INDUSTRIAL ORGANIZATION, OWNERSHIP CONCENTRATION, 
AND ECONOMIC DEVELOPMENT--A GENERAL STATEMENT

By Lawrence J. White

Development Research Project

Woodrow Wilson School
Princeton University
Princeton, New Jersey

Discussion Paper No. 18

January 1971

Note: Discussion papers of the Development Research Project are 
preliminary materials circulated to stimulate discussion and critical 
comment. Please do not refer to discussion papers without permission 
of the author.
Industrial Organization, Ownership Concentration, and Economic Development—A General Statement

Until recently, interest in industrial organization and ownership concentration has primarily focused on Europe, North America, and Japan. This is not surprising. Until recently, that is where most of the world's industry was located. But, since the Second World War, many less developed countries (LDCs) have centered their development efforts on building up domestic industry. As these domestic industries have increased in importance, the LDCs have become aware of the problems that industry brings in its wake. Increasing urbanization and its consequent strains are one set. The economic, political, and social problems of monopoly, oligopoly, and overall ownership concentration of industry are another set. It is this latter set of problems on which this paper will focus.

The discussion of these industrial organization problems in the LDCs often confuses the issues rather than clarifies them. The concepts of monopoly, oligopoly, and overall ownership concentration are often used interchangeably. Sometimes the problems of foreign ownership are added to the picture, muddying things yet further. Though these phenomena are frequently found together, they are analytically distinct and must be analyzed separately if the problems are to be correctly discussed.

The purpose of this paper will be to set out a general statement of the problems, their origins, and some tentative suggestions for solutions. The three sections in this paper will deal with these topics in order.
Section I: Costs and Problems

The static allocative effects of a monopoly are well known and are as relevant to LDCs as to developed countries: a monopoly tends to charge a higher price and produce a lower output than would a group of perfect competitors facing the same circumstances. The welfare implications of this monopoly outcome have become somewhat ambiguous since the development of the "general theory of second best" [9]. The best that can be said is that a monopoly decreases social welfare (as measured by the familiar consumers' surplus triangle) if the resources that are released by the reduced output are absorbed by sectors that have a smaller percentage spread between price and social marginal cost.¹

A second allocative effect is the "X-inefficiency" created by the lack of competitive pressure on the monopolist to minimize his costs. If one of the pleasures of monopoly is "the quiet life," the monopolist might not adopt the technologically feasible minimum costs that competition might otherwise force on him [8]. By using inefficiently too many resources (for his too small output), he may be sharing his monopoly profits but he is depriving the economy of additional goods and services. Unfortunately, these costs are frequently overlooked or sometimes even applauded in LDCs. Governments in LDCs frequently have the goal of maximizing the domestic value added of production processes. The quiet life monopolist may well achieve this goal. But to the extent that the factors of production going into domestic value added have alternative uses, this goal can be quite costly.

The preceding allocative effects may also have an effect on saving and investment, with which LDCs are always concerned. To the extent that a country's real income is decreased by these allocative effects, and to the extent that saving is a function of real income, investment consequent on saving, and income
growth consequent on investment, growth may be reduced by the existence of monopoly. These effects are likely to be swamped, however, by the direct income distribution effects on saving. By reducing his output and raising his price, the monopolist effects an income transfer away from consumers and to himself. If he has a different marginal propensity to save than do his consumers, overall saving will be affected. In the extreme, if the entire industrial sector were composed of monopolies in each market, there would be an overall redistribution of income away from purchasers of industrial products (the services and agriculture sectors) to the industrial sector. The extent to which this income transfer would be shared between industrial wage earners and industrial capitalists in a LDC would be determined by the balance between the pressures of unemployment and pressures by trade unions, government social welfare, and industrial paternalism. To the extent that a LDC government has both growth and a particular income distribution as its goals, the income distribution effect of a monopoly will be important for its own sake.

The dynamic effects of monopolies are less well understood and less generally agreed upon. At dispute is the type of market structure that will best bring forth the inventions and innovations that offer increasing productivity and a superior range of products for an economy. It is generally accepted that at least "a little bit" of monopoly power is necessary to generate the margin necessary to finance the research on an invention or innovation, take the risks of introducing it, and enjoy the exploitation of it. The question is whether more than "a little bit" is necessary. Those who say "no" (for example, [1] or [7] argue that competitive pressures are the best guarantee of rapid introduction and exploitation of innovations and that many important inventions have come from independent inventors or small business. Those who say "yes" (for example [6])
argue that important inventions can only be financed by large research and
development expenditures by large firms and that only large firms (with considerable
market power) can afford the risks of innovation; rivalrous pressure by corporate
giants will be sufficient to bring forth the inventions and innovations.\(^5\)
Absolute size and relative market shares tend to get confused in this debate.

It is not clear exactly where the relevance of this argument lies for LDCs.
Little is known about the capabilities of LDC companies to generate inventions
and innovations. Most "large" LDC companies are usually far smaller than the
smallest company in the Fortune list of the 500 largest U.S. industrial companies
or even the 200 largest non-American industrial companies.\(^2\) However, basic
research is probably a luxury that most LDCs cannot afford. Higher returns can
be had by absorbing the new technology developed by industrial countries and
adapting it to local conditions and to labor intensive methods. Here, both
absolute size and the degree of monopoly probably need not be large, and the
press of competition is the best guarantee of rapid absorption and adaptation.
Thus, monopoly in a LDC context is likely to delay local technological advance.

The social and political effects of monopoly often are as important in
LDCs as are the economic effects. Industrial monopoly profits mean a redistribu-
tion of income and the generation of large wealth accumulations. This income and
wealth, in turn, provide the base for political and social power for its owners.
In a society in which the centers and sources of political and social power are
not widely diffused, this monopoly-generated power may attain relative significance.
To some extent, it may simply serve as an offset or countervailing force to the
traditional sources of power based on agriculture. But the holders of industrial-
based-power may come to be dominant or work out an acceptable compromise with
the rural-based forces. In this event, this social and political power may be
used to support and reinforce the monopoly-economic power. It may become politically impossible, or at least extremely difficult, to remove the tariffs or import quotas or stop the price-fixing that is the source of the monopoly power.

Perhaps the divergent interests of the industrial monopolists might be enough to provide countervailing power, but there is no guarantee that this will occur. An industrial oligarchy might well find more on which it can agree than disagree, and conflicts are resolved at the expense of the rest of society. The traditional micro models that are built in economics usually assume the existence of a neutral government capable of stopping in to levy a tax or remove a tariff in the interests of "society". Students of the economics of regulated industries have long been suspicious of this assumption. Students of industrial structures in LDCs are equally suspicious of this assumption, particularly in societies in which the sources of political power are not widely diffused.

A second non-economic aspect of monopoly is the apparent scope for arbitrary, non-maximizing activity on the part of the monopolist. Eccentric behavior by one competitor among many has no significant effect on overall market performance. Eccentric behavior by a monopolist will affect an entire market.

An oligopoly market structure may not change the above economic and non-economic conclusions very much. To the extent that oligopolists aim at a joint profit-maximizing outcome [3], the market result will largely be the same. The greater the ease with which rivals can come together to agree on common price and product strategies, the closer they will come to the monopoly outcome. Many LDCs have a weaker antitrust tradition than is found in the United States, and the barriers to this kind of behavior may be much weaker or non-existent. For industries with more than a very few members, trade associations (which are as
common in LDCs as they are in developed countries) may serve as the vehicle for these kinds of agreements. LDC governments, in the interests of domestic price stability or of maximizing foreign exchange earnings, often encourage producers to come together and fix prices. In the case of oligopoly, wealth and its consequent power may be diffused in a few more hands than in the case of monopoly; but, since the industry members have similar interests and a strong incentive not to fall out over basic issues, the fundamental political outcome in LDCs may not be significantly different.

The existence of extensive multi-company ownership by individuals or closely allied groups of individuals poses additional problems, economic and non-economic. These problems, frequently discussed in terms of family ownership in LDCs, have some similarity to those posed by the recent conglomerate merger boom in the United States.

That overall ownership concentration need not be associated with monopoly or oligopoly can be shown by the following example. Suppose only 100 families owned all of the industrial assets of a country. Overall ownership concentration would be high. Yet if each family had a company selling in every market and the 100 companies in each market were of roughly equal size, this market structure might well yield results that were close to those of a perfect competition model.

The crucial characteristics of multi-company ownership are the multi-market nature and the large income flow and wealth stock of the total entity. Quite naturally, it is on these characteristics that the advantages and problems of multi-company ownership are focused. Even in the example given above, in which each company within a multi-company holding is earning only a normal competitive return on capital, the sum of a number of normal returns may still amount to a significant income flow. If some of these companies possess monopoly or oligopoly power, the flow will be larger, and the likelihood of abuses increases.
The possible advantages of multi-company ownership are its superior income-
savings-investment capabilities in the face of imperfect capital markets, its
risk-pooling advantages, and its ability to take advantage of economies of scale
of management. All three arguments would seem to be especially relevant to
LDCs, where capital markets are more imperfect, investment risks greater, and
managerial talent in shorter relative supply than in developed countries. As
will be discussed shortly, however, the imperfect capital market argument has a
special twist in LDCs.

The problem associated with multi-company ownership center on the possible
stifling of existing or potential competition. In principle a multi-company owner
has a "deep pocket;" he can use the income flows from other areas to subsidize
the temporary losses of one part of his operation. This may allow him to drive
out or discourage the entry of competitors who are less well financed, and thus
may allow him to develop or further his monopoly power in particular markets.
Reciprocal dealing arrangements, whereby a multi-company organization arranges
favorable selling terms for one of its companies' products with an outside firm
because other of its companies are important buyers of that outside firm's
products, may restrict competition and raise the barriers to entry. Again, to
the extent that entrepreneurial talent is scarce and capital markets imperfect,
this discouragement to actual or potential competitors should be particularly
relevant to LDCs.

Nepotistic practices by family-owned multi-company organizations may limit
the growth and development of managerial talent in the LDCs. By favoring family
members over outsiders, these organizations may effectively limit the potential
new competition that they would have to face if the outsiders, after their
experience, left the organization to start their own companies. This kind of
favoritism could continue only if the individual companies had monopoly/oligopoly power or had deep pockets. Otherwise, the pressures of competition would force companies to hire the most talented personnel, regardless of family origin.

Also, as will be discussed in the next section, multi-company organizations may be able to perpetuate themselves and shut out new competitors by appearing to be the most capable organization to receive government contracts or import licenses or investment licenses.

Frequently, multi-company organizations in LDCs own or effectively control banks and insurance companies. As a consequence these banks and insurance companies no longer are neutral financiers, looking only for the highest rate of return. Though loans to and investments in companies outside of the ownership group are made, the ownership group's interests come first. This adds to the imperfection of capital markets and generally inhibits competition.

The non-economic impact of multi-company ownership is much the same as that discussed for monopoly, only more so. The political power flowing from economic power is concentrated in yet fewer hands, the possibility of internal conflicts of interest further reduced. The general tone and nature of a country's economic, social, and political activity may be very different when a comparative handful of organizations or families control a high percentage of the country's assets than when this control is widely diffused.

Foreign ownership and control does not significantly alter the picture presented above, but a number of new elements are added. First, in any interpersonal comparisons of utility, foreigners' welfare is usually assigned a lower weight than nationals' welfare. Thus, the income redistribution caused by a monopoly is considered more costly when a foreigner is on the receiving end.
Second, a foreigner may be more likely to transfer some of his income or profits abroad, thus reducing potential saving and creating a foreign exchange liability that would not occur (or so it frequently appears) if nationals were the recipients of the incomes and profits. The foreigner's provision of skills and capital not available locally is usually forgotten or assumed away. Third, there is the feeling that foreigners do not have the local country's interests truly at heart. Where there is room for choice, either because of monopoly/oligopoly power, deep pockets, or simply an uncertain future with choice based on subjective probabilities, it is felt that foreigners will sometimes choose differently, and to the detriment of the local country, than would nationals. Fourth, if the foreigners attain political power, some sense of national independence may be lost. The foreigners may enter the political process directly or indirectly. They may be able to affect political decisions by implicit or explicit threats to carry out economic actions that seem detrimental to the country. They may be seen as a conduit for the policies of their home governments.

None of these effects are absolutely dependent on monopoly/oligopoly power or multiple company ownership by foreigners. A large wealth position could be built from a small capital base, normal returns, and austere living. But national concern and resentment over the position of foreigners will usually be greater when the foreigners are the visible possessors of monopoly/oligopoly power and of significant multi-company holdings.
Section II: Origins

For a monopolist' oligopolist to continue enjoying the economic fruits of his position, there must be some barriers to entry [2]. Otherwise, new firms would enter the industry and compete away the high profits. The LDC landscapes are usually covered with such barriers, natural and artificial.

Most important have been the barriers created by LDC government policies. In their efforts to industrialize, many LDC governments have maintained overvalued exchange rates, with consequent foreign exchange licensing and rationing. Imported capital goods, spare parts, and raw materials are available at favorable exchange rates and low tariffs, but only to holders of import licenses. Simultaneously, consumption goods are imported at unfavorable exchange rates and high tariffs or often are subject to outright bans. Consequently, those who have access to the capital goods and raw materials licenses have highly profitable markets for which they can produce.

These import licensing schemes frequently create serious barriers to entry, which are usually the opposite of their designers' intentions. Import licensing as a means of rationing foreign exchange usually has a double rationale: it allows the "little man" a break, gives him access to licenses, and prevents him from being swept aside in the market by the more powerful "big men;" and it provides an extra economic incentive (a favorable exchange rate for imported inputs) to spur investment and entrepreneurial activity. But both halves of the rationale can lead to higher barriers to entry.

The practice of import licensing is usually just the opposite of the "little man-equity" argument. Licensing schemes usually have some explicit "historical shares" or "capability" basis. Even where these are not explicit, they are safe guidelines for a bureaucrat who is interested in minimizing the risk of something
unexpected happening or in making sure that the licensed materials "are not wasted." And it is the "big men," the large, well-established firms, who usually have the largest historical shares and who seem the most competent and capable. The large firm is better known to the bureaucrats of the licensing agency. It "knows the ropes." Person-to-person relationships may be established. By contrast, a small firm or newcomer frequently appears risky and less competent. It is less well known to the bureaucrats. It may frequently be unfamiliar with the proper procedures it must follow. It may even be unaware of particular licensing opportunities.

As a consequence, the large, well-established, monopolistic/oligopolistic companies frequently receive and continue to receive all or most of the licenses and continue to maintain their historical shares and their apparent competence. The process is self-reinforcing.

The same description and result would apply to the distribution of subsidized investment loans by LDC governments. Again, the price is usually too favorable, and the supply has to be administratively rationed. And, again, it is the large monopolistic/oligopolistic companies who are the recipients of the loans. The same story often holds for the letting of government contracts. In cases where competitive bidding is not required, or even where it is but quality factors dominate and subjective judgment by the government bureaucrats is necessary, the large companies will again come out far ahead.

The second half of the import licensing rationale, the creation of incentives for investment, also leads to barriers to entry. The misallocation effects of these incentives have generally been recognized [10]. In addition, when favorable exchange rates encourage capital-intensive rather than labor-intensive production processes, the apparent economies of scale of the processes are higher. There are higher levels of fixed costs which require larger volumes of output for amortization.
The high apparent economies of scale act as a barrier to entry in two ways. First, a government may be reluctant to grant licenses for the creation of new capacity in an industry if it appears that current production is not fully exhausting apparent economies of scale. The government may be sympathetic to pleas by the industry's current occupants that "there clearly is not any room for any new entrants." Second, potential entrants may feel the same way. Even if there are no licenses hindering a potential entrant but there are cheap capital goods (created, say, by low tariffs), he really will find the large-volume, capital intensive method to be the cheapest, lowest-cost method. And under those circumstances, there indeed will be no room for him to enter as a large-scale producer. His large-scale entry would cause the existing producers to cut back their volumes significantly and/or engage in price cutting. His entry would not be unnoticed and would not be as easy as if he could unobtrusively enter the market by producing only a small (but efficient) volume.

The essence of the argument here is that by encouraging capital-intensive methods, governments have been raising economies of scale and raising barriers to entry. Less encouragement of capital-intensive methods, besides leading to a better allocation of scarce capital resources, might have also created more competition within industries.

The general imperfection of capital markets in LDCs adds another barrier to entry. Potential entrants into an industry may not be able to obtain adequate financing for their venture and consequently cease to be an active threat to the industry's occupants. The ownership of banks and insurance companies by groups already involved in industry may well raise this barrier even higher.

Finally, there is the question of the general supply of entrepreneurial skills and motivation within the LDCs. If entrepreneurial skills and motivation
are in short supply and those who have them are currently part of the industrial structure, then they have little fear of entry; there are no entrepreneurs left. Nepotistic practices by firms or family groupings will continue to keep these barriers high. On the other hand, perhaps all a government need do is provide the right incentives and the supply of entrepreneurs will come forth [12]. If this is true, entrepreneurship is a false barrier, and it is on the other barriers that we ought to focus.

Even with the existence of important barriers to entry, the building of large wealth positions and consequent political and social power was not an inevitable result of the development of monopoly/oligopoly positions. In principle, LDC governments could have taxed away monopoly profits and imposed steeply progressive income taxation. In fact, for a complex bundle of reasons, they have not.

LDC governments generally have wished to encourage profits, since profits are seen as a major source of saving and investment. To have encouraged industrialists with special investment incentives and then to have taxed away the proceeds might have seemed "contradictory" and self-canceling. Similarly, large personal incomes have been seen as important sources of savings. High marginal rates of corporate and personal income taxation have often been seen as equivalent to killing the goose that lays the golden eggs. Further, even in cases in which tax rates have been high, evasion, legal and illegal, has been widely practiced [11]. Honest and vigorous income tax collection is a fine art, highly skill- and information-intensive; both resources are in short supply in LDCs. Finally, at least modest wealth positions were probably inevitable due to the ability to charge sizable amounts of personal consumption as company expenses.

If a company chooses to build a house and rent it
to the chairman of the board at a nominal fee, or provide him with a Cadillac for his "business" activities, none but the most stringent of tax codes and sharpest-eyed tax collectors will be able to prevent this.

The building of large family industrial empires or other conglomerate groupings has followed from many of the conditions discussed in this section. Large profit and income flows frequently have been re-invested in industry. Since markets are small, the most profitable areas for investment have usually been new industries, frequently of an import substitute nature. Governments have usually been happy to comply with requests for import licenses and loans and for high tariffs or bans on the imported good itself. Industrialists who have been successful in other industries frequently seem to be a likely and capable candidate for encouragement in a new industry. Frequently, the industrialists themselves have been on the advisory boards of the government agencies that dispense loans or decide on policy. Though they may discreetly absent themselves individually from meetings when their own requests are being discussed, their colleagues (also industrialists, who may want similar favors in the future) have not been unmindful of their interests.

A stock market in a LDC has often been seen not only as a vehicle for generating new savings and investment, but also as a means of encouraging the diversification of ownership. Unfortunately the latter result has rarely been achieved in LDCs. The securities markets are usually thin, company disclosure laws are spotty or not enforced, and public fear of manipulation by "speculators" is widespread. Investments in urban real estate, gold, foreign exchange, or improvements in agricultural land usually appear to be more attractive to holders of wealth outside the small circle of industrial entrepreneurs. These investments appear less risky and more personally controllable than investments in the stock
markets. The development of mutual funds or unit trusts, often under government auspices, has helped reduce the risk of stock-market investments to the non-insider, but overall success here has not been outstanding.
Section III - Possible Solutions

The statement of political problems in Section I may tend to give an overly pessimistic bias to the question of possible solutions. If pockets of political power only reinforce themselves, there is no hope for change except through a violent political and social revolution. And, indeed, the history of IDGs is not devoid of such revolutions. But all change need not be violent. Individually less powerful groups may come to realize that their common interests in effecting change exceed their conflicting interests, and they may coalesce to form a more powerful group. They can then effect a non-violent change of control within a government and carry out new policies. In this view of the world, entrenched political power makes non-violent economic change more difficult but need not make it impossible. It is in this framework that the following discussion of policies proceeds, though some of the policy proposals might also be useful for policy makers in post-revolutionary governments, if there are any pre-revolutionary pieces left to pick up.

The policy solutions to be used by a government naturally depend on the problems it wishes to attack. If monopoly/oligopoly power itself is the target, efforts to lower barriers to entry will be most important. If economic power, ownership concentration, and consequent political power are the targets, the lowered barriers will probably have to be supplemented by a more direct attack on the sources of power.

The way to limit monopoly/oligopoly power is to introduce new competition. If tradable goods are involved, the fastest and easiest way may be to allow competition from abroad; reduce tariffs and other trade barriers, adopt a more realistic exchange rate, and allow increased imports. Effectively, this reduces the marketing barriers to entry that affect foreign producers. In a world free
of externalities and imperfections, free trade would be the simple answer. In an imperfect world, some "fine tuning" of tariffs may be necessary.

Introducing more domestic competitors can be a substitute for or supplement to increased imports. This strategy would definitely be needed in the case of non-tradable goods and services. Government licensing and allocation procedures might be reversed, so as to specifically favor newcomers. Or, preferably, import licensing might be abolished and a realistic exchange rate established at which all who wished could purchase foreign exchange, and any government loans or foreign aid allocations might be put up for auction. This would simultaneously increase competition from abroad and reduce domestic barriers to entry, increasing domestic competition. In the short run, existing industrialists might have the inside track; in the long run, any new entrepreneurial talent in the country would have the opportunity to succeed. As a supplement, to ease even the short run problem, part of the loans and allocations might be set aside for bidding by small firms only (though the small firms could also bid for large firm allocations).

Problems arise in the case of natural monopolies or oligopolies. Here, allowing enough domestic competitors to achieve roughly competitive effects may cause firms to be too small and cause a loss in static efficiency. Long-run competition would cause the natural monopoly/oligopoly to re-assert itself. For tradables, a finely tuned import policy can succeed here to create adequate competition. In cases of non-tradables, hard choices will have to be made among imperfect alternatives; (1) unregulated private monopoly/oligopoly; (2) government regulation; (3) government ownership of all or part of the industry. The first would trade a short-run continuation of a monopoly position against the hope that long-run technological change and competition from alternative sources
of supply for similar demands (e.g., natural gas and hydro-electricity as sources of thermal and mechanical power) would keep monopolies/oligopolies in check. The second trades the hope that the regulatory agency will keep the monopoly/oligopoly in check against the possibility that the industry might "capture" the agency or that the agency might not regulate so as to achieve static and dynamic efficiency. The third trades the elimination of private power against the possibility that government operation will be less efficient or lead to abuses. One alternative here is to have the government own one of the few firms in an industry and operate it at levels that would force its private rivals down to normal profits.

Since the imperfection of capital markets is an important barrier, efforts to improve the working of IDC capital markets would seem to be important. Putting government loans up for bid, as mentioned above, would be one step in the right direction. Removing interest ceilings on the loans and deposits by banks would be another. Beyond this, the prospects are not promising. Divorcing bank ownership from industrial ownership might help, but close personal ties between bankers and established industrialists are probably going to cause imperfections in any event. Government ownership of the banking system might be another solution. If government bank managers are told to maximize profits and forget old school ties, capital markets might work better. On the other hand, governments are usually not free from the temptation to channel funds in particular directions, which might undermine the better working of capital markets.

It is important to realize in any discussion of capital markets and access to them that small loans are inevitably more costly on a per-unit basis and are more risky and should carry higher interest rates than large loans. They are more costly because the processing, appraisal, and servicing costs of loans are relatively fixed and independent of the size of the loan. They are more risky
because small firms have a thinner layer of resources to support them through hard times and are more subject to the vagaries of random events; in essence, they are more risky because capital markets are not absolutely perfect, and, in the absence of perfect information about the future, these markets are always likely to remain imperfect. Unfortunately, this argument for a higher interest rate for small loans frequently cuts across popular notions of equity and equality of opportunity.

One way for a lending agency (public or private) to reduce the risk element in small loans would be to take an equity position in the firms to which it loans money. If small firms have a higher variance of returns (and hence are more risky) but have the same or higher average return than do large firms, an equity holding by the lending agency will allow it to benefit from the higher returns of small firms, to offset the higher costs or possible higher fail rate. On the other hand, the amount of time and supervision by the lending agency that this might require, particularly when small companies' book-keeping systems are primitive and can be used to hide profits, could easily make this kind of program unprofitable.

If lowering the barriers to entry were not considered sufficient, a LDC government could make a direct assault on industry practices and structure and on the income and wealth derived from industry.

Laws forbidding price-fixing and other restraints on trade would help improve oligopoly industry performance, if a LDC's legal tradition and supply of legal skills were strong enough to make the laws effective. Here a LDC would be trading the short-run gains of temporary price stability that it may achieve by getting producers to agree on a "reasonable" price in return for automatic regulation of prices by the market, greater efficiency in the allocation of resources, and, in the long-run, lower prices.
Active attempts to break up monopolies and industrial empires through corporate dismemberment and forced sale are foreign to legal tradition and concepts outside the United States and Great Britain. Further, in LDCs any such attempts would run into a problem unique to LDCs: who would buy the broken-up pieces? It might be difficult to find enough entrepreneurs outside the existing group of industrialists who would be willing and able to buy. The government might have to provide financing for these new entrepreneurs. The best hope would be to try to tap the large pool of wealth and skilled manpower that is usually devoted to large-scale agriculture in LDCs.

The question of sale of broken-up companies raises another question. If the purpose of this effort is to reduce the economic and political power of the current industrial group, a straight sale may not accomplish much. The industrialists will simply be trading one set of assets for another, though the sales price may be a little less than "true" market value. Unless the industrialists are somehow taxed (e.g., by being "paid" with long-term non-negotiable bonds), their power may be only slightly diminished.

Effective progressive income and consumption taxes, buttressed by capital gains taxes, wealth taxes, and estate taxes, would be other ways of directly attacking the economic position of the industrialist group.

Stock markets can be a means of broadening the industrial ownership base. Companies can be encouraged to go public through tax incentives, and stock exchange rules can require a broad distribution of stock holdings. But if private savings are going to be channeled out of gold, foreign exchange, and real estate and into industrial securities ownership, public confidence in the securities markets is a prerequisite. Rules for company full-disclosure and limitations on the possible hanky-panky by insiders and brokers would be necessary
here. The development of mutual funds would be a further means of reducing perceived investor risk and encouraging securities ownership.

Government ownership of industry is usually an emotional issue, with most analysis buried far under the emotion. Essentially, government ownership eliminates the private power of the industrialist group (provided that their sale is somehow taxed) and provides the prospects of an improved income distribution, since high profits will no longer accrue to a relatively small group. Concomitant, of course, is an increase in government power. Increases or decreases in static and dynamic efficiency will essentially be an empirical question. The managers of government factories may not have the spur of competition to ensure efficient decisions, but frequently neither have the industrialists whom they are replacing. The provision of risk capital under a system of government ownership, frequently a sticking point in market socialism schemes (i.e., government managers might be under instructions to maximize profits, but how would new capital investments be allocated in an uncertain world?), would pose less of a problem for LDCs. As we have seen most LDC governments currently are directly involved in the decisions concerning most new investment, since they control the foreign exchange licensing, investment licensing, and loan allocation systems. Thus, direct government ownership and allocation might not produce appreciably different results. Even the sources of initiative might not be very different if the government hired as its managers the former private entrepreneurs.

The question of government ownership, at its base, has a "Catch 22" aspect: Any government competent enough to own and operate a set of industries efficiently would probably be competent enough to achieve its goals through less direct means; a government that could not impose and honestly collect progressive income taxes, enforce anti-price fixing laws, or set tariffs so as to encourage competition from abroad probably could not hope to run industries efficiently.
Notes

1. In some writings, this spread is the "degree of monopoly power," but it could also be caused by externalities or "quiet life" X-inefficiencies.

2. In 1969, only 7 of the largest 200 industrial companies outside the United States were based in LDCs. Of these, 5 were oil or mining companies and the sixth was government owned. The largest of these 7 would have ranked 116th in the United States by sales. See [4] and [5].

3. By foreigner, I mean either individuals or companies.

4. On the other hand, if local industrialists have a taste for Riviera vacations or Swiss bank accounts, the foreign exchange position may not be very different regardless of who owns industry.

5. Though, in practice, the way in which incentives are given and taken away may make a great deal of difference for allocation effects.

6. This is also discussed in [10], pp. 336-337.
References


4. Fortune, LXXI (May 1970), p. 188.


