During his stay in Chicago, Professor Hart joined Professor Harry Kalven, Jr. in teaching his class in Elements of the Law, and joined Professor Gerhard Casper in his seminar on Jurisprudence. He also spoke informally with students in the Green Law Lounge, and lunched with a group of Chicago lawyers and judges downtown.

Shortly after the first of the year, the School enjoyed a too-brief visit from J. N. D. Anderson, Professor of Oriental Law, Head of the Department of Law of the School of Oriental and African Studies, and Director of the Institute for Advanced Legal Studies, all of the University of London. While at the University of Chicago, Professor Anderson gave a public lecture on "Law Reform in the Muslim World."

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The Dominant Firm and the Inverted Umbrella*

By GEORGE J. STIGLER
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When United States Steel Corporation was founded in 1901, it contained plants producing a large share of the nation's output of basic steel and fabricated steel products. The share of output of steel ingots was sixty-six per cent in 1901. During the next two decades the firm's share of output fell gradually, reaching forty-six per cent

Open House for College Students

Two of the most difficult problems confronted by many college students are the question of whether or not to study law and, if the answer to that is affirmative, which law school to attend. In the hope that it might help in answering one or both questions, the Law School held an open house and luncheon for college students in December, 1965. Student response was so enthusiastic that a similar meeting was held on December 21, 1966.

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Professor Meltzer addresses the luncheon for college students.

Professor Philip B. Kurland greets student guests.

Mrs. Roberta Ramo, Class of 1967, with student guests.
in 1920 and forty-two per cent in 1925. Declines (usually of lesser magnitude) took place in the company's share of other products. These facts are not in serious dispute.

The interpretation of the facts enjoys no such unanimity. Two rival hypotheses for the formation of the combine will be tested in this note.

The first hypothesis is that a large, perhaps primary, purpose of the merger was to sell securities to untutored investors. The book value of assets of the constituent firms was written up from some $700 million to $1.4 billion when the new corporation was formed, and the common stock then issued is a classic example of watered stocks in the literature of corporation finance.

On this view it was incidental to the motives for the merger whether any important economies in production or any important monopoly power in the market was achieved. If U.S. Steel was not more efficient, or if it could not control entry, its share would decline with time, and the higher prices it may have set would provide an umbrella under which more efficient rivals would flourish and their shares would gradually increase. This aspect of the theory was not elaborated, because the focus was on the promotional profits in the original stock sales.

The second hypothesis is that provided by the theory of the dominant firm. This theory assumes that U.S. Steel was formed for the monopoly power it achieved. The dominant firm will set a profit-maximizing price such that its marginal revenue equals marginal cost based upon its demand curve (the industry demand curve minus the amount supplied by others). The profit to be maximized is long run (actually, the sum of discounted future profits) so account will be taken of the rate at which rivals enter and expand. Nevertheless, the dominant firm will find, usually, that it is profitable to yield up some share of the industry, for higher prices may more than offset the decline in share. (Continued on page 18)

The program was extremely informal. Following lunch, Professor Bernard D. Meltzer spoke on the study and practice of law. Guests had the opportunity to talk with members of the Faculty, with students currently enrolled in the School, and with alumni of the School, preponderantly those graduated in the last four years. Tours of the Laird Bell Law Quadrangle were provided by current students and recent alumni. Some 240 college students, currently enrolled in seventy-eight undergraduate institutions, attended.
Neither theory denies the decline in share which after all is a well-known historical fact. They differ on the wisdom of purchasing the stock of U.S. Steel when it was first offered: the former theory says this was an unwise purchase; the latter does not.

The purpose of this note is to investigate the financial returns to investors in U.S. Steel common stock and in that of other steel companies. On the former theory, the investors should have purchased stock in other steel companies; on the latter theory, U.S. Steel should have done as well as other steel companies.

The financial returns of an investor are in principle easily determined:
1. Buy a block of stock in a company at a given date,—say $10,000 worth.
2. Reinvest all cash dividends in the stock.
3. Calculate the market value of the stock (including stock dividends) at any desired subsequent date.

This is in effect our procedure, and it yields the returns reported in Table I.**

The experience of investors in the various companies whose stocks were traded is presented graphically in Figure I. The current market value of the shares obtained with an initial investment of $10,000, and with reinvestment of all earnings, is given for each year from 1901 to 1925. Since the figure is semi-logarithmic in scale, rates of increase can be read directly. The figure is sufficient to reach the main conclusion: the stockholders of U.S.

Steel did better than those of any of the other companies except Bethlehem Steel. The average value of the investments in the other companies was below that of U.S. Steel in 16 of the 18 years after 1905. At the end of the period the accumulated market value of United States Steel was twice that of the average of the other companies.

The evidence seems conclusive that the exploitation of stockholders by promoters did not take place. The formation of United States Steel Corporation must therefore be viewed as a master stroke of monopoly promotion; and it is churlish of the literature to complain at the $62 million of stock given to the Morgan syndicate for bringing it about.

*Aaron Director proposed the study, and Richard West, then a graduate student, performed the work under my negligent eye. Director refuses co-authorship, on grounds I find unconvincing: West has been given no chance to do so, on the ground that he has since become a professor and will now hire research assistants. As the middleman in this venture, I assume no credit and all blame.

**(Table I, omitted here, reveals that an investment made in the manner described in U.S. Steel stock would have been worth $101,039 in 1925, in Bethlehem Steel $115,453, and in the average of the major steel stocks excluding U.S. Steel, $53,314. Editor.)

The Annual Fund

The Thirteenth Annual Fund Campaign, which closed last November, again demonstrated the continuing progress which has become the outstanding characteristic of the Annual Fund. Under the leadership of William G. Burns, JD'31, General Chairman, Jean Allard, JD'53, Chairman for Annual Alumni Giving, and Norman H. Nachman '32, Chairman for Major Gifts, more than 250 alumni worked for the campaign. The results were impressive: $155,239 from 1,725 donors, both new highs. Also worthy of note is the fact that 44.2% of the School's alumni made contributions, also a new record.

The Fourteenth Annual Fund is off to a most promising start, with Keith I. Parsons, JD'37 serving as General Chairman, Edward W. Saunders, JD'42, as Chairman for Annual Alumni Giving, and John D. Schwartz, JD'50, as Chairman for Major Gifts.

The Summer Fieldwork Project

*Taken from a report to the Faculty by Professor Dallin H. Oaks and Assistant Dean George E. Fee, Jr.

The Council on Education in Professional Responsibility has awarded grants of $40,850 to The University of Chicago Law School to finance summer fieldwork training projects the past three summers. The objects of the
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