

## THE NEW INDUSTRIAL STATE

### THE MILITARY-INDUSTRIAL COMPLEX AND THE NEW INDUSTRIAL STATE

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In *The New Industrial State* [7], Galbraith finds that the giant corporation has achieved such dominance of American industry that it can control its environment and immunize itself from the discipline of all exogenous control mechanisms—especially the competitive market. Through separation of ownership from management, it has emancipated itself from the control of stockholders. By reinvestment of profits, it has eliminated the influence of the financier and the capital market. By brainwashing its clientele, it has insulated itself from consumer sovereignty. By possession of market power, it has come to dominate both suppliers and customers. By judicious identification with, and manipulation of, the state, it has achieved autonomy from government control. Whatever it cannot do for itself to assure survival and growth, a compliant government does on its behalf—assuring the maintenance of full employment; eliminating the risk of and subsidizing the investment in research and development; and assuring the supply of scientific and technical skills required by the modern technostucture. In return for this privileged autonomy, the industrial giant performs society's planning function. And this, according to Galbraith, is inevitable because technological imperatives dictate it. The market is dead, we are told; and there is no good reason to regret its passing.

This blueprint for technocracy, private socialism, and the corporate state suffers from three fundamental defects. First, it rests on the unproved premise that corporate giantism is an inevitable product of technological determinism. Second, it rests on the increasingly more dubious assumption that industrial and political power are confined to separate, distinct, and hermetically sealed compartments. Finally, it offers no policy guidance, and ignores the crucial questions of responsibility and accountability. If industrial giants, freed from all traditional checks and balances, are to perform society's planning function, what standards shall they use and what assurance is there of an automatic convergence between private and public advantage? What are the

safeguards—other than the intellectual in politics—against arbitrary abuse of power, capricious, or defective decision making? Must society legitimize a self-sustaining, self-serving, self-justifying, and self-perpetuating industrial oligarchy as the price for efficiency and progress?

In this paper, I shall eschew a dreary and repetitive recital of the voluminous evidence that negates the Galbraith version of a crude technological determinism [18, pp. 11–27, 53–66] [20]. I shall also spare the reader any comments on the virtues of private planning—the proposition that what is good for General Motors is good for the country. Instead, I shall offer an alternative (and, hopefully, more realistic) explanation of the current levels of industrial concentration, in general, and the military-industrial complex, in particular.

My hypothesis—the obverse of Galbraith's—holds that industrial concentration is not the inevitable outgrowth of economic and technical forces, nor the product of spontaneous generation or natural selection. In this era of big government, concentration is often the result of unwise, man-made, discriminatory, privilege-creating governmental action. Defense contracts, R and D support, patent policy, tax privileges, stockpiling arrangements, tariffs and quotas, subsidies, etc., have far from a neutral effect on our industrial structure. In all these institutional arrangements, government plays a crucial, if not decisive, role [1]. Government, working through and in alliance with “private enterprise,” becomes the keystone in an edifice of neomercantilism and industrial feudalism. In the process, the institutional fabric of society is transformed from economic capitalism to political capitalism.

My hypothesis is best explained in Schumpeterian power terms. According to Schumpeter, the capitalist process was rooted, not in classical price competition, but rather “the competition from the new commodity, the new technology, the new source of supply, the new type of organization—competition which commands a decisive cost or quality advantage and which strikes not at the margin of the profits and outputs of existing firms but at their very foundations and their very lives” [11, p. 84]. The very essence of capitalism, according to Schumpeter, was the “perennial gale of creative destruction” in which existing power positions and entrenched advantage were constantly displaced by new organizations and new power complexes. This gale of creative destruction was to be not only the harbinger of progress but also the built-in safeguard against the vices of monopoly and privilege.

What was obvious to Schumpeter and other analysts of economic power was also apparent to those who might suffer from the gales of change. They quickly and instinctively understood that storm shelters had to be built to protect themselves against this destructive force.

The mechanism which was of undoubted public benefit carried with it exorbitant private costs. And, since private storm shelters in the form of cartels and monopolies were either unlawful, unfeasible, or inadequate, they turned increasingly to government for succor and support. By manipulation of the state for private ends, the possessors of entrenched power found the most felicitous instrument for insulating themselves against, and immunizing themselves from, the Schumpeterian gale.

It requires no exaggeration to argue that modern technology and the inherent dynamism of Schumpeterian competition are such that, in the absence of governmental interference and protection, some of the bulwarks of concentrated power could be successfully eroded. Government policy toward the petroleum industry is a case in point. Under the antitrust laws, it is a per se offense for private firms to fix prices or allocate markets, yet in the name of conservation the government does for the oil companies what they could not legally do for themselves. The process is familiar. The Bureau of Mines in the Department of Interior publishes monthly estimates of the market demand for petroleum (at current prices, of course). Under the Interstate Oil Compact, approved by Congress, these estimates are broken down into quotas for each of the oil producing states which, in turn, through various prorationing devices, allocate "allowable production" to individual wells. Oil produced in violation of these prorationing regulations is branded as "hot oil," and the federal government prohibits its shipment in interstate commerce. Also, to buttress this government sanctioned cartel against potential competition, oil imports by sea are limited to slightly more than one million barrels a day. Finally, to top-off these indirect subsidies with more visible favors and to provide the proper incentives for an industry crucial to the national defense, the government authorizes oil companies to charge off a 27½ percent depletion allowance against their gross income. In all, the industry has been estimated to receive special favors of \$3.5 billion (according to Milton Friedman) [6] and \$4.0 billion (according to Morris Aldelman) [2]—in addition to having a government sanctioned cartel provide the underpinning for its control of markets and prices.

Another case in point is the military-industrial complex, where the morganatic alliance between government and business is even clearer, bolder, and more positive. Here government not only permits and facilitates the entrenchment of private power but serves as its fountainhead. It creates and institutionalizes power concentrations which tend to breed on themselves and to defy public control. The scenario of events should be familiar. The "mad momentum" of an international weapons race militates toward large defense expenditures (currently at an annual rate of \$75 billion). This generates a demand, not only for

traditional, commercial, shelf items like food, clothing, fuel, and ammunition, but also for the development and production of sophisticated weaponry. Lacking a network of government-owned arsenals, such as produced the shot and cannon in the days of American innocence, or having dismantled the arsenals it did have, the government is forced to buy what it no longer can make. It becomes a monopsonistic buyer of products which are not yet designed or for which production experience is lacking. It buys at prices for which there is little precedent and hardly any yardsticks. It deals with contractors, a large percentage of whose business is locked into supplying defense, space, or atomic energy needs. It confronts powerful oligopolists in a market where technical capability rather than price is the controlling variable—in an atmosphere shrouded by multilateral uncertainty and constant warnings about imminent aggression. In the process, government becomes almost totally dependent on the chosen instruments, i.e., creatures of its own making, for effectuating public policy [4] [8] [9]. Lacking any viable in-house capabilities, competitive yardsticks, or the potential for institutional competition, the government becomes—in the extreme—subservient to the private and special interests whose entrenched power bears the governmental seal.

This unique buyer-seller relationship, which defies analysis by conventional economic tools, lies at the root of the military-industrial complex and the new power configurations generated by it. The complex is not a conspiracy between the "merchants of death" and a band of lusty generals, but a natural coalition of interest groups with an economic, political, or professional stake in defense and space. It includes the armed services, the industrial contractors who produce for them, the labor unions that represent their workers, the lobbyists who tout their wares in the name of "free enterprise" and "national security," and the legislators who, for reasons of pork or patriotism, vote the sizable funds to underwrite the show. Every time the Congress authorizes a military appropriation, it creates a new constituency (i.e., propaganda machine) with a vested interest in its perpetuation and aggrandizement. Thus, the current proposal for an anti-ballistic-missile system, the "thin" variety of which would cost \$5 billion and the "thick" variety \$40 billion, and which would probably be obsolete by the time it was completed, has been estimated to involve 28 private contractors, with plants located in 42 states (i.e., 84 senators), and 172 congressional districts. Given the political reality of such situations and the economic power of the constituencies involved, there is little hope that an interaction of special interest groups will somehow cancel each other out and that there will emerge some compromise which serves the public interest. There is little assurance that the corporal's guard

of auditors in the General Accounting Office or Galbraith's scientific-professional elite or a handful of disinterested university analysts will constitute a dependable and adequate force of countervailing power. The danger remains that the "conjunction of an immense military establishment and a large arms industry," against which President Eisenhower warned, will become a Frankenstein threatening to control the contract state which brought it into being. The danger persists that power will be coalescing, not countervailing—that the political cloakroom will displace the economic market place.

It would be facile to conclude that the military-industrial complex and the new industrial state represent a price which society must pay—and inevitably so—because of national defense considerations or because of technological inexorability. But this would be to miss the point—to ignore the crucial political component in the institutional arrangements at issue. The military-industrial complex is only a special case illustrating the power problems inherent in the new industrial state. Both are created, protected, privileged, and subsidized by the state. Both represent a form of private socialism—a type of social planning through fragmented, special-interest chosen instruments operating in the "private" sector. Both represent a blending of private economic power and public political power. Both are reminiscent of the Elizabethan monopoly system and its abuse, corruption, favoritism, waste, and inefficiency—an *imperium in imperio*, without demonstrable public benefits, and without any built-in safeguards for the public interest. In sum, to the extent that they are creatures of political power and not the product of natural evolution, there is nothing inevitable about their survival and nothing inevitable about the public policies which spawn and preserve them.

## II

Let us examine these public policies which lie at the base of the new industrial state, and particularly the military-industrial complex.

*Defense and Space Contracts.* These contracts, typically awarded on a negotiated rather than a competitive bid basis and as much the result of political as economic bargaining, convert the private contractor into a quasi-governmental, mercantilist corporation, maintained in a privileged position by "royal" franchise. The attendant abuses, especially the creation of entrenched power positions, are not inconsiderable.

In 1965, the U.S. Comptroller General, an Eisenhower appointee, highlighted the following characteristics of the contract system before a congressional committee:

- (1) excessive prices in relation to available pricing information,
- (2) acceptance and payment by the government for defective equipment,

- (3) charges to the government for costs applicable to contractors' commercial work,
- (4) contractors' use of government-owned facilities for commercial work for extended periods without payment of rent to the government,
- (5) duplicate billings to the government,
- (6) unreasonable or excessive costs, and
- (7) excessive progress payments held by contractors without payment of interest thereon [12, p. 46].

To this list could be added the procurement of items that were not needed, or in adequate supply elsewhere in the armed services, or were in fact being sold as surplus by the buying agency; indirect procurement through the prime contractor rather than direct purchase from the actual manufacturer—at far lower prices and without the pyramiding of overhead and profits; awarding of sole-source contracts for which the contractor had no special competency; the refusal by firms with overall systems responsibility to break out components for competitive bidding; or to furnish specifications for such bidding [12] [13]; and finally, according to the Comptroller General, “excessive prices resulting from the failure of the agencies to request, or the contractors to furnish, current, accurate, and complete pricing data or from the failure to adequately evaluate such data when negotiating prices” [12, p. 46]. In quantitative terms, according to a summary of GAO studies covering the period from May, 1963, to May, 1964, there was ascertainable waste of \$500 million in a 5 percent sample of procurements [9, p. 269].

Perhaps it is unavoidable that in the procurement of complicated weapons systems, where uncertainty is pervasive and precedents are unavailable, cost estimates will be unduly inflated. As Peck and Scherer found in their study of twelve major weapon system development programs, actual costs exceeded predicted costs by 3.2 times on the average, with a range of actual versus predicted costs of from 70 to 700 percent [10, pp. 19–25]. Recent prediction errors in the F-111 and Apollo programs, Scherer reports, are of the same order of magnitude.

One can sympathize with the contracting officers negotiating for complex and sophisticated weapons technology and still agree with the McClellan Committee's conclusion that the government should not abdicate its responsibilities for program management, nor delegate these responsibilities to private contractors, if it wants to avoid avoidable abuses and flagrant overcharges: “Even the most reputable and ethical contractor is placed in the conflicting position of managing a program where the feasibility, technical, and economic decisions which should be made by the customer-Government are made by the producer-contractor,” the Committee observed with charitable understatement. “The absence of competition, coupled with the urgency to get the program underway, removes normal safeguards against large profits and weakens the Government's negotiating position” [16, p. 141].

On the other hand, one must understand the reluctance to endanger the national security because of excessive delays caused by punctillious bookkeeping. As Charles G. Dawes told a congressional committee investigating World War I procurement scandals:

Sure we paid. We didn't dicker. Why, man alive, we had to win the war. We would have paid horse prices for sheep if sheep could have pulled artillery to the front. Oh, it's all right now to say we bought too much vinegar and too many cold chisels, but we saved the civilization of the world. Damn it all, the business of an army is to win the war, not to quibble around with a lot of cheap buying. Hell and Maria, we weren't trying to keep a set of books, we were trying to win the war! [8, pp. 53-54.]

*Government R and D and Patents.* The awarding of government R and D contracts—and the disposition of patent rights thereunder—is another technique of creating, privileging, subsidizing, and entrenching private power. Again, this is a matter of man-made policy, not institutional inevitability.

The importance of federal policy in this area derives from a number of characteristics of federally financed research. Since World War II, the government has generally paid for roughly 65 percent of the nation's research and development, but performed only 15 percent of the work. Two agencies, the Department of Defense and NASA, account for about 80 percent of the government's R and D outlays. The lion's share of these outlays is concentrated in a few industries, notably aerospace, electronics, and communications. The concentration of R and D contracts is even greater than that of production contracts. There is high correlation between companies receiving R and D contracts and those receiving production contracts. Finally, the benefits of military R and D tend to spill over into civilian markets [3, pp. 71-90].

The typical R and D contract, it should be noted, is a riskless cost-plus-fixed-fee venture. It usually protects the contractor against increases in labor and materials costs; it provides him with working capital in the form of periodic progress payments; it allows him to use government plant and equipment; in addition, it guarantees him a fee up to 15 percent of the estimated cost. Nevertheless, some contractors demand additional incentives. With the arrogance characteristic of all privilege recipients, they want to extend and compound such privilege. "We recognize," says the vice-president of the Electronics Industries Association, a prime beneficiary of government-financed R and D, "that the ownership of a patent is a valuable property right entitled to protection against seizure by the Government without just compensation" [17, p. 132]. In this view, the patent is a right, not a privilege voluntarily bestowed by the government to effectuate a public purpose. By a curious perversion of logic, it becomes a vested privilege to which the private contractor is entitled and of which he is not supposed to be deprived without "just" compensation.

Characteristically, both the Department of Defense and NASA have accepted this argument for privilege creation and made it the cornerstone of their patent policies. The principle at issue requires little adumbration. Allowing a contractor to retain patents on research financed by and performed for the government, as Wassily Leontief points out, "is no more reasonable or economically sound than to bestow on contractors, who build a road financed by public funds, the right to collect tolls from the cars that will eventually use it" [17, p. 234]—or the right to close the road altogether. It is tantamount to socializing the financial support for research while permitting private monopolization of its benefits. Moreover, as Admiral Rickover observed, firms receiving R and D contracts "are relatively few huge corporate entities already possessing great concentrated economic power. They are not ailing segments of the economy in need of public aid or subsidy. Nor are there any real reasons to offer patent give-aways in order to induce them to accept Defense Department research grants or contracts. . . . To claim that agencies cannot get firms to sign such contracts unless patent rights are given away strikes me as fanciful nonsense" [9, p. 294].

*Stockpiling of Strategic and Critical Materials.* This is an "ever normal granary" program, ostensibly designed to enable the United States to fight a war of specified duration, determined by the strategic assumptions of the Joint Chiefs of Staff. In reality, it is a price support program, the details of which are buried in secret government files and the "primary purpose" of which is to subsidize selected mining interests in the name of national security [14, p. 36-45]. That, at least, was the conclusion of the exhaustive hearings conducted by the Symington Subcommittee of the Senate Armed Services Committee which examined the origin and growth of the national stockpile, the Defense Production Act inventory, and supplemental stockpile, which by 1961 had involved the expenditure \$8.9 billion [14, p. 4].

These were the specific findings of the Symington Subcommittee:

1. Stockpile objectives were constantly manipulated to increase purchases regardless of national security needs. Thus, starting in 1954, "to justify further purchases of lead and zinc, when use of the old formula or requirements versus supplies did not permit additional buying, basic strategic assumptions were changed, and two objectives for each material were established. Under this new concept, the basic objective was determined under the usual method, but a new objective—the maximum objective—was arrived at by disallowing all supplies of a material from overseas. This had the effect, in many instances, of doubling the amount of a material that had to be stockpiled. It was then discovered, however, that even this new system would not permit

additional purchases of lead and zinc in the amounts needed to maintain higher prices for lead and zinc. Resort was then had to the arbitrary one-year rule. Under this rule objectives were set at one year's consumption of the total national economy during a normal year without regard to what our requirements and supplies were" [14, pp. 4-5]. In the case of some ores and minerals, an arbitrary six-month rule was adopted.

2. The buying programs to develop a domestic supply of certain ores, said the Committee, "can only be described as a failure. . . . Much of the material purchased was not needed. A substantial part of these ores did not meet the specifications of the stockpile. Nor was any domestic mobilization base established by these purchases as is indicated by the fact that when the purchases stopped production stopped as well" [14, pp. 8-9, 66]. Moreover, contrary to expectations, most of the expenditures did not go to small business but to well-established mining companies; 86.7 percent of the tungsten purchases, for example, were made from the ten largest producers.

3. The price support level of some materials, like tungsten, e.g., were set two or three times above world prices, thus allowing the contractors windfall profits by buying at low world prices and supplying the stockpile at artificially exorbitant prices [14, pp. 69-71].

4. Premium prices were often paid to contractors on the assumption that it would be necessary for the contractor to incur substantial capital expenditures to perform under the contract. Yet the government was denied the right under these contracts to check whether the capital expenditures had in fact been made, or to inspect the contractor's book to ascertain his production costs, or to renegotiate the price if the anticipated high costs were not realized [14, pp. 68-69].

5. When market prices for some materials, like copper, e.g., rose above the contractual stockpile price, producers were permitted to divert deliveries from the stockpile to private industry—without sharing this windfall with the government [14, pp. 49-54].

6. When the Joint Chiefs of Staff changed their strategic assumptions from a five-year war to a three-year war, the stockpile administrators waited for two years before implementing the change. Felix Wormser, Assistant Secretary of the Interior for Minerals Resources, who before and after his government service was vice-president of the nation's largest lead producer (St. Joseph Lead Co.), protested that such a change would constitute "a breach of faith with the mining industry" [14, p. 25].

7. Disposals of excess supplies were resisted strenuously, and only in tin and rubber were any large-scale sales made. "It is significant," the Symington Committee noted wryly, "that there are no producers of natural rubber and tin in the United States and this could well account

for the fact that the only two large disposals have been in these materials" [14, p. 28].

The point need not be belabored. The rules for operating the national stockpiles as articulated by the industries concerned and their protagonists in government are fairly simple: The government must accumulate reserves against the most unthinkable eventualities. It must buy these materials at prices industry considers remunerative, regardless of world market conditions. This subsidy must be adequate to enable industry to operate profitably until such time as its services are required for mobilization in time of war. Finally, regardless of the available stocks, no disposal must ever be made from the stockpile. Such sales would not only endanger national security but also disturb market conditions and hence constitute unwarranted government interference with free enterprise.

*Alienation of the Public Domain.* To achieve or solidify their control over prices and markets, the giants of American industry cannot rely on the imperatives of modern technology. On the contrary, they must live in constant fear of the "creative destruction" wrought by new technology; and they must always be alert to the potential competition of substitute products and processes. Even more important, they must fight to contain, neutralize, and sterilize the "institutional" competition of the public domain which threatens to impose an intolerable regulatory yardstick on their operations. TVA is an embarrassment to the electric power monopoly, the communication satellite to AT&T dominance, navy shipyards to the shipbuilding cartel, and the Army's Redstone Arsenal and Jet Propulsion Laboratory to the condottieri of aerospace. Pressure must be exerted, therefore, to dismantle such operations, or to circumscribe their competitive viability, or to sell their facilities to private enterprise—in a manner which does not disturb the existing power structure and indeed might even entrench it more solidly. Here, again, governmental cooperation is required for implementation of this grand strategy, and this is a matter of political decision, not technological or economic inevitability.

The disposal of government-owned plants at the end of World War II underscores the nature of the power struggle and the availability of public policy alternatives [1, pp. 117-41]. In aluminum, the disposal program was a qualified success; Alcoa's prewar monopoly was broken, Kaiser and Reynolds sprung like Minerva from Jupiter's brow, and the aluminum industry was converted into a triopoly. Synthetic nitrogen production was also deconcentrated by the infusion of additional sellers. In steel, by contrast, the disposal program served to entrench and extend oligopoly dominance; the Geneva Steel plant, built at a cost of \$202.4 million, was sold to the United States Steel Corporation for

\$47.5 million, and enabled U.S. Steel to increase its regional control over the Pacific Coast and Mountain States market from 17.3 to a commanding 39 percent. In synthetic rubber, the wartime operation of the government plants gave a handful of large firms enormous patent and know-how advantages for the postwar period, and the subsequent disposal program resulted in the sale of twenty-five plants to three firms controlling 47 percent of the industry's capacity.

More recent is the controversy over the disposition of the government's oil shale lands, located in the Rocky Mountain States, and estimated to contain two trillion barrels of oil (i.e., six times the known oil reserves of the entire world) [19, pp. 106-07]. It illustrates the public policy options which are available to influence the structure of markets and to cope with existing power concentrations. At issue are the ground rules to be established for the control and development of a resource valued at \$2.5 to \$3.5 trillion [19, pp. 403, 407].

The petroleum industry's plan, according to one of its spokesmen, is to create "an economic climate equivalent to that provided [for] crude oil." Under its plan, the oil companies would be allowed to carve out homestead-like leases from the public lands and would be eligible for the customary subsidy of  $27\frac{1}{2}$  depletion allowance in return for their development efforts. Shell Oil has already proposed to lease a "homestead" that would cover its refining requirements (at present rates) for the next 660 years; Sinclair has entered its more modest request for a tract that would fill its needs for 226 years; Humble's request would provide for the next 54 years; and Continental's for the next 27 years [19, p. 455]. The desire to gain control of a potentially competitive resource is not coupled with any guarantee to produce from it; and if production should take place, it would be subject to the oligopolistic rationality of the oil majors, restrained from undue competitiveness by government proration regulations.

Opponents of this plan, notably John K. Galbraith, argue that this "would be a free ride to monopoly for the big companies. Unless safeguards . . . are carefully spelled out what would happen is that few of the majors would get these reserves as their reward. An eventual position in the basins would be their payoff. This would be in addition to the lands that they already own in most cases. Were there development, the processes for recovering the shale would then presumably be patented by them and reserved to them" [19, p. 22]. Obviously there are policy alternatives, including *inter alia* TVA- and COMSAT-like arrangements. "Certainly," as Senator Hart, chairman of the Senate Antitrust Subcommittee put it, "the development of oil shale reserves should offer a unique opportunity for new sources of competition to

penetrate the petroleum industry. And that opportunity depends substantially on Government policy" [19, p. 3].

*International Trade Barriers.* No system based on protection, privilege, and subsidy is safe without barriers to foreign competition. Its beneficiaries recognize the rough validity of the Mancunian assumption that "free international trade is the best antimonopoly policy and the best guarantee for the maintenance of a healthy degree of free competition." Action is, therefore, necessary to protect domestic restrictionism against erosion and subversion from abroad. And governmental action is the most reliable technique available.

The steel industry, in its current clamor for tariffs and/or quotas, illustrates the rationale of (what *Barron's* calls) the "protection racket" (Oct. 18, 1967). Roger Blough, congenitally unable to resist the ludicrous, observes that "obviously there are many things in life that should and must be protected. For example, millions of our people—and a number of government agencies—are laudably striving to protect certain vanishing forms of wildlife that are threatened with extinction; and one may reasonably wonder, I suppose, how far down the road to oblivion some of our major industries must go before they are deemed to merit similar concern" [5]. To this, the president of the American Iron & Steel Institutes adds the ominous warning that "a first-class power with global responsibilities cannot afford to rely for any important part of its needs on overseas sources of steel thousands of miles away. There is the constant danger that these sources may be cut off at a critical moment" [15, p. 830]. Finally, the United Steel Workers of America, upon whom Galbraith once relied as a source of countervailing power, and not to be outdone in their concern for the public interest and national security, lend their voice and not inconsiderable political influence to the fight for a quota law to limit steel imports [15, pp. 888-96].

What is at stake, of course, is the steel industry's right to preserve its administered price structure, to remain the catalyst of seller's inflation, to impose periodic price squeezes on independent fabricators, to price itself out of world export markets, to encourage the growth of substitute materials, and to persist in its technological lethargy [15, pp. 846-88]. Specifically, the industry needs government help to validate its investment in "40 million tons of the wrong capacity—the open hearth furnace" which it built in the 1950's. This capacity, as *Fortune* points out, was "obsolete when it was built" and the industry by installing it "prepared itself for dying" [15, p. 855]. This is the \$800 million blunder, the cost of which the industry would like to shift to the public by obtaining government protection from foreign competition.

The point need not be stressed. Tariffs, quotas, "anti-dumping" statutes, "Buy American" regulations, and similar devices are not only a tax on domestic consumers and a subsidy to sheltered industries, but the capstone of any policy to protect entrenched economic power. They are a crucial facet of the *Realpolitik* designed to preserve the discipline of a nation's *Ordnungswirtschaft*.

### III

In conclusion, we may note that the problem at hand is not one of technological determinism which would militate toward fatalistic acceptance of the *status quo*. Nor is it rooted in the ineffectiveness of what Galbraith calls the charade of antitrust. Instead, it is largely a political problem of governmental creation, protection, and subsidization of private privilege. If this diagnosis is indeed correct, then public policy alternatives are available and a reasonably competitive market is more than a utopian policy objective.

Let me offer two general policy recommendations:

1. Most important is government noninterference in markets which in the absence of such interference would be workably competitive. In the words of Adam Smith, it may be difficult to "prevent people of the same trade from sometimes assembling together," but government "ought to do nothing to facilitate such assemblies; much less to render them necessary." While assuring effective enforcement of the antitrust laws, government should abjure the role of the mercantilist state in sanctioning and legitimizing private privilege. One can only speculate on the quantitative benefits of such measures as the abolition of tariffs in concentrated industries, the deregulation of surface transportation from ICC control, or the elimination of the honeycomb of governmental supports for the petroleum price and power structure.

2. In those areas where competition cannot be allowed full sway or where government cannot avoid active participation in the economic game, the basic guidelines point to preserving the maximum amount of power decentralization feasible. This may require positive encouragement of institutional competition from whatever source available and, at the very least, the preservation of effective yardsticks by which to measure and control monopoly performance. In the national defense sector, for example, government must rebuild and preserve its in-house competence for R and D, systems engineering and management, and contract evaluation. As the Bell Report of 1962 concluded, "there are certain [management] functions which should under no circumstances be contracted out" [4, p. 213]. Basic policy and program decisions respecting the research and development effort—relating to "the types of work to be undertaken, when, by whom, and at what cost—must be

made by full-time Government officials. Such officials must also be able to supervise the execution of work undertaken, and to evaluate the results" [4, pp. 214-15]. In short, the government cannot surrender the yardsticks essential for the discharge of its responsibilities to the public [9, pp. 334-50]. And the public must recognize that the servants of the military-industrial state cannot be allowed to become its masters—either in the name of "free enterprise" or under the guise of promoting the "national security."

What I have said here is not likely to please those who rationalize the *status quo* by invoking some deterministic inevitability. I do not claim that what I have said is particularly new or startling. I do believe, however, that it is true and that, as Dr. Johnson said, men need not so much to be informed as reminded.

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