The Political Economy of the Firm: Basis for a New Theory of Competition?

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Address at the Annual Meeting of the Schweizerische Gesellschaft für Statistik und Volkswirtschaft, May 28, 1965, at St. Gallen

Monolist Economics

It is exciting to watch a football game (and sometimes even more so to watch the spectators). It is also exciting to follow the battle of a Migros, the Coops and the individual grocery stores. In both cases interest tends to focus on the competitive interplay itself simply because of all the excitement it generates. Yet, if we want to proceed to the level of being able to make accurate *predictions* of the nature and outcome of competition in a given case, we are probably more interested in the *determinants* of play than in the play itself. In other words, to understand competition it is necessary to understand

in any case	*in the case of business*
the competitors	firms
the competitive arena	markets
the instruments of competition	the marketing mix of price, quality, promotion, availability, etc.
the types of interplay	market interaction: competition and cooperation in a vast variety of forms and blends
the rules of the game	public policy and social values

It is a basic tenet of this paper that while economists have been concerned with these five sets of determinants, our interest in them has been too monolist (this term sounds better than simple-minded). While the real world is rich and differentiated, the universe of economics in this entire area seems increasingly barren and stereotype. To make stupendous abstractions is often a stimulating intellectual exercise; it is even a laudable one if such extreme simplification helps analysis or prediction. None would deny that the received theories of the firm, of competition and of monopoly provide us with wonderful conceptual and analytical tools. But in spite of frequent assertions to the contrary the predictive power of classicism remains in doubt after two hundred years of theoretical refinement. Even such a stalwart defender of the Economics Establishment as

Milton Friedman has been hard put to present documentation proving unequivocally in even a single case the predictive force of these classical theories.

The argument here, then, is that to arrive at theories with greater explanatory capability we need to broaden our views of the firm, of the market, of the marketing mix, of patterns of market interaction, and of public policy and underlying social values. Beyond monolism is pluralism. To attempt the development of a full-blown new theory here would indeed be presumptuous. The ambition is more modest, i. e., to point up a family of variables which seem salient if we are ever going to increase our ability to predict the behavior of the actors and the dynamics of the action taking place in the arena of competition. Occasionally, reference will be made to recent departures possibly suggestive of emergent pluralist theory.

Pluralist View of the Firm

It is a fascinating paradox that the received theory of the firm, by and large, assumes that the firm does not exist. In other words, it fails to take into account that firms are *organizations,* composed of human beings, struggling with problems of internal coordination and communication and sadly deficient in knowledge both about themselves and the marketplace. In a sense, classical theory is ahead of its times in that it is wired for automated decision points, but as yet most managerial decisions are made by people, for better or worse. This would seem to be the great kink in the link, so to speak, between economic theory and business behavior.

A promising approach towards unification of theory and practice is to look upon the firm as a political community of internal and external interest groups. It involves no great effort to define the principal member interests participating in this community: consumers, management and other employees, stockholders and other creditors, suppliers, distributors and dealers, competitors, the plant community and, increasingly, the public at large – plus, of course, government. The government actually plays at least a threefold part in the context: as ultimate overlord (in that the firm exists only at the government's pleasure and in that the government writes a goodly proportion of the rules of the game), as tax collector, and as final arbiter in case conflicts between the other interests cannot be resolved except by recourse to higher authority than management. In addition, the government in a given instance may be a consumer, creditor, supplier, stockholder or even competitor (in itself a state of affairs pretty much removed from classical economics).

Each interest group is at once a contributor (time, money, component parts, etc.) and a claimant (of money, goods, ego-gratification, etc.) in regard to the resources of the firm. This is tantamount to saying that the interests of the group are in part identical with, in part different from (at times even antithetical to) those of the firm[1].

In such a system, what is the emerging role of management? It is dual. First, to achieve a working balance, through time, of claims and contributions among the other participating interests. This involves inviting and sustaining their desire to cooperate in the corporate nexus while at the same time preventing any one interest group from gaining supremacy. Second, to insure the survival and growth of the firm as a venture. As an interest group, management has an expansionist bias. Expansion makes for an orderly promotion system, and it builds power and prestige for all[2]. Expansion is also the process by which *change* can be absorbed in the least disruptive fashion. We should note further the trend from owner-entrepreneurship towards professional managerialism in the modern corporation. The functional heads of such areas of management as marketing, finance and personnel in this new scheme of things tend to become as much representatives of the interest groups to which they correspond (consumers, creditors, employees) in relation to the corporation as they represent the corporation in relation to these groups.

The plurality of interests generates a plurality of objectives. Survival and growth are the prime objectives of the representative firm, which is now the medium-sized or large corporation. Beyond this, Cyert and March postulate partially independent, partially overlapping goals as regards production volume, inventory level, sales volume, market share and profitability[3]. Beyond these, the General Electric Company includes product leadership, personnel development, employee morale and public responsibility among the so-called Eight Key Result Areas in which each of the one hundred-odd decentralized general managers of the concern are expected to set specific objectives each year. What happened to profit maximization? For this notion there is no room in the pluralist view of the firm. Rather, we would say that the corporation is not in business to earn profits, but makes profits to stay in business. As long as profits are satis-

[1] For purposes of brevity we are taking the liberty of ascribing to the firm itself interests and objectives without a detailed discussion of whether this is permissible. Compare the controversy in political science concerning the imputation of objectives and a will to the national state. Cf. also *Edith T. Penrose,* The Theory of the Growth of the Firm (Blackwell, Oxford, 1959), and: Biological Analogies in the Theory of the Firm, 92 American Economic Review (Dec., 1952), 804–819.

[2] The question whether it is financial rewards, a desire for power or personal acclaim or prestige or sheer pride in professional workmanship that primarily motivates managers need not be resolved for purposes of the present discussion, as each and all of these incentives will tend to call forth a substantial measure of identification with the progress of the institution by which the manager is employed.

[3] *Richard M. Cyert* and *James G. March,* A Behavioral Theory of the Firm, Englewood Cliffs N.J., (Prentice-Hall), 1963, 41 ff.

factory from this point of view there is a lot of room for discretion as to the level of aspiration in this area at any given time.

The implications of the pluralist view of the firm permeate all areas of decision-making, including market behavior. Of particular significance is the *structure* of the organization, as it furnishes the mechanism through which the various groups may make their influence felt. A pioneer study demonstrates, for example, how the typical organization structure of American department stores establishes a set of powerful determinants of the *specific prices* at which goods are sold[1]. The buyer of the goods is held responsible for their sale, and has formal pricing authority. Yet he cannot afford to neglect the pressures on him from various vested interests in the organization, such as the publicity division, the comparative shopping bureau, the store management division and the controller's division.

Characteristic of each of these is that they have sanctions and favors with which to put weight behind their claims. To take but one example: the publicity division may refuse advertising and window display support unless the buyer lends an ear to its wishes. We get a picture of price and other vital matters of competitive behavior being established in a decision-making process essentially political in character and bounded only by the economic constraints set up by the marketplace – generally a good bit more generous than the live-or-die "uniprix" assumed by classical models of free competition.

The present writer and his wife had occasion to make similar observations in the course of field research on the Latin American subsidiaries of a U.S. department store concern. Consumer installment buying credit policies were centralized to the credit function at North American headquarters. Not being familiar with the overseas clientele, headquarters established policies that certainly restricted sales and most likely also profits at the local level. Desirous of strengthening the capabilities of Latin American suppliers, the buyers, on the other hand, who were more prestigious than the local credit men, and who could work directly through the finance function, had little difficulty in securing risky loans and other generous financing arrangements for the firms from whom they bought.

We hardly need to add that large buying organizations, whether they be governments, institutions or firms, may be studied in a fashion quite analogous to that which we have been advocating with regard to manufacturers, distributors and other selling organizations. Indeed, in certain vital respects what has been said is applicable to household decision-making as well.

Summing up this part of our discussion, the pluralist view of the firm holds exciting prospects for research as well as theory. One is further reminded of its

[1] *R. M. Alt,* The Internal Organization of the Firm and Price Formation: An Illustrative Case, 63 Quarterly Journal of Economics (1949), 92–110.

merits by the recent experiments in the Soviet Union with which the name of Evsei Liberman is loosely associated. Libermanism is not liberalism, either in a political or economic sense. As far as we know today these experiments in a narrow sector of the Russian economy attempt to combine a system of government ownership and centralized planning with a local breed of market competition. While this is a situation which classical economics is not really equipped to handle, models based on interest groups and organization theory have the requisite inherent adaptability for comparative study.

Pluralist View of Markets

In likening the market to a competitive arena at the beginning of the discussion we wished to draw the attention to certain *structural* features, such as the nature of what is being offered for sale or the number and distribution by size and type of sellers, intermediaries, and buyers. Again, we shall illustrate the monolist character of received theory and indicate one or two promising recent developments in the direction of the pluralist view of markets which seems to be called for. The classical market concept is at once too narrow and too broad to serve all our needs. It is too narrow in that it is tied to a *single, homogeneous product*. This is perhaps its worst deficiency. The avalanche of technological innovation and the enormous increase in discretionary spending power in the last several decades constantly bring more and more products (and services) in competition with each other. The tape recorder competes with the record player and the radio alike, the ballpoint with the fountain pen and the pencil alike, the wigs with the hair dyes, and the bikinis with the monokinis. In these examples at least we see a link between the products themselves. But equally realistic is the competition between a new Paillard film projector and a long weekend in Zermatt in the minds of the consumer with a few extra hundred francs in his hand. Indeed, we submit that frequently inter-product competition is more intense – often also more conducive to innovation and economic progress – than competition within a given product market. Small wonder that an increasingly perplexing problem in antimonopoly law enforcement in several countries is to define the «relevant market» in any given case. It is equally artificial to think in terms of homogeneous products in an era when planned product differentiation easily is as important a competitive weapon as price itself. Every day it becomes less and less possible to say what is a product.

The classical market concept is also too narrow in assuming that each seller participates in only one product market. In real life, of course, there are comparatively few mono-product firms, and they are getting scarcer every day under the impact of product proliferation and diversification. This particular deficiency of vested theory would not be troublesome if one could assume that the multi-product (or "conglomerate") firm would behave in the same manner as a mono-product firm in each of the markets in which it is active. But the minute we recognize that the corporation has a diversified goal structure we realize that such an assumption has no other virtue than naive simplicity. There is no reason to expect that the common economies (and diseconomies) and added bargaining power resulting from conglomeration will be distributed across the corporation's markets in such a way as to simulate the mono-product firm[1]. Each conglomerate firm will have its own configuration of markets in which it participates (and on what scale), and it is only reasonable to assume that its objectives differ not only from other conglomerates and from mono-product firms but also from one of its markets to the next. The "bread-and-butter" market will be approached differently from the "pie-in-the-sky" market. As long as viability rather than profit maximization is at the head of the corporate agenda, management enjoys considerable discretion in allocating its resources among various markets.

Finally, the market concept of existing theory is too narrow in assuming that the market in its entirety is external to the firms participating. Actually, however, intra-company marketing operations reach a huge volume in industrialized economies. Even if we arbitrarily restrict our notion of the internal market to transactions between *profit centers* inside a concern, intra-company marketing in this country surely reaches a volume of hundreds of millions of francs a year; indeed, it may well be in the billions. To be sure, attempts have been made to extend classical analysis to intra-company transactions[2]. They have been valuable in drawing the attention to some of the many vexing problems one encounters in this area, and they may be of normative value wherever marginal analysis can be immediately applied and the knowledge of costs is perfect. As one is not likely to encounter many such situations in a lifetime, as management is typically faced with unusually strong interest-group pressures in this area, and, as we have emphasized, as the firm has a variety of goal considerations it would seem to be high time we started giving special attention to this area of marketing. The point of departure would be a recognition of significant differences in

[1] The whole consists of something more than a collection of parts. If not, under the universal law of entropy the corporation could indeed be expected to decompose into an array of odd parts, all or many of which would then no longer be viable. On the other hand, when occasionally defense lawyers in merger cases under American antitrust law maintain that you cannot "unscramble the omelette" they are on thin ice. Clearly, the relevant question is not whether you can get the original eggs back again, but whether the omelette, once baked, can be sliced into workable pieces (assuming the merger was of an illegal type).

[2] *Jack Hirshleifer*, On The Economics of Transfer Pricing, 29 Journal of Business (July, 1956), and references cited therein.

external and internal markets and a postulate that better understanding of the interaction between the two would be a prime object of study[1].

It was stated that the conventional concept of the market is also too broad. This again is a result of the homogeneous product assumption. Actually, every single firm enjoys at least a modicum of differential advantage in relation to all its competitors. Indeed, the prime stratagem in modern marketing might well be labeled *nichemanship,* i. e., the art of so differentiating your offering in terms of *all* relevant variables – not just product and price – that you in fact obtain a "market within the market" all your own. As a result we get a spectrum of mutually interacting, overlapping, criss-crossing but always partially distinct markets, which for all conceptual purposes includes an infinite number of gradations. The extreme view would be to say that each transaction between a single buyer and a single seller constitutes a partially separate market, but one does not have to go this far to realize that the need exists for a more nuanced approach.

Recognizing that classical theories of competition and monopoly, and, especially, of oligopoly are insufficient, various authorities have proposed new ideas for the classification of markets, generally based on distinctions between categories of goods (perhaps supplemented with some other structural feature, such as number of sellers and/or buyers). No author has made a claim of perfection for his proposal. At least these are attempts to get us out of our present bind, and they do contain a wealth of suggestions for the future[2].

Before concluding our discourse on the market concept we must point to another vital dimension not being given its due in past theory. This dimension is *time.* While stray escapades into dynamics have been made received theory of the firm is essentially static. This is indeed a serious limitation as recent research and a wealth of practical experience indicate that the character of most markets changes quite significantly over time. This change in the very essence of the market is perhaps nowhere more evident than in the case of durable consumer goods, notably automobiles and electrical appliances. An exciting prospect is the systematic exploration of the applicability of life cycle models adapted from the biological sciences to this type of market[3].

[1] These problems hold special fascination in the operations of international companies with the built-in conflict between overall coordination in a global market on one hand and the suboptimizing pressures from subsidiaries and governments, nationalistic feelings etc. in local markets on the others.

[2] See, e.g., *Joe S. Bain,* Market Classifications in Modern Price Theory, 56 Q.J.E. (1942), 560–574; *Leo V. Aspinwall,* The Characteristics of Goods Theory, in: William Lazer and Eugene J. Kelley, eds., Managerial Marketing: Perspectives and Viewpoints, Homewood, Ill. *(Rich. D. Irwin),* rev. ed., 1962; *Melvin T. Copeland,* Relation of Consumers' Buying Habits to Marketing Methods, 1 Harv. Bus. Rev. (1923), 282–289.

[3] See, e.g., *Arch Patton,* Top Management's Stake in the Product Life Cycle, 48 Management Review (June, 1959).

Segmenting the market growth curve in a pioneer phase, an expansion phase and a maturity phase, researchers have demonstrated how the structure of the market has changed over time in terms of such variables as number and size of competitors, total sales volume, cost and profit patterns, size and composition of customer categories in the auto, television set and refrigerator industries in the United States. Even more interesting, perhaps, is that there appear to be recurring patterns of change in marketing strategy over the growth cycle. An exploratory but rigorous study of dozens of markets in which the General Electric Company is engaged has demonstrated, for example, that aiming for an increased market share tends to be highly correlated with profitability in the expansion phase of a market. It is, on the other hand, usually not related to increasing profits in the maturity phase – although this is often when management is particularly anxious to capture additional percentage points of market share. Similarly, it is fascinating to speculate over the relative importance of the instruments in the marketing mix during the various phases of the cycle. Product, price, promotion, availability, for instance, all seem to play different roles at various stages.

Summing up our discussion in this section, we have implied that market concepts of the past have been producer-oriented. In increasingly affluent economies they should be consumer-oriented, since in these societies more than anywhere else the customer is king. After all, products are merely the instruments of needs satisfaction. Hence the focus of our market definitions might appropriately be on consumer needs (or "wants") and associated criteria of the buying decision. Certainly, we again have to learn the pluralist lesson, that is, to work with many concepts of "the market" at the same time in analysing competition and economic interaction in general. The fact that these markets will be partly overlapping, partly distinct should not be regarded as a curiosity but made an integral element of economic analysis.

Pluralist View of Marketing Instruments

In analyzing various concepts of the market we focused on structural features. But as essential as structure is strategy. Strategy is the embodiment of management's ideas, articulate or non-articulate, of how the firm is to achieve its marketing objectives in competition with other firms. These objectives may be relatively simple in concept, such as the attainment of a certain sales volume, or market share or rate of profits. The goal structure may also include some more sophisticated targets, such as enlargement or entrenchment of the niche occupied by the firm in the market, the building of greater differential advantage, the generation of consumer goodwill and brand loyalty, and the organized feed-back of data from the market-place – all of major significance for future viability and for the reformulation of strategy itself.

To understand strategy it is useful to introduce two additional concepts, namely marketing instruments and marketing mix. The marketing instruments are the variables which the firm may manipulate to govern its performance and to define its niche in the marketplace. The marketing mix is the particular combination of instruments used to implement a given marketing strategy. Depending on the purpose at hand one may give a broad or a narrow definition of marketing instruments. For instance, one may think of promotion as one instrument. Going further in the ends-means chain of implementation we find such subvariables as advertising, point-of-purchase display and personal selling which, if one so wishes, may each be viewed as marketing instruments. At the next level we find that the variable advertising may be dissected into TV, radio, newspaper, bill-board publicity, and so on. (To this author it seems most reasonable to think in terms of an advertising mix as part of the promotional mix which in turn is part of the marketing mix.) Even if the discussion is restricted to the broadest possible functionally distinct categories of instruments one could hardly reduce the inventory to less than these four items:

Product
Price
Promotion
Place (availability)

Clearly, even with this generalist view of marketing instruments a vast number of different marketing mixes may be imagined. Again, however, classical economics is essentially monolist, restricting its attention largely to price. It is characteristic that a number of orthodox texts entitled «The Theory of Price» purport to embody all relevant aspects of both competition in the market and the behavior of the firm. Admittedly, neoclassical theory has given cursory attention to product differentiation and promotional policy as well. In the main, this involved mere projection of the basic model into areas in which its weaknesses stemming from the inherent assumptions as to the objectives and state of informedness among the actors in the market arena soon become painfully obvious. Commendable as the intentions have been, the results, therefore, have been rather disappointing.

The concentration of economic thought on price flows rather naturally from the assumptions of classical theory about a homogeneous product, perfect knowledge, and unlimited availability of the product in the market. In turn, these assumptions may have seemed more realistic at the time when classical theory emerged. Furthermore, price is the most visible of the marketing instruments, and the effect of price variations is frequently immediate and clear-cut. But it is precisely the sometimes embarrassing visibility of price – coupled with the proliferation of customer buying criteria in increasingly abundant economies – which accounts for the popularity of the other instruments. As a result, price must be viewed only as a part of the marketing mix of the firm. Incidentally, when price is viewed in this perspective we immediately realize the folly of the vitriolic debate over administered prices which has rocked the community of economists in the United States for decades. *All* prices are administered. Rather than whether certain prices are administered we should ask such questions as: Given a certain marketing mix in a given market, how much discretion does the price-setter have? How, in fact, is he using this discretion? Some of the pioneer empirical studies of pricing policies which have increased the doubts about the universal validity of classical analysis unfortunately left themselves open to criticism by the orthodox precisely by failing to view pricing as only one element of the overall marketing mix[1]. It is only reasonable to assume that the point made by these studies would have come through much more clearly had an integrated view of the marketing strategy of the firms studied been adopted by the researchers.

It would carry us too far to attempt here a detailed discussion of the various marketing instruments and of the determinants of viable marketing mixes in given situations. Clearly, variation in any instrument represents an increase (decrease) in resource allocation, whose long- and short-term effects are manifested in terms of total revenue and total cost over time. Each instrument to varying degree may also serve as a substitute for each other instrument (if we lower price we may advertise less, if we increase product quality we may decrease availability as customers become more willing to search for our product, and so on). Substitutibility is non-continuous, however, and not all instruments permit infinitesimal variation. Some are inherently short-term in effect, others should be regarded as representing long-term investments. The effect of advertising and other promotional effort, for instance, often shows a «distributed lag»[2]. As a rule a variety of different mixes of marketing instruments are viable in (or compatible with) a given market.

Little exploration has been done of the marketing mix as a whole or even of individual instruments (beyond price) as constituting elements of the mix. Here indeed is a fertile field for empirically oriented researchers. As the results come in they will likely demonstrate that within fairly broad ranges of viable config-

[1] See, e.g., *R.L.Hall* and *C.J.Hitch*, Price Theory and Business Behavior, in: T.Wilson and P.W.S.Andrews, eds., Oxford Studies in the Price Mechanism, London (Oxford University Press), 1951, and *A.D.H.Kaplan*, et al., Pricing in Big Business, Washington (Brookings), 1958.

[2] For a path-breaking discussion of marketing mix and marketing instruments see *P.J.Verdoorn*, Marketing from the Producer's Point of View, 20 Journal of Marketing (Jan., 1956), 221–235.

urations in a given situation we may expect certain *characteristic patterns* of mixes in different types of markets, in different types of firms, at various stages of the market growth curve, and in cultures representing varying degrees of economic, technological, social and political development.

Pluralist View of Market Interaction

The play in the competitive arena is the synthesis of strategy and structure. Market interaction may be a suitable term for the type of play economists love to watch (and perhaps this is as far as we should go!). "Market interaction" seems preferable to the classical "theory of competition", which is again an unduly monolist construct. The trouble with received theory at this point is that it tends to classify all interplay according to the single dimension from free competition to imperfect competition to oligopoly and, finally, monopoly. But this excludes the equally important dimension of cooperation. Do not let us forget that there is a vast difference between not competing on one hand and actively cooperating on the other. Incidentally, for this very reason we would think of simple co-existence – tantamount to non-interaction, competitively and cooperatively – as an interesting special case, although most likely of greater theoretical than practical significance.

In some markets interaction tends to be *either* competitive *or* cooperative. Far more usual and important, however, is the *simultaneous* presence of active cooperation and active competition within a single market. The can manufacturers around the world, for instance, cooperate closely in standardizing the measurements of their containers while at the same time they compete aggressively for the trade of their customers. The Swiss watch industry – about which you all know much more than your speaker – is another outstanding example of intimate cooperation in some areas and keen competition in others.

The Swiss watch industry also illustrates the need to apply a pluralist market concept in studying market interaction. There is an entire web of markets: the world market, the Swiss market, the market for movements, the distributor market, the retailer market, and so on. While in important respects separate, the markets making up this composite "super-market" (and we beg your pardon for appropriating this term) are all interconnected: what happens in one component market more often than not has tangible repercussions in one or several of the others. Indeed, it is precisely this interplay between the various component markets which is behind the current agonizing reappraisal within the industry.

Who are the actors in this interplay? We will never understand what is going on if we restrict our thinking to individual firms. We should think of the participants in terms of blocs, chains, or behavior systems, stretching all the way from mine to consumer, and frequently comprising horizontal links as well as vertical ones. Each system tends to have its "team leader" trying to organize the bloc for a more effective appearance in all the component markets in which the members are collectively engaged. In the past, manufacturers have generally taken the lead in organizing such behavior systems. Now to an increasing extent we see great merchandizing firms in the captain's role, as a Migros, a Neckermann or a Sears, Roebuck. This tendency may well be supported by the overall shift in power in the direction of the end consumer characteristic of societies of abundance; the concern controlling the pipeline of communication to and from the consumer is in a strategic position. To understand what goes on in the interaction of the blocs, one has to understand what goes on *inside* them. Here again economics needs to incorporate more of organization theory, bargaining theory and other parts of the apparatus being developed by its sister behavioral sciences.

We also need to give more attention to environmental forces and their effect on market interaction. Technology, for instance, will sometimes stimulate competition (as when a new process or material is developed), sometimes cooperation (as between the jet engine manufacturers and the airplane builders). It is sufficient to refer you back to the talk we just heard by Prof. Küng. Like a chameleon government may change its role from that of environmental factor to that of a potent actor in the arena, as in the case of the Swiss watch industry, where it is directly engaged in one holding company and a potent organizing force in the industry in general. Such new super-techniques as space, atomics and supersonic aircraft seem to involve government and business in new forms of close interaction – even on a multi-national, multi-firm level. Witness, for example, the Concorde and the NATO Hawk missile system (not to mention Le Mirage in this audience). Seemingly beyond the purview of the classical theories of competition and monopoly, such bloc formations also must be examined with multi-purpose tools. The same thing applies to governmental procurement, which in many instances and in many countries is now handled not by competitive bidding but by negotiation on a "chosen-instrument" basis.

Pluralist View of Public Policy

The theme of this lecture has been that a pluralist or more differentiated approach than that taken by most economists in the past to the theory of the firm and the theory of competition is required for an understanding of contemporary and future market behavior. May we submit that as the kaleidoscopic diversity of market realities becomes more evident not only to our profession but also to the public and its representatives in government we will find a pluralist view of public policy itself in relation to market behavior increasingly natural. This topic is worthy of separate treatment. Only summary remarks will be made here as regards the areas of public policy commonly known as antitrust[1], "Strukturrationalisierung", government planning and public ownership.

Most developed countries these days have antitrust legislation in one form or another. While some of us may regret it, the trend in antitrust will likely be from general rules to a case-by-case examination of economic power and cartel-type phenomena. Bigness *per se,* the mere existence of economic power, will become increasingly accepted – but the exercise of power will be scrutinized, and curbed where necessary. Even where it goes scot-free big business will have to submit to greater requirements of publicity. Cartel arrangements, too, will be subject to a rule of reason rather than to either dogmatic rejection or naive acceptance. Authorities will become increasingly interested in *vertical* as well as horizontal marketing behavior systems. On the other hand, public policy will gradually embrace the notion that inter-product competition in our days is frequently more economically significant and socially constructive than the competition between firms making identical goods. In line with this philosophy of relativism and diversity in the antitrust area we should expect a shift in interest from the intent and forms of competitive behavior to the *performance* and *effects* of market interaction.

"Strukturrationalisierung" deserves a comment primarily because it is a term which has been much abused on this continent in the past. In the future it can hardly be expected that the public will accept arrangements masquerading under this pretentious title when the sole purpose is to restrict competition and make life more comfortable for industry members. The citizens will demand the cards on the table, and where restrictions on competition are involved we may wish to see inefficient firms eliminated and other tangible evidence that the rearrangement of structure is really in the public interest, not merely in that of the industry. Hopefully, there will also be greater appreciation of the fact that cooperation and competition are to a large extent mutually independent forms of market interaction, and that far from thwarting competition well-planned rationalization of industry structure may actually *promote* it.

[1] For a more detailed discussion of trends in U.S. policy in this area see *Hans B. Thorelli,* Government and Marketing: Fusion of Fission to be Fashion?, in: The Social Responsibilities of Marketing, Proceedings of the American Marketing Association, December 1961, (Chicago 1962), 453–465. Government provides a multitude of other rules of the game in the market arena, such as policies governing incorporation of companies, licensing of trades and professions, patent and trademark rights, aid to small business, tariff and trade agreements, and so on. Clearly, we cannot hope to examine all these features of the competitive *ambiente* here.

In the areas of public planning and public ownership, too, we are beginning to see experimentation based on pluralist concepts of markets. We are all beginning to realize that the question is not planning versus no planning, but rather: What type of planning? Everyone with an interest in the future is in fact planning, no matter how primitive and subconscious the plans may be. What matters is who does the planning for whom, what freedom is left in deciding the means of implementation, and what are the sanctions used in case subordinate units in the planning system are not able to – or perchance do not wish to – comply with the plans? The United States, France, Norway, Yugoslavia, and the Soviet Union are well-known milestones on the road from broad framework type of planning using *general* means to increasingly detailed planning using means directed at specific firms or units and prescribing particular types of behavior. The emergence of Libermanism does indicate, however, that even in totalitarian systems based on all-out government ownership there may be room for differential approaches in different markets. I am afraid, on the other hand, that even the Russians will find it is difficult indeed to get the government out of an activity once you ever let it in!

E Pluribus Unum

It is time to draw the threads together. We have emphasized that to make progress in microeconomics we need a pluralist view of the firm, of markets, of marketing instruments, of market interaction and of public policy. We have pointed to the amazing diversity of underlying reality in each of these areas. Against this background some of us might be pessimistic about the possibility of building new theories of the firm and of market interaction. Such pessimism would seem unwarranted. True, perhaps we need an uncomfortable number of theories about this bewildering variety, each theory serving a limited purpose of analysis and explanation. But it is quite possible that we may even arrive at a unified system. Nature displays a staggering variety of tens of thousands of species of plants and trees – yet, thanks to Carl von Linné, we still need only one botany. Incidentally, we might do well in adapting the ecological approach of the biological sciences, as did Kurt Lewin in his field theory of psychology. The aim should be to arrive at a synthesis on a higher level than in received theory. Again, this in no way will detract from the grandeur of the classical apparatus which has provided us with analytical tools of lasting value.

As suggested by illustrations in the course of our discussion, it seems to this writer that progress in the direction indicated is linked with closer integration of economics with other behavioral sciences. This applies to methodology as well as to substance. If survey and attitude research has proven itself in sociology, political science and anthropology there is really no good reason for economists to be as recalcitrant in the use of these methods as we have in the past. The computer will assist us in mastering greater numbers of variables and far greater masses of data than ever before. To take another example: simulation in the form of management games offers new opportunities of improving understanding of the behavior of the firm and of markets[1].

Integration with behavioral science is really not a preposterous novelty, though one might think so in reading some of the statements by members of our profession. A prominent part of our discipline was once political economy, concerned with macroeconomics and the relationships between government and business. It was a noble, if nowadays somewhat discredited, pursuit. Its greatness lay precisely in its deliberate incorporation of behavioral aspects (then called political and institutional). At the micro level – the theories of the firm and of competition – the refinement of "pure" economic theory has proceeded to a point where Marginal Revenue of additional effort seems a good bit less than Marginal Cost. We need urgently a political economy of the firm and a behavioral theory of market interaction.

[1] Cf. *Hans B. Thorelli* and *Robert L. Graves*, International Operations Simulation – With Comments on Design and Use of Management Games, New York and London (The Free Press), 1964, 4–8, 387–391.