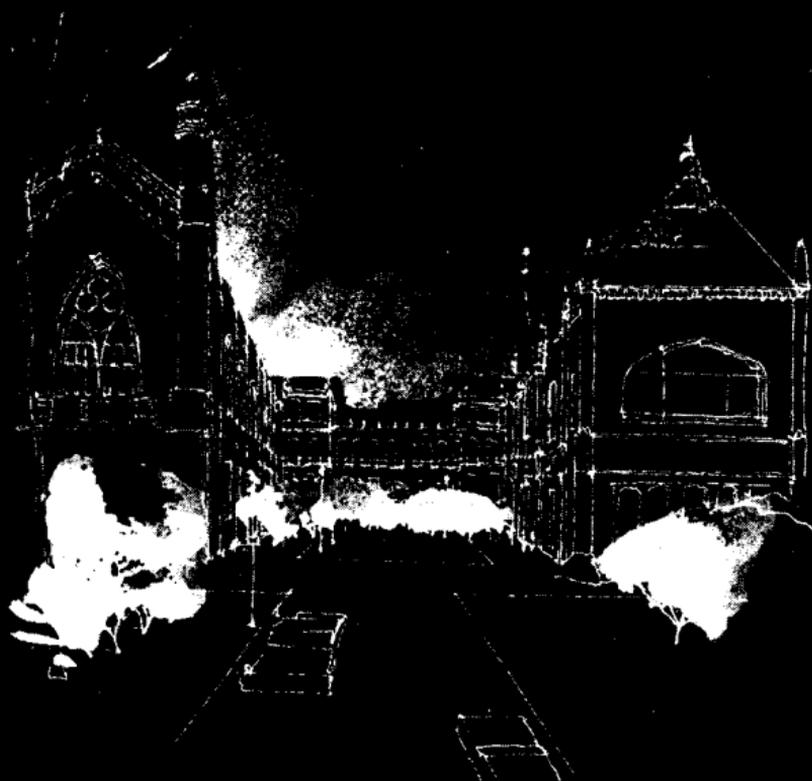


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The Intellectual and the Market Place

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*This Selected Paper, one of three for which Professor Stigler is wholly or jointly responsible, was widely reprinted and became the core essay of his book, **The Intellectual and the Market Place and Other Essays**, (Free Press of Glencoe, 1963, 100 pages, \$2.50). He and Paul A. Samuelson of Massachusetts Institute of Technology were represented in Selected Papers No. 7, "A Dialogue on the Proper Economic Role of the State," and he is author of Selected Papers No. 13, "The Tactics of Economic Reform."*

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The Intellectual and the Market Place

The intellectual has never felt kindly toward the market place: to him it has always been a place of vulgar men and of base motives. Whether this intellectual was an ancient Greek philosopher, who viewed economic life as an unpleasant necessity which should never be allowed to become obtrusive or dominant, or whether this intellectual is a modern man, who focusses his scorn on gadgets and Madison Avenue, the basic similarity of view has been pronounced.

Now you and I are intellectuals, as this word is used. I am one automatically because I am a professor, and buy more books than golf clubs. You are intellectuals because you are drawn from the most intelligent tenth of the population, most of you will go on to graduate school, and you would rather be a United States Senator or a Nobel Laureate than the head of the Great Atlantic and Pacific Tea Company. The question I wish to pose to us is not whether we should love the market place—even a professor of economics of outrageously conservative tendencies cannot bring himself to say

that the chants of five auctioneers rival a Mozart quintet. The questions are rather: What don't we like about the market place; and, are we sure that our attitudes are socially useful?

Let us begin by noticing that from certain important viewpoints one would have expected the intellectuals to be very kindly disposed toward that system of private enterprise which I call the market place.

First, if I may introduce a practical consideration, intellectuals by and large have elevated tastes—they like to eat, dress, and live well, and especially to travel. The late Walton Hamilton, lawyer and economist, once said that our customary salutation, "Good Day," was a vestige of an agricultural society where people were asking for good weather, and he expected city dwellers eventually to greet each other with the phrase, "Low Prices." If Hamilton's theory is correct, the intellectuals will come to the salutation, "Fair Fullbright."

Since intellectuals are not inexpensive, until the rise of the modern enterprise system no society could afford many intellectuals. As a wild guess, the full-time intellectuals numbered 200 in Athens in the extraordinary age of Pericles, *or* about one for every 1,500 of population. And at most times in later history the intellectuals fell far, far short of this proportion. Today there are at least 1,000,000 in the United States, taking only a fraction of those who live by pen and tongue into account, or one for each 200 of population. At least four out of every five of us owe our pleasant lives to the great achievements of the market place. We professors are much more beholden to Henry Ford than to the foundation which bears his name and spreads his assets.

Not only have the productive achievements of the market place supported a much enlarged intellectual class, but also the leaders of the market place have personally been strong supporters of the intellectuals, and in particular those in the academic world. If one asks

where, in the western university world, the freedom of inquiry of professors has been most staunchly defended and energetically promoted, my answer is this: Not in the politically controlled universities, whether in the United States or Germany—legislatures are not overpopulated with tolerant men indifferent to popularity. Not in the self-perpetuating faculties, such as Oxford and Cambridge from 1700 to 1850—even intellectuals can become convinced that they have acquired ultimate truth, and that it can be preserved indefinitely by airing it before students once a year. No, inquiry has been most free in the college whose trustees are a group of top quality leaders of the market place—men who, our experience shows, are remarkably tolerant of almost everything except a mediocre and complacent faculty. Economics provides many examples: If a professor wishes to denounce aspects of big business, as I have, he will be wise to locate in a school whose trustees are big businessmen, and I have.

But debts are seldom the basis for friendship, and there is a much more powerful reason the intellectual might be sympathetic to the market place: The organizing principles of both areas are the same.

An enterprise system is a system of voluntary contract. Neither fraud nor coercion is within the ethics of the market system. Indeed there is no possibility of coercion in a pure enterprise system because the competition of rivals provides alternatives to every buyer or seller. All real economic systems contain some monopoly, and hence some coercive power for particular individuals, but the amount and the extent of such monopoly power are usually much exaggerated, and in any case monopoly is not an integral part of the logic of the system.

The intellectual world, and I speak chiefly but not exclusively of scholarship, is also a voluntary system. Its central credo is that opinions are to be formed through free discussion on the basis of full disclosure of evidence. Fraud

and coercion are equally repugnant to the scholar. The freedom of thought is preserved by the open competition of scholars and ideas. Authority, the equivalent of monopoly power, is the great enemy of freedom of inquiry. Competition in scholarship is in some ways more violent than in business: The law sets limits on the disparagement of a rival's product, unless it is done in a book review in a learned journal.

Just as real markets have some fraud and monopoly which impair the claims for the market place, so the intellectual world has its instances of coercion and deception, with the coercion exercised by cliques and fashion. But again these deviants are outside the logic of the system.

Both areas, moreover, are democratic. The intellectual believes that every able and willing young person should get a good education whatever his race or financial background. The market believes every able and willing person should be permitted to enter any industry or occupation, whatever his race or educational background. There is food for thought in the fact that racial discrimination has diminished earlier, faster, and more quietly in the market place than in political life.

The analogies could be pursued much farther, although not without danger of alienating all professors and most businessmen. I shall therefore merely mention, in passing, that both fields pay a fair amount of attention to packaging and advertising, and both fields place an absurdly high value on originality. There are also many minor differences, such as that the intellectual has no desire to know the market place, whereas the business man wishes, or at least believes he wishes, to know the world of the intellectual. The basic fact is that the intellectual believes in the free market in ideas and, what is not quite the same thing, in words.

Yet whatever the latent sympathies of the

intellectual for the market place, the hostilities are overt. The contempt for the "profit motive" which directs economic activity is widespread, and the suspicion of the behavior to which it leads is deep-seated. The charge that American society is materialistic has been recited more often than the Declaration of Independence, and has been translated into more foreign languages.

In one basic respect I believe that the criticism by the intellectuals is misplaced, and at times even hypocritical. The American economy produces many goods that are vulgar, silly, or meretricious, as judged by standards which I share with many intellectuals. It seems only proper to cite a few examples, if only to show how selective these standards are. I shall not propose the currently most popular item, the large and powerful automobile, because I have observed that mostly intellectuals of short stature criticize our cars. But other examples are at hand. I am dissatisfied with the tastes of the nine-tenths of the population which believes that nonfictional books are to be read only by young people working for their B.A. I am dissatisfied with a population whose love for interesting music is so narrow that every symphony orchestra requires subsidies. I consider it shocking that more Americans have read *The Affluent Society* than *The Wealth of Nations*.

At the risk of appearing reasonable, I wish to qualify this complaint by observing that the tastes of the American public are more elevated than those of any other large society in history. Most societies have been judged by their cultural aristocracies—indeed in earlier periods the vast majority of the population was not even considered to be a part of the culture of the society, for this vast majority was illiterate, tradition-bound, with most people living brutishly in peasant huts. Our society's tastes are judged by those of the vast majority of the population, and this majority

is generous, uncomplacent, and hard-working, with unprecedentedly large numbers engaged in further self-education, or eagerly patronizing the arts. Our market-supported legitimate theatre, which is surely the best in the world, is a suggestive measure of popular tastes.

These qualifications are not intended to withdraw the charge that the public's tastes should be better, and for that matter, that the intellectual's tastes should be better. It is in fact a basic function of the intellectual to define the standards of good taste more clearly, and to persuade people to approach them more closely. It is proper to denounce vulgarity of taste, and to denounce it more strongly the more popular it is. It is permissible to reject certain desires completely—as we do when by compulsory education laws we reject the desire for illiteracy—although there is a strong presumption against the use of force in the area of tastes.

When I say that the complaints of deficiencies in tastes are misplaced when they are directed to the market place, I mean just that. The market place responds to the tastes of consumers with the goods and services that are salable, whether the tastes are elevated or depraved. It is unfair to criticize the market place for fulfilling these desires, when clearly the defects lie in the popular tastes themselves. I consider it a cowardly concession to a false extension of the idea of democracy to make *sub rosa* attacks on public tastes by denouncing the people who serve them. It is like blaming the waiters in restaurants for obesity.

To escape this response, the more sophisticated intellectuals have argued that people are told what to want by the market place—that advertising skilfully depraves and distorts popular desires. There is no doubt an element of truth in this response, but it is an element of trifling size. The advertising industry has no sovereign power to bend men's wills—we are not children who blindly follow the last an-

nouncer's instructions to rush to the store for soap. Moreover, advertising itself is a completely neutral instrument, and lends itself to the dissemination of highly contradictory desires. While the automobile industry tells us not to drink while driving, the bourbon industry tells us not to drive while drinking. The symphony orchestra advertises, and gets much free publicity, in its rivalry with the dance band. Our colleges use every form of advertising, and indeed the typical university catalogue would never stop Diogenes in his search for an honest man.

So I believe the intellectuals would gain in candor and in grace if they preached directly to the public instead of using advertising as a whipping boy. I believe they would gain also in virtue if they would examine their own tastes more critically: when a good comedian and a production of Hamlet are on rival channels, I wish I could be confident that less than half the professors were laughing.

The main indictment by the intellectual, however, is that the market place operates on the principle of self-interest, and in fact through competition compels even the philanthropic businessman to become self-serving. Self-interest, often described with such neutral words as egotism, greed, and dog-eat-dog, is viewed as a crass, antisocial element of man's character and an economic system that rests upon, and inculcates, this motive achieves little admiration. In fact, a dislike for profit-seeking is one of the few specific attitudes shared by the major religions.

I also find naked selfishness an unendearing trait, but I have trouble in separating it from the more admirable motives related to it. A prudent regard for one's own survival is generally applauded even if the individual does not say, "I got out of the way of the oncoming train only to spare my Sunday School class pain." The violent endeavors of an athlete to defeat his rivals are much admired, providing

the contest is more or less fair, even though the winner is expected not to say, "I am glad I won chiefly because I'm vain, but secondarily for the honor of Sheboygan High School."

Even in fields somewhat removed from the athletic arena, the roles of self-interest and what for lack of a better name I shall call benevolence are perplexingly interwoven. I have spent my life among college teachers, although admittedly in the most competitive branch of research and publication. In one sense the disinterest of my colleagues is beyond doubt: I have seen silly people-public officials as well as private, by the way-try to buy opinions but I have not seen or even suspected any cases in which any important economist sold his professional convictions. It is also true that many of the best professors, and many of the worst, could earn more in other callings.

But on the other hand, the motives that drive them and me are not completely clear, either. When we strive to solve a scientific problem, is ambition for our own professional status completely overshadowed by our love of knowledge? I wonder. When we write an article to demonstrate the fallacies of someone else's work, is our hatred for error never mixed with a tiny bit of glee at the display of our own cleverness? I wonder.

To shift elsewhere, I have never encountered a political candidate who said: "I am running for office because I, with my dear wife and future administrative assistant, can earn more in politics than elsewhere." Nor do I expect to. But the language of public interest surely covers a good many acres of self-interest.

A major source of the view that the market place places special values on self-interest, beyond those more or less evident in all human behavior, is the belief that one man's gain is another's loss-that business, like the so-called

friendly poker session, is a zero-sum game. Not so.

On the one hand, it must be recognized that the great source of market gains is the productivity of the participants. Unlike the poker game, the wealth of our society has been doubling even on a per capita basis every 25 years, and the doubling has been due to the labors and ingenuity of the men in the market place. Of course there are also incomes achieved by monopoly rather than by efficiency, by fraud rather than by output, but it would be a wholly extravagant estimate that they amount to 10 per cent of the income of the market place. There is room for improvement here, but there is vastly more room to admire the prodigious production achievements of the market place.

On the other hand, I would emphasize that most of the gains from innovation in the market place are passed on to the community at large. A new idea may yield handsome profits for a time, but the rapid rush of competition soon drives the price of the product down to a modest level. Ball-point pens were first marketed at \$12.50 to those penmen eager to write under water (and, judging by my experience, only under water); they rapidly fell in price and as you know are now so cheap that you have no economic excuse if you do not write the Great American Novel. Sears, Roebuck and Company, and Montgomery Ward, made a good deal of money in the process of improving our rural marketing structure, but I am convinced that they did more for the poor farmers of America than the sum total of the federal agricultural support programs of the last 28 years.

It is an interesting illustration of the great influence of the intellectual that the market place itself has become apologetic of its pursuit of profit. The captains of industry now, in a world in which public relations are becoming as important as efficiency, list among

their major achievements the great number of bowling alleys or college fellowships they have given to their employees. To boast that large profits demonstrate great efficiency in producing existing products and introducing new ones is considered even by them to be too archaic a form of thought for public consumption. The patron saint of economics, Adam Smith, once wrote:

I have never known much good done by those who affected to trade for the public good. It is an affectation, indeed, not very common among merchants, and very few words need be employed in dissuading them from it.

I wonder what those very few words were.

To return to the intellectuals, their dislike for the profit motive of the market place no doubt rests in part on a failure to understand its logic and workings. It is a fact painful to record that the level of economic literacy has not risen noticeably in the twentieth century. Indeed as professional economics becomes more complicated and its practitioners use an increasingly more formidable apparatus, there seems to have been retrogression in our ability to communicate with other intellectuals. Less than a century ago a treatise on economics began with a sentence such as, "Economics is a study of mankind in the ordinary business of life." Today it will often begin: "This unavoidably lengthy treatise is devoted to an examination of an economy in which the second derivatives of the utility function possess a finite number of discontinuities. To keep the problem manageable, I assume that each individual consumes only two goods, and dies after one Robertsonian week. Only elementary mathematical tools such as topology will be employed, incessantly."

But misunderstanding is not the whole explanation: I cannot believe that any amount of economic training would wholly eliminate the instinctive dislike for a system of organizing economic life through the search for

profits. It will still appear to many intellectuals that a system in which men were driven by a reasonably selfless devotion to the welfare of other men would be superior to one in which they sought their own preferment. This ethic is deeply imbedded in the major religions.

I personally also believe that the good society will be populated by people who place a great value on other people's welfare. This is, however, not the only attribute of the good society, and in particular in the good society a man should be free within the widest possible limits of other men's limitations on his beliefs and actions. This great ethic of individual freedom clashes with that of benevolence, for I can seldom do positive good to another person without limiting him. I can, it is true, simply give him money, but even in this extreme case where I seem to place no bonds on him, he inevitably faces the question of what conduct on his part will lead me to give money to him again. Usually I will find it hard to be content to do so little good-giving money to improve a man's food or housing or health will seem as inefficient as giving him gasoline so he will drive more often to museums. Hence when I give money I shall also insist that it be spent on housing, or on medical care for his children, or on growing wheat in the way that I think is socially desirable, or on the collected works of Burke and de Tocqueville, or of Marx and Lenin. A patron tends to be paternalistic, in a nice way, of course. I am not saying that benevolence is bad, but that like everything else it can be carried to excess.

One final question on motives-why are they so important? Am I to admire a man who injures me in an awkward and mistaken attempt to protect me, and am I to despise a man who to earn a good income performs for me some great and lasting service? Oddly enough, I suspect our answer is that motive

makes a difference—that it is less objectionable to be injured by an incompetent benefactor than by a competent villain. But I leave with you the question: Are motives as important as effects?

Several charges related to the dominance of self-interest have rounded out the intellectual's indictment of the market place:

First, the system makes no provision for men whose talents and interests are not oriented to profit-seeking economic activity.

Second, there are cumulative tendencies toward increasing inequality of wealth, which-if unchecked-will polarize the society into a great number of poor and a few very rich.

Third, the game in the market place is unfair in that inheritance of property plays an immensely larger role in success than the efforts of the individuals themselves.

I shall comment briefly on each of these assertions.

The first charge is true—the market place will not supply income to a man who will not supply something which people want. People have enormously varied desires, but not enough of them wish to hire men to engage in research on ancient languages nor, sixty years ago, did they hire men to study quantum mechanics. The market place does not provide an air force or alms for the poor. It does not even supply babies. I conclude that a society needs more than a market place.

The second charge, that there are cumulative tendencies to ever-increasing inequality of wealth, is untrue. I would indeed ignore the charge for fear of reprimand from the Society for the Prevention of Cruelty to Straw Men, were it not that this straw man is so popular. In plain historical fact, the inequality in the distribution of income has been

diminishing, and the dimunition has been due to market forces even more than to governmental efforts. It is also worth noting that a modern market economy has a less unequal income distribution than in either centrally directed or unindustrialized economies.

The third charge, that inheritance of property plays a dominant role in the distribution of income in the market place, is an overstatement. Inheritance of property is important, but it will give some perspective to the charge to notice that property income is only one-fifth of national income, and inherited property is less than half of all property, so less than 10 per cent of all income is governed by inheritance of property.

No useful purpose would be served by trying to appraise the proper role of inheritance of property in a few passing remarks. We should have to look carefully at the effects of inheritance on incentives; we should have to look at gifts during life, which are almost equivalent to bequests; and we should have to decide whether privately endowed colleges do enough good to offset the inevitable high-living heirs-whether we can have Carleton College without having Tommy Manville.

But our greatest problem would be that inheritance extends far beyond a safe deposit box full of bonds and stocks. I have told you that you are intelligent; I now add that the chief reason you are intelligent is that your parents are intelligent. Some of you, especially the younger of you, may find this unbelievable: Mark Twain said he was astonished by how much his father had learned during the short time it took Mark to grow from 18 to 21. But inheritance of ability is important, probably more important in its effects on the distribution of income than is the inheritance of property. So a full account of the proper role of inheritance would have to extend to ability, and perhaps even to name and reputation, as

the Attorney General of the United States might agree. The social and legal institutions governing inheritance in our society are surely open to improvement, but we are unlikely to improve them if we are guided by nothing more than naive egalitarianism.

And now to my final point. We are great believers in the human mind, we intellectuals, and in its ability to conquer an ever larger part of the immense domain of ignorance. But we have not made much use of the mind in reaching our views on the economic organization appropriate to the good society so far as its basic cultural values go. It is clear that the kinds of traits that are fostered in man are influenced by (but of course not only by) the way economic life is organized—after all, throughout history men have spent half their waking hours in economic activity.

Important as the moral influences of the market place are, they have not been subjected to any real study. The immense proliferation of general education, of scientific progress, and of democracy are all coincidental in time and place with the emergence of the free enterprise system of organizing the market place. I believe this coincidence was not accidental. The economic progress of the past three centuries was both cause and effect of this general growth of freedom. The dominant era of the free market place was in the Nineteenth Century. I believe, but with less confidence, that the absence of major wars in that century—the only peaceable century in history—was related to this reign of liberty. I believe, again with less confidence, that the contemporary transformation of the British public from a violent and unruly people into a population of almost painful Victorian rectitude was related to this reign of liberty.

These beliefs may be right or wrong, but they are not matters of taste. They are hypotheses concerning the relationship between economic and social organization, and are subject

to analytical development and empirical testing. It is time that we did so, high time. Our ruling attitude toward the market place has not changed since the time of Plato. Is it not possible that it is time to rethink the question?

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