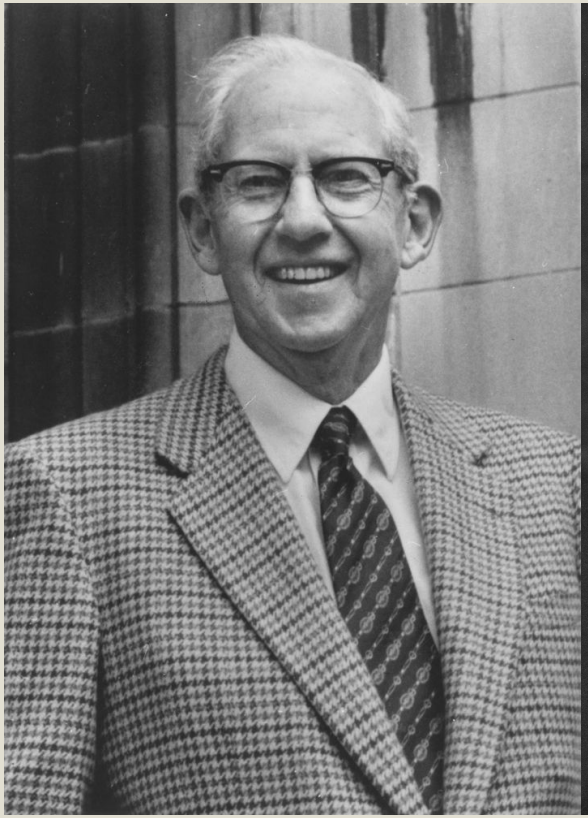
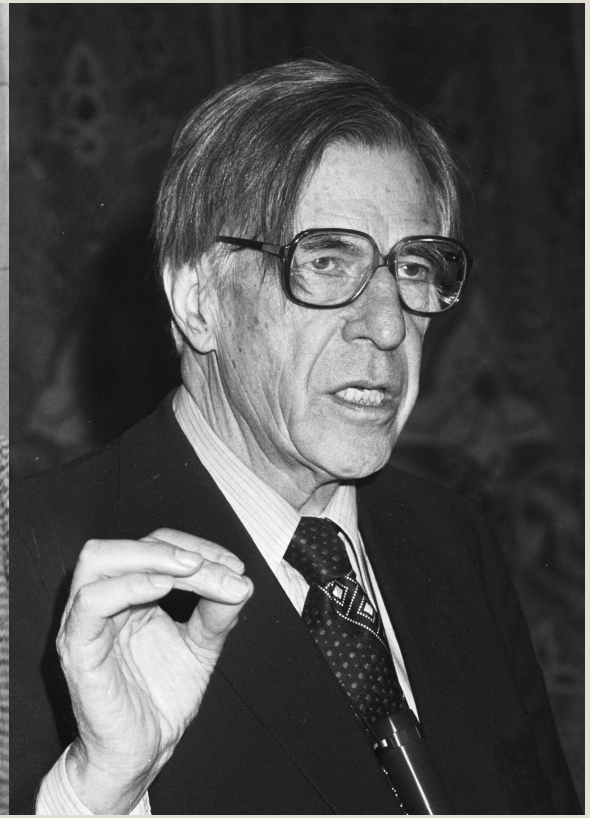
G.J. Stigler's "*The Theory of Economic Regulation*" (1971)

J.K. Galbraith's *"American Capitalism: The Concept of Countervailing Power"* (1952)

TIMOTHY SCHOONOVER

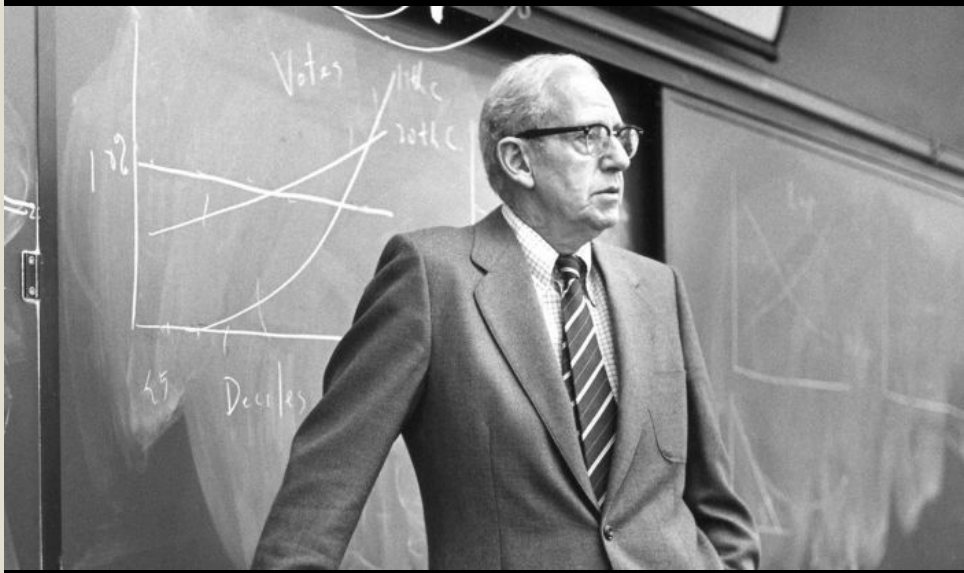




“The Theory of Economic Regulation” (G.J. Stigler, 1971)

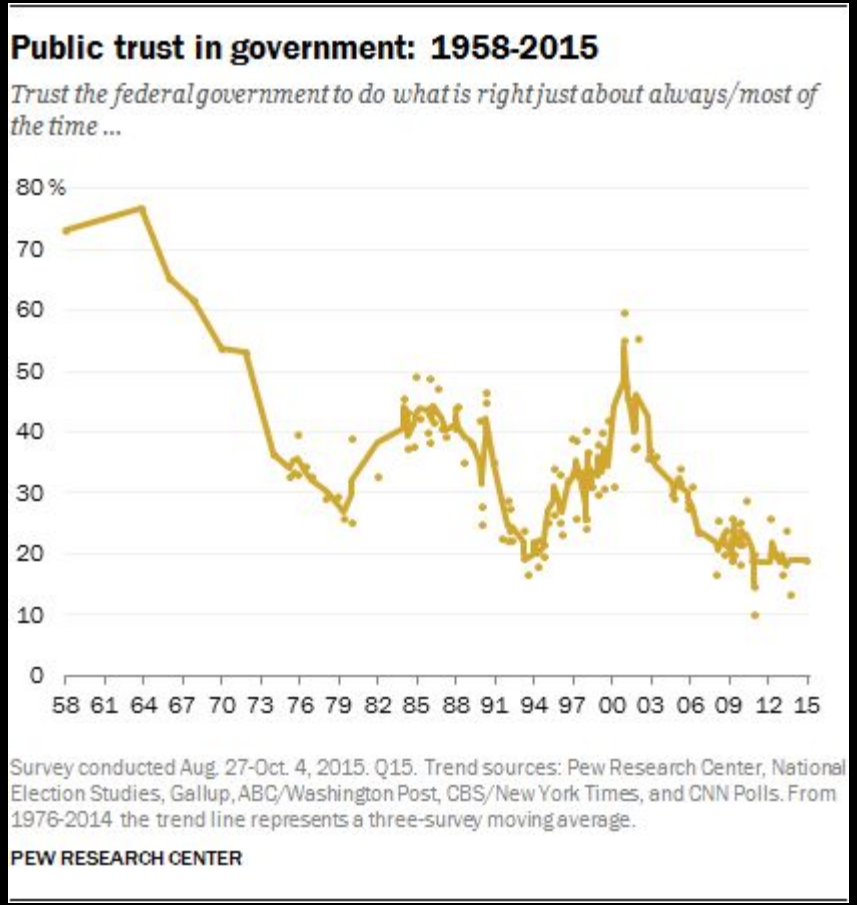
Authorship
George J. Stigler (1911–1991)

- Nobel Prize laureate
- Associate of Milton Friedman
- University of Chicago → neoliberalism
- Known for application of economic reasoning to politics & society → **“public choice theory”**



Historical & Academic Context

- **Decreasing trust in government**
  - Nixon: Watergate, Nixon Shock
  - Johnson: Vietnam
- **“Public interest theory”** → government services exist to help the public
- Critique of Keynesianism
- Stagflation

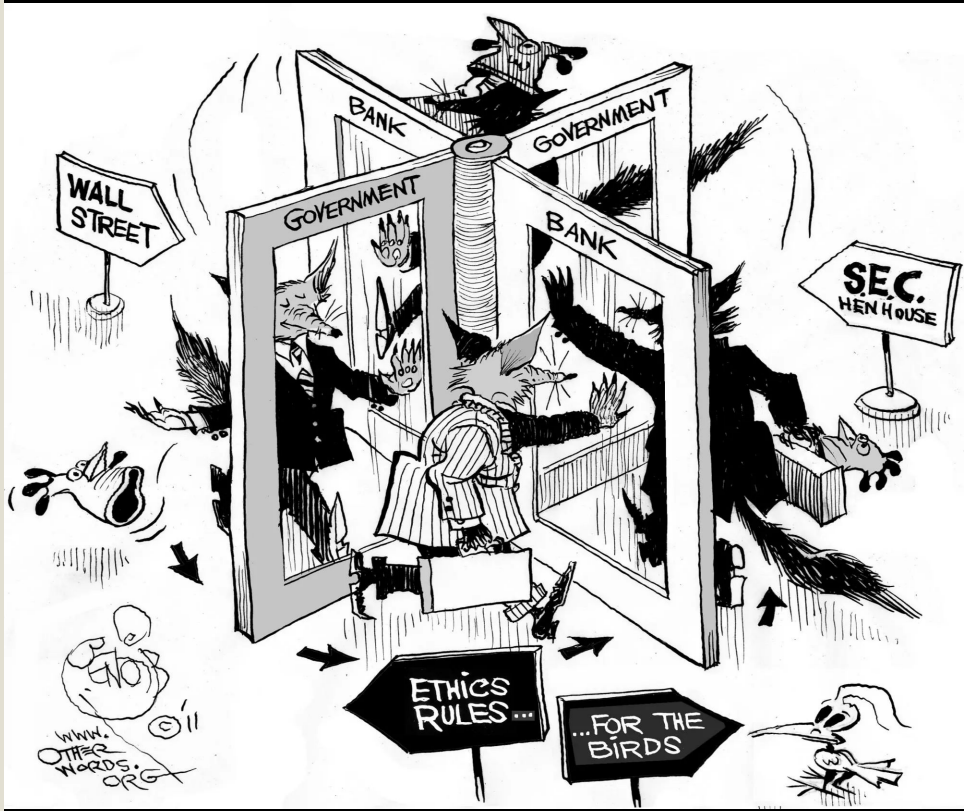


Argument

- Industries do not passively accept regulation:
  - **They shape it** → lobbying
  - **They ignore it**
  - **They co-opt it** → take market share from competitors

- Examples of extractive policies:
  - Entry barriers (licenses)
  - Subsidies
  - Bailouts
  - Price fixing → ?

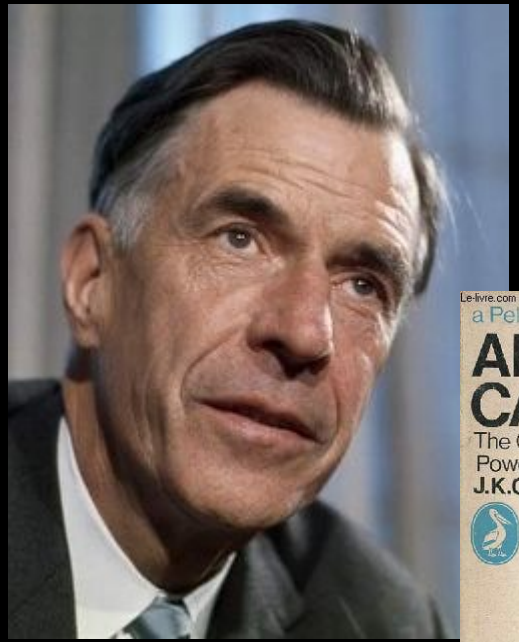
- **“Capture theory” of regulation** → regulation = calculated, rational self-interest

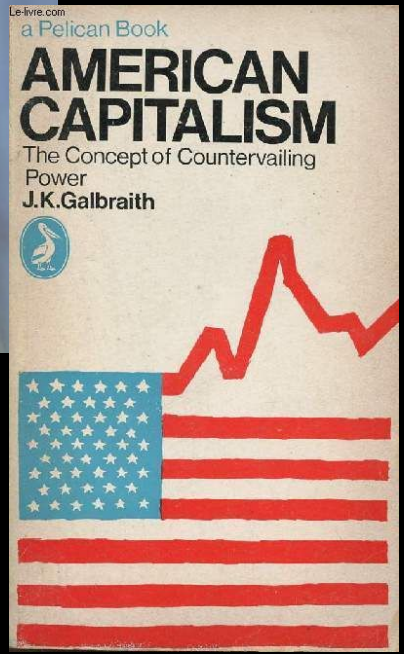


“American Capitalism: The Concept of Countervailing Power” (J.K. Galbraith, 1952)

Authorship
John K. Galbraith (1908–2006)

- Canadian-American
- UC Berkeley 🐻
- Ph.D. in agricultural economics
- Head of U.S. price control (U.S. Office of Price Administration) during WW2
- Longtime advocate of government intervention for public welfare





Historical & Academic Context

- **High trust of government**
  - **“Fair Deal”** of Pres. Truman → neo-New Deal-ism
    - Housing Act → investment in housing
    - Social Security expansion
    - 88% increase in minimum wage
    - National Science Foundation
    - *Curtailed by Congress*
  - **Marshall Plan** → generous economic investment & leadership, leading the “Free World,” opposing USSR



Argument

1. **“Perfect competition” doesn’t exist** → economic power highly concentrated among a small number of companies.

2. **“Countervailing Power”** → Oligopoly can only be opposed through planning & organization, such as labor unions & <u>government regulation</u>.

    a. Gov. plays a role in supporting dialectical balance between labor & capital.

3. Argues for a turn from **outdated classical economic models/theories**.



Who “won”...?







“On [most issues] Chicago won, for better or for worse. It won completely in macro, it won completely in regulatory economics, it won in many parts of applied economics and labor.”

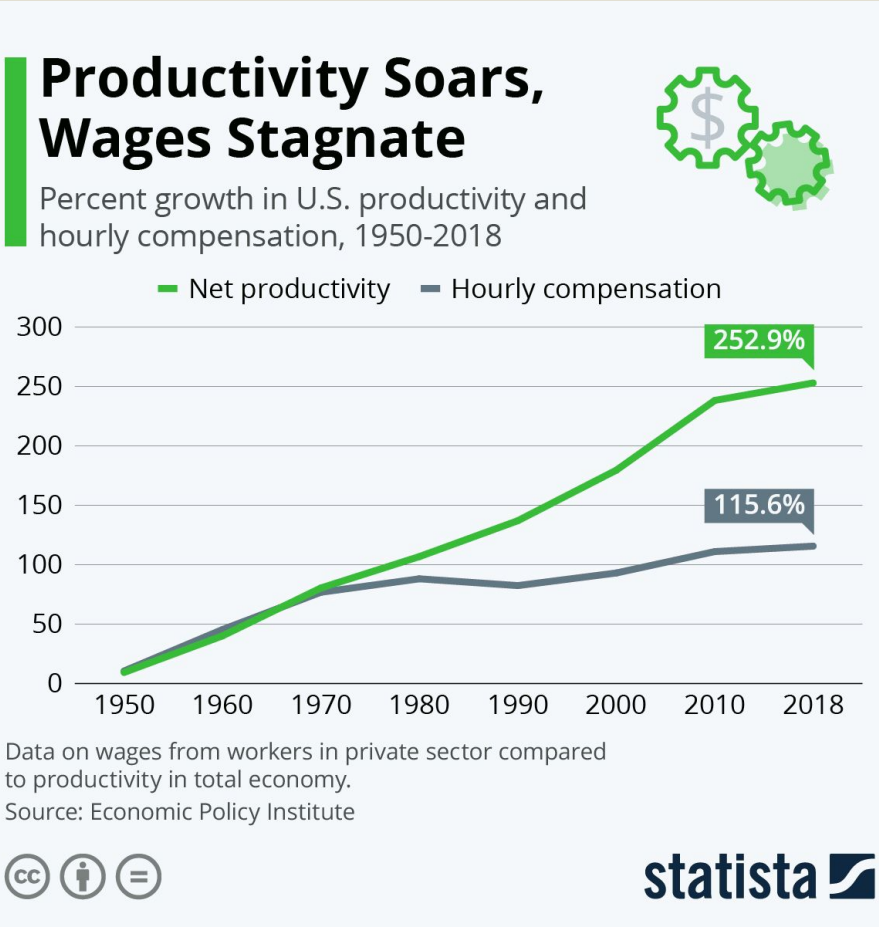
– Andrei Shleifer, Harvard economics professor

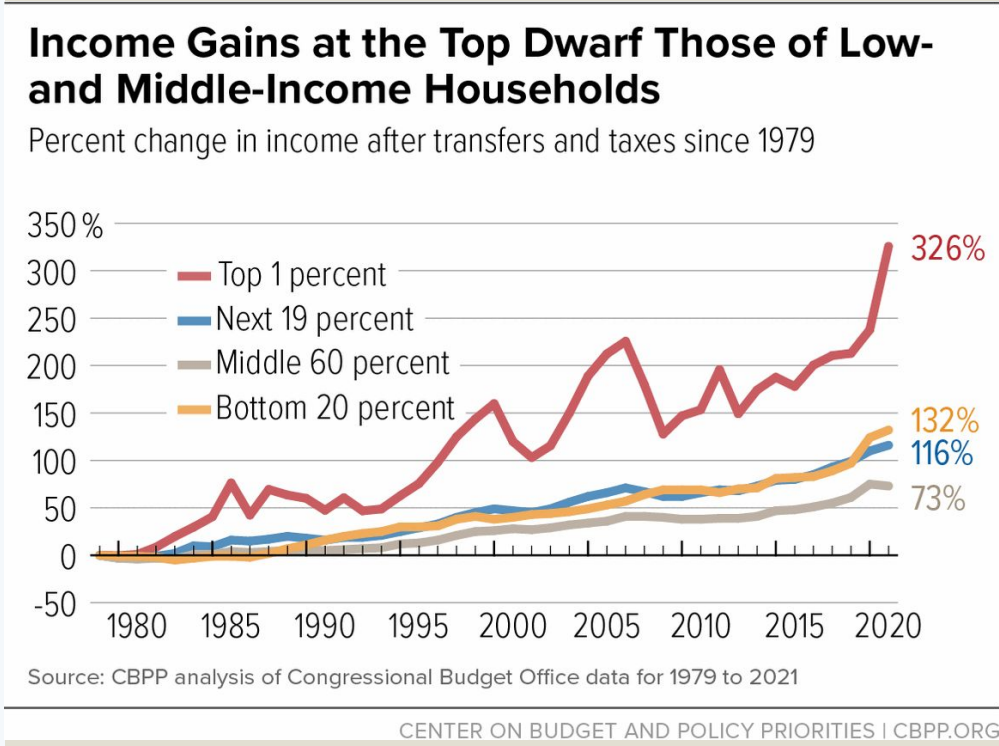
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Economic legacy of American neoliberalism:





Today? Is neoliberalism “dead”? Or is there a “national neoliberalism”? *Corporatism*?

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Brian Bushard Former Staff

Brian is a Boston-based Forbes breaking news reporter.

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DISCUSSION QUESTIONS



Is it possible to ensure that government is on the "side" of the people and not corporations?

Is neoliberalism dead? If so, what will its historical legacy be? What is the "cause of death"?





What should the role of economic models be in public policy decisions? Should anything be more important than GDP?