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Giant corporations have come to dominate industrial and other economic activity, a fact that many journalists and commentators have noted. “Yet... economists have generally declined the challenge of assaying the parameters of corporate bigness and size-based economic power... [D]espite a monumental revolution in industrial organization over the past century, the economists’ conception of power – defined as the capacity to influence price in a particular market – has remained remarkably unchanged, unidimensional, and, in all, anemic and innocuous.” (219)

At least two other types of power are wielded by large firms. First, big corporations can displace the competitive market as society’s primary instrument for planning and resource allocation. The internal coordination of activity and distribution of resources has been central to analyses of corporations by such economists as Alfred Chandler and John Kenneth Galbraith. Some defenders of big business, such as Peter Drucker, have argued that by insulating enterprises from short-term market fluctuations, bigness allows corporations to take the long view and think about society’s needs.

Second, corporate giantism gives rise to disproportionate influence on government policy. Big businesses can mobilize massive political resources in lobbying for their objectives. Moreover, big businesses can obstruct public policy by threatening to curtail or close their operations, leading to mass layoffs and unemployment.

This chapter explores these dimensions of size-based power in a case study of the U.S. automobile industry. Rather than the traditional economic issues of cost minimization and the pace of technical progress, it focuses on the question of social efficiency: Does the exercise of power by large corporations represent an efficient way to achieve society’s goals? A review of four major areas – urban congestion, pollution, automotive safety, and fuel consumption – shows that the answer is largely negative.

Urban Congestion

In the context of urban transportation, social efficiency would require the ability to transport large numbers of people quickly, comfortably, at low cost, and with a minimum use of scarce urban land and open space. The actual urban transportation system in the U.S., overwhelmingly dominated by the private automobile, is in many respects the least socially efficient system that

could be created. Traffic congestion is a massive and growing problem, for motorists and nonmotorists alike.

The predominance of the private automobile, its displacement of other modes of transportation, and the resulting adverse impacts on urban communities, are not accidental. Nor are they solely due to passive, impersonal market forces. A 1951 federal court decision in an antitrust case found that General Motors was instrumental in organizing National City Lines, a company that engineered the demise of 46 electric mass transit systems in 16 states. Through National City Lines, GM, together with a tire producer and an oil company, gained control of urban rail transit systems, destroyed them, and replaced them with GM buses.

In the 1930s, Los Angeles had clean air, and the world's largest electric railway network. Then GM and its allies bought the local transit companies, ripped up the tracks, and replaced the trains with GM buses – and, in effect, with millions of private cars. While the rail transit systems of the early twentieth century, in Los Angeles and elsewhere, did not disappear *only* because General Motors wanted to sell buses, it is also clear that GM was not a passive bystander observing the natural evolution of the market.

Smog and Air Pollution

By the early 1960s the automobile was recognized as a leading cause of air pollution. Yet here, too, “sized-based power was hardly conducive to a triumph of social efficiency.” (225) At first the auto industry denied the existence of the pollution problem. Later, according to a 1969 antitrust suit (which the industry did not contest), the auto giants conspired to avoid competing in research, development, and commercialization of pollution control devices. They ignored promising inventions, refused to purchase technology developed by outsiders, delayed introducing available technologies, and disciplined individual companies that strayed from the agreement.

Then, under intense government pressure in the 1970s, the industry hastily adopted the catalytic converter, an approach to pollution control that the National Academy of Sciences characterized as the most disadvantageous in terms of cost, fuel economy, maintenance, and durability. A modest investment in research and development over the preceding decade, the academy's scientists pointed out, could have led to a much cheaper, better planned, method of emission controls.

Automotive Safety

Tens of thousands of people die annually in highway accidents, and millions are injured. By any measure, automotive safety is a serious public health issue. While many other factors are involved, the design of the automobile itself plays a major role in accidents. Here the power of corporate giantism has been applied on many occasions.

Safety features are often shelved for decades after they are developed and patented. Collapsible steering wheels and padded dashboards were patented by the big auto companies in the 1920s and 1930s, but only introduced much later when mandated by the government. Seatbelts were

initially offered as extra-cost options, and were deliberately made expensive and difficult to install. Airbags were developed in the 1970s, and by the early 1980s were known to be very cost-effective in accident reduction, yet the industry resisted their introduction and actively discouraged air bag sales until recently.

Safety is not an essential design feature for the industry; in fact, automobiles have often become more dangerous in design over time. The auto companies have insisted that safety should be optional, supplied only when consumers demand it. “The industry spent hundreds of millions of dollars extolling raw horsepower and rocket acceleration and then (disingenuously) pleaded that ‘safety doesn’t sell’ -- despite evidence to the contrary.” (227)

Fuel Consumption and the Small Car

The vast fuel consumption of U.S. automobiles is a major contributor to the nation’s total demand for energy. The dependence of the American economy on volatile foreign oil supplies can be traced to the widespread use of fuel-inefficient vehicles. Fuel economy therefore provides a further test of social efficiency in the auto industry -- a test in which corporate giantism puts in another disappointing performance.

Traditionally, the Big Three automakers considered neither the fuel efficiency of their cars nor the limits to petroleum supplies to be matters of serious concern. The fuel efficiency of U.S. automobiles steadily worsened from 1958 to 1973, primarily due to the increasing size and weight of cars that resulted from styling innovations. The industry stubbornly refused to produce small, inexpensive, fuel-efficient cars, although the demand for them was evident long before the oil crises of the 1970s. As early as the 1940s, the United Auto Workers advocated building a small, fuel-efficient car, citing opinion polls showing widespread public support for such automobiles. Compacts and subcompacts sold well when they were available, and contributed to the first waves of interest in imported cars.

The industry began serious manufacturing and marketing of small cars only in the 1970s, in the face of oil crises, government-mandated fuel economy standards, and the onslaught of foreign competition. But by then, the industry was actually in crisis, as shown by Chrysler’s financial collapse. The industry responded by pressuring the government, not only to bail out Chrysler, but also to restrain imports of fuel-efficient foreign cars that consumers wanted to buy. Longer-run results of the crisis included some moves to build small cars, often in combination with foreign partners -- and also successful efforts by the industry to weaken government fuel economy standards.

Conclusion

There are four key conclusions to be drawn from this analysis. First, corporate giantism does have economic consequences, which are far more extensive than the ability to influence price in an isolated market. The power of bigness includes the capacity to influence society’s planning, control, and allocation of resources, and the affiliated capacity to pressure the state to favor private interests.

“Second, corporate giantism is basically incompatible with a society steeped in the belief that the only legitimate power is accountable power.” (232) The biggest firms are not held accountable by the market, nor by the state; even import competition may not restrain them, if they can manipulate the state to restrain trade.

Third, theoretical rationalizations of the existing industrial power structure on grounds of efficiency are unconvincing. The pursuit of social efficiency, achieving society’s goals at the lowest possible cost, is not what companies such as the automakers are doing. Since corporations have substantial control over the options open to consumers, it is impossible to take consumers’ choice among those options as an optimal outcome or an expression of true social preference. The choices of urban rail transit, for example, or nonpolluting, safe, fuel-efficient automobiles, are not available in the marketplace, but are perfectly plausible social preferences.

Finally, corporate giantism is thus a valid concern for public policy. Acceptance of mega-mergers rests on the erroneous notion that bigness is benign. Perhaps public policy should block some of the biggest mergers and consider the question of whether there should be any limits on the size of corporations, in order to promote decentralization of economic power.