that of Milton Friedman (1953) who formulated this version of positivism to a greater extent.

³⁰ For Stigler's modern day version of similar issues, see his discussion on minimum wage legislation (1947a). Certainly this debate would have been fresh in his mind while devising his resurrection of the classical virtues.

³¹ At about the same time as Stigler was dismissing Samuelson in print with a well phrased aside; he was privately consigning him to the dustbin of economists at rather a tender age. (At the time Samuelson was no more than 34 years of age.)

Rumor has it that Samuelson was quite the unsuccessful suave chairman, a la Schumpeter, at the meetings. Solomon Fabricant said he referred to you as an altar boy or something of the sort; I would have relished being there to see your reaction. It may merely be prejudice, but I'm inclined to write him off as an economist. Two of his recent jobs (the Survey article and his essay in the Hansen festschrift were pure mathematical exposition, as is also his current *Economic* item (which, by the way, has already been done better by Wold), and his textbook suggest that he doesn't know anything that hasn't appeared in the *Survey of Current Business* (Letter from George Stigler to Milton Friedman, January 1949 in Hammond and Hammond 2006:97).

³² Stigler would reassert much the same argument at the AEA convention of the same year (1949).

Free entry ... may be defined as the condition that long-run costs of new firms if they enter the industry will be equal to those of firms already in the industry ... With this understanding, free entry seems a valid characterization of most American industries. One may concede this and still argue that, because of the large capital requirements necessary to establish a new company of minimum efficient size, free entry is often difficult, and firms in industries with (absolutely) large capital requirements have a sheltered position. I have as little basis for my scepticism of this argument as its many adherents have given for supporting it (Stigler 1950:27).

³³ To do this Stigler limits his concerns to simply the case where information is available but needs to be found. In his day one might refer to this as the 'Yellow Pages' approach to information search or today to information as a problem in 'Googling'. Though this application of standard techniques to describe information search is both clever and useful it cannot be considered sufficient in and of itself. It leaves out too many important aspects of information that differentiates this market from those of standard commodities. This indeed may be one of those cases where differences rather than similarities are more important for useful analysis.

And that's what makes it powerful and that's, at the same time, what has in it in my mind, some defects. Because, doing it that way, says that there's nothing peculiar about information. You could treat it like the supply and demand for wheat. Whereas I think there are some things that are peculiar about information, for example the public goods aspects of information and maybe some other things about it, that merits treating it somewhat differently. But his treatment of it was a clear extrapolation of the neo-classical toolkit (Conversation with Harold Demsetz October, 1997).

³⁴ As mentioned before, this work comes at approximately the same time as Stigler is making his visionary speech whereby the future lies with greater empirical work, with a profession that depends on evidence for its conclusions.

I think one of the respects in which he himself was critical of neo-classical economics and which he viewed, maybe not as an option but as a supplement to neo-classical economics, was his great love of imaginatively gathering evidence bearing on propositions. The neo-classicals were not at the forefront of providing evidence for their ideas. He definitely felt that this was needed and that these principles could not stand on their own feet, that inevitably, they had to be either defended or attacked on the basis of evidence gathering. So he was a great respecter of quantitative work and perhaps more than he should have been. In his presidential address to the American Economics Association he was almost romantic about the possibilities of bringing data to bear on various propositions³⁴. I'm sure that he later realized that you weren't able to get your bearings or pull yourself out of dilemmas solely by looking at the data (Conversation with Harold Demsetz October 1997).

The irony is that Stigler and Friedland's (1962) early and dramatic findings on regulation were based on a flawed statistical analysis whereby some of the data entered was a decimal off. (See Peltzman (1993) for details.) Though making no change in the statistical significance of the results, the size of the effects would have dramatically altered. Serendipity had no small part to play in driving the beginning of this attack on received wisdom. Interestingly enough when informed of this discrepancy many years later, Stigler chose to sweep the facts conveniently under the rug. How this practise coincided with his 1964 Presidential sermon on the coming age of evidence remains a challenge for any serious researcher.

And George's answer was that there was no point in making a big fuss about this mistake because it was twenty years ago and nobody cares anymore. And there has been a mountain of research on this topic. It is much more sophisticated than ours. Ours was *very* crude by comparison (Conversation with Claire Friedland, November 1997).

³⁵ This would lead him, in the final stage of his career, to push the idea of market efficiency to its logical conclusion. Political markets over time must reflect consumer preferences. Sugar subsidies are clearly inefficient from a narrow economic viewpoint, but if they are maintained over time, they must reflect the public's preference for income redistribution. Otherwise such an arrangement would change. (See Stigler's (1993) retrospective article). The consequence however is that given the efficiency of political markets there is little left for the economist to do in terms of policy. There is a responsibility to better understand the workings of the market and to persuade those within the economics profession. But it is essentially a misuse of a valuable resource (time) to try to influence policy makers or the public.

Herewith a quote that seems to encapsulate the difference between you [George Stigler] and Aaron [Director], on the one hand, and me, on the other:

Alexander Hamilton "had come to profess the 'pessimistic' view of man, maintaining that people are governed by 'passion and prejudice' rather than by 'an enlightened sense of their interests'; and yet throughout his career he expended more energy and talent in appeals to the intelligence and virtue of common citizens than did any other American in public life. So much stronger was his natural optimism than his acquired pessimism." (Letter from Milton Friedman to George Stigler, December 24, 1987).