1982

George J. Stigler: An Appreciation

Ronald H. Coase

Recommended Citation
Ronald H. Coase, "George J. Stigler: An Appreciation," 6 Regulation 21 (1982).

George J. Stigler: An Appreciation

Ronald H. Coase

IN A WORLD in which so much offends, it is a comfort when something happens which is clearly right. The award of the Nobel Prize for economics for 1982 to George J. Stigler represents such a happening and consequently has given widespread pleasure. Stigler's contributions to our subject command our admiration and our gratitude. The Royal Swedish Academy of Sciences is to be congratulated on showing such fine judgment in making its award in 1982. The award will not, of course, enhance Stigler's reputation among his colleagues in the economics profession. It was already high. But in setting the seal on his achievements, the Swedish Academy will undoubtedly lead some economists, less familiar with his work, to study his writings more closely and to learn, as the rest of us have, the power and interest of his ideas.

The Swedish Academy of Sciences stated that it had awarded the Nobel Prize to Stigler for his "seminal studies of industrial structures, functioning of markets, and causes and effects of public regulation." This is just. But this citation, with its long account of Stigler's work, nonetheless conveys an inadequate notion of the character of his contributions to economics. His range of subject matter is wide. He is equally at home in the history of ideas, economic theory, and the study of politics. Even more remarkable is the variety of ways in which he handles a problem; he moves from the marshaling of high theory to aphorism to detailed statistical analysis, a mingling of treatments which resembles, in this respect, the "subtle and colourful" Edgeworth. It is by a magic of his own that Stigler arrives at conclusions which are both unexpected and important. Even those who have reservations about his conclusions will find that a study of his argument has enlarged their understanding of the problem being discussed and that aspects are revealed which were previously hidden. Stigler never deals with a subject which he does not illuminate. And he expresses his views in a style uniquely Stiglerian, penetrating, lively, and spiced with wit. His writings are easy to admire, a joy to read, and impossible to imitate. He is a man sui generis. Age shall not wither nor custom stale George Stigler's infinite variety.

Ronald H. Coase, editor of the Journal of Law and Economics *(1965–82), is the Clifton R. Musser professor emeritus of economics at the University of Chicago Law School.*

IN ITS CITATION, the Swedish Academy makes no mention of Stigler's studies of the history of economic thought, but in them he is, I believe, seen at his best. His first book, *Production and Distribution Theories* (1941), which shows the influence of his great teacher, Frank Knight, is wholly concerned with this subject. Of course, being Stigler, his critical comments, which he rightly suspects some will consider hypercritical, on the handling of the analysis by the great economists whose work he examines, end by being a substantial contribution to economic theory in their own right. This interest in the history of economics and of the men who made it has remained with Stigler, and articles such as "The Development of Utility Theory" or "Perfect Competition Historically Contemplated" (reprinted in his *Essays in the History of Economics*, 1965) are masterly treatments of their subjects.

Stigler also uses his extensive knowledge of the history of economics to examine more general questions, and in particular to attempt to uncover the forces which have governed the development of economic theory itself. The thesis of his essay "The Influence of Events and Policies on Economic Theory" (also reprinted in the 1965 volume) is striking. He argues that "neither popular economic problems nor heroic events influence much the development of economic theory. . . . The dominant influence on the working range of economic theorists is the set of internal values and pressures of the discipline." Similarly, in his recent Tanner lecture, given at Harvard in 1980, he argued that

> economists are not addicted to taking frequent and disputatious policy positions.... The typical article in a professional journal is unrelated to public policy, and often apparently unrelated to this world. Whether the amount of policy-advising activity is rising or falling I do not know but it is not what professional economics is about.

The claim that the development of economic theory is not much influenced by current events in the economic world and that the work of the economic theorist is not much concerned with economic policy is not, at first sight, very plausible, but I am convinced that Stigler's conclusions are largely true. While Stigler's knowledge of the history of economics is mainly used, as one would expect, in his historical studies, it never fails to influence his treatment, no matter what subject is being discussed. Unlike most modern economists, his investigation of an economic problem is always informed and enriched by his knowledge of the work of earlier economists.

Most academic economists presumably know Stigler, above all, as the author of a very successful textbook dealing with what is now called microeconomics, *The Theory of Price* (1946, with revised editions in 1952 and 1966). Though there are many revisions, rearrangements, and substitutions in going from one edition to another, fundamentally the book has remained unchanged. There must, however, be many who have regretted the disappearance of some of the illustrations to be found in the 1946 edition, such as the extremely amusing account of the difficulties of getting effective collusion on prices among bakers in Illinois. It is not an easy text but it is excellent for anyone seriously interested in training to become an economist. Unfortunately, many of my students seem to have had other ambitions. A textbook, however, is not the place to display innovations in economic analysis, and despite the fact that there are some very Stiglerian passages, particularly in the later editions, the Swedish Academy was no doubt right to ignore it when it set out those of Stigler's contributions to economics for which the award was given. The subjects dealt with in *The Theory of Price* are those that one expects to find in a price theory textbook and even the treatment is, in many respects, quite conventional. Of course, as in all his writing, Stigler's exposition is penetrating, lively, and spiced with wit, but these are not the qualities which lead to a Nobel Prize.

WHAT THE SWEDISH ACADEMY singled out for commendation was Stigler's work in the fields of industrial organization and the economics of regulation. In economics the subject of industrial organization means, as the Swedish Academy indicates, the study of market processes and the structure of industries. However, for reasons which are not altogether clear to me, it is a field which has come to concentrate on The Monopoly Problem and, more specifically in the United States, on the problems thrown up by the administration of the antitrust laws. The result has not been a happy one for economics. By concentrating on the problem of monopoly in dealing with an economic system which is, broadly speaking, competitive, economists have had their attention misdirected and as a consequence they have left unexplained many of the salient features of our economic system or have been content with very defective explanations. The link with the administration of the antitrust laws has tended to make matters worse by importing into economics that imprecise analysis (if that is the proper word) which abounds in the judges' opinions in antitrust cases.

Stigler's articles on industrial organization are reprinted in *The Organization of Industry* (1968), and most are concerned with monopoly and antitrust policy. However, he transcends the weakness of most discussions of these questions by an impressive use of empirical data (as in "The Economic Effects of the Antitrust Laws"), by an analysis more precise and more searching (as in "Price and Nonprice Competition" or "A Theory of Oligopoly"), and by discussing interesting and significant problems (as in "The Division of Labor Is Limited by the Extent of the Market"). Nonetheless, although the analysis proceeds at a much higher level than is usual, it remains true that most of the subjects discussed are those commonly dealt with under the heading of industrial organization. But Stigler is not like the others. Like a mountain raised by a volcanic eruption, standing high and strange in the surrounding landscape, there is to be found in *The Organization of Industry* a paper of a quite different kind. It is his article on "The Economics of Information," rightly regarded as Stigler's major contribution to economic theory, and it is no surprise that it was picked out by the Swedish Academy for special commendation.

Stigler's starting point is that at any one time there exists an array of prices charged by different suppliers for the same good or service. Those wishing to discover the lowest price will engage in what Stigler calls "search." The more suppliers are canvassed, the lower the price that a buyer can expect to pay. But as there are costs to search and the marginal gains from increased canvassing tend to diminish, there will be an optimum amount of search for each buyer. This conclusion is not invalidated by the fact that the actual dispersion of prices will be affected by the amount of search undertaken by buyers. There are, of course, ways in which search costs can be reduced—by localization, advertising, specialized dealers, firms which collect and sell information, and so on. The analysis throws considerable light on the function of these business arrangements and on the way in which a competitive system operates. Particularly important is that it has led to a greater recognition of the role of advertising as a provider of information. But the effect of the analysis is pervasive. As the Swedish Academy says, "phenomena such as price rigidity, variations in delivery periods, queuing and unutilized resources, which are essential features of market processes, can be afforded a strict explanation within the framework of basic economic assumptions." Economists can be expected to continue to probe the implications of Stigler's analysis and with considerable benefit to economics.

ALTHOUGH STIGLER HAD WRITTEN on rent controls and minimum wage legislation in the 1940s, it was not until the 1960s that he began writing the articles on the economics of regulation that were reprinted (along with many previously unpublished essays) in *The Citizen and the State* (1975). Three appeared in 1964. At the end of that year, Stigler gave the presidential address to the American Economic Association on "The Economist and the State." His message was twofold. First, economists, whether they were in favor of limiting government intervention or of expanding it, had not hesitated to express their views on what the role of the state in economic affairs should be, without making any serious attempt at discovering what the effects of government intervention had been and without making a systematic comparative study of the results achieved by private and public enterprise. Second, we now have at our disposal quantitative methods to investigate such questions. "The age of quantification is now full upon us . . . economics is at the threshold of its golden age." Stigler had himself already done extensive quantitative work, his book, *Capital and Rates of Return in Manufacturing Industries,* having been published in 1963. In the context of his presidential address, what Stigler was calling for was a study of the effects of regulation using quantitative methods.

One did not have to look far to see what he had in mind. Earlier in 1964 Stigler had published the results of a quantitative investigation into the effects of regulation on electricity rates (written with Claire Friedland). The study could not discover significant effects. Again, in the same year, in the course of reviewing a report on the regulation of the security markets, Stigler compared the result of investing in new issues in the period before and after the formation of the Securities and Exchange Commission. No important difference could be detected. In the 1960s and 1970s there was a flood of similar studies investigating the effect of regulation on a wide range of economic activities. Some were directly influenced by Stigler's work. Others were no doubt independently conceived and executed. The results of these studies were uniformly depressing. Either, as in Stigler's studies, no effects of regulation could be detected or, when they could be discovered, the effects were, on balance, bad. With regulation, prices were higher, products were less well adapted to consumer demands, and competition was restrained.

About twenty years ago, most economists, under the influence of the writings of Pigou and others, thought of the government as standing ready to put things right whenever the results produced by the working of the market were in some respect defective. This led them to support extensive government regulation. The studies which have been made since then have shown how pernicious the results of regulation have commonly been. It has become difficult to argue with plausibility that the ills of society can be cured by government regulation and the views of most economists have changed accordingly. In bringing about this change of view, Stigler has played a major part.

It has become difficult to argue with plausibility that the ills of society can be cured by government regulation and the views of most economists have changed accordingly. In bringing about this change of view, Stigler has played a major part.

Stigler has not been content merely to investigate the effects of regulation. He went on to inquire why the regulations are what they are and this led him to analyze the working of a political system. His approach was that of an economist, treating political behavior as utility-maximizing, political parties as firms supplying regulation, with what is supplied being what is wanted by those groups (or coalitions) which are able to outbid others in the political market. What each group will bid depends on the gain to be derived from the regulation less the costs of organizing for political action. In practice the highest bidder was very likely to be the industry regulated and it is not therefore surprising to find that the regulation, as Stigler puts it, "is designed and operated primarily for its benefit." If Stigler's approach is accepted, it will change the way economists look at regulation since it means, as the Swedish Academy points out, that "legislation is no longer an 'exogenous' force which affects the economy from the outside, but an 'endogenous' part of the economic system itself."

Just how much political behavior can be explained in this way seems to me problematical. As I watch people who are engaged in political activities, whether through voting in a parliamentary system or by taking part in political, including revolutionary, movements, supporting with enthusiasm policies which seem likely to greatly harm or even destroy their countries and perhaps themselves, I find it difficult to believe that such behavior is best described as rational utility-maximizing. However, that does not mean that in some areas, and particularly those of most interest to an economist, Stigler's approach may not have great explanatory power. The Swedish Academy speaks with caution about his analysis of the causes of regulation: "it is still too early to assess its ultimate scope." But, in any case, we should not, and the Swedish Academy clearly does not, assess the worth of an economist's contributions by deciding whether the profession will ultimately conclude that he is right. All theories will in time be superseded by others and all will, ultimately, come to be regarded as false (or incomplete or irrelevant). What really matters is whether the contribution moves the subject forward, makes us aware of possibilities previously neglected and opens up new and fruitful avenues of research. Stigler's contributions clearly meet this test.

MARSHALL DEFINED A CLASSICAL ECONOMIST as one who "by the form or the matter of his words or deeds . . . has stated or indicated architectonic ideas in thought or sentiment, which are in some degree his own, and which, once created, can never die but are an existing yeast ceaselessly working in the Cosmos." Using Marshall's definition, George Stigler is a classical economist. ■