

CORPORATE FISHER

“Elie Wiesel has said that ‘God made man because He loves stories,’ and economists (not merely game theorists) are plainly made in the divine image in this respect.”¹

The “centerpiece of the graduate program” at MIT, at least according to the students who passed through it in the 1970s, was the course on econometrics taught by Franklin M. Fisher.² After a semester of reading recent journal articles to learn the most advanced techniques coming out of mathematical statistics, students were assigned an industry on which to perform a case study. This combination of sophisticated empirical methods and applied casework was a specific and unique form of pedagogy that Fisher had picked up as an undergraduate at Harvard and carried with him to his professorial life at MIT.³ It formed a bridge between an older, more institutional style of economics with the burgeoning world of economic engineering pioneered by Tech in the late twentieth century. As one of the most popular dissertation advisors at MIT in the postwar period – Tech students were expected to have “real world” policy-relevant papers ready for the job market, hence the natural gravitation of students in the department to MIT’s lead econometrician – Fisher’s vision of how to be an economist was central to MIT culture, and so of particular importance to this dissertation.

Fisher’s pedagogical style made him uniquely well-placed to engage in extensive consulting for corporations and expert witnessing for courts, keeping that direct link to the “real world” so prized

¹ Franklin M. Fisher, "Games Economists Play: A Noncooperative View," *The RAND Journal of Economics* Vol. 20, No. 1 (Spring, 1989), pp. 113-124.

² Carl Shapiro, “The Theory of Business Strategy” *The RAND Journal of Economics*, Spring, 1989, Vol. 20, No. 1 (Spring, 1989), pp. 125-137

³ On the long history of the Harvard case study method of pedagogy, see Joel Isaac, *Working Knowledge: Making the Human Sciences from Parsons to Kuhn* (Harvard, 2012).

at MIT. Fisher's connections to and views of corporations are worth tracking precisely because they tell the story of MIT Keynesianism's reciprocal influences on and from corporate America. Of the over forty court trials he was involved in as an expert in the microeconomics of industrial organization, two stand out: he was the lead econometrician for the defense on the biggest antitrust case in US history, *US vs IBM*, and an important witness for the prosecution in the most high-profile antitrust case of the 1990s, *US vs Microsoft*. His graduate students, well-trained in exactly the kind of analysis this life of affairs required, often followed in his footsteps, becoming important consultants and expert witnesses in their own right. A small but robust community of econometricians and industrial organizational theorists centered around Fisher took root in Boston. But these links were not an unalloyed good, from the department's perspective - casework often took time out of Fisher's schedule that, some at MIT thought, ought to have been spent in the classroom. Corporate consulting (unlike political consulting, apparently) also carried the smell of corruption - did Fisher's views on antitrust and econometrics reflect his authentic academic research or merely the requirements of his private benefactors? For Fisher, consulting *was* both pedagogical and academic - he was teaching lawyers, courts, and executives proper economics, while at the same time gaining unprecedented access to private data and corporate resources with which to analyze it, from teams of research assistants and professional management to sworn testimony and topflight IBM computers.

Memories of Fisher cluster around a few key words: intense, driven, intimidating. A lawyer's economist, he "had a reputation of truly testing - and surely frightening - all aspiring economists at MIT."⁴ By the end of the 1980s, that reputation was increasingly well-deserved, as Fisher began

⁴ Carl Shapiro, "The Theory of Business Strategy" *The RAND Journal of Economics*, Spring, 1989, Vol. 20, No. 1 (Spring, 1989), pp. 125-137

to turn against the “games economists play” and what he called “MIT style theory,”⁵ which he considered “little more than stylized anecdotes – stories of what *can* happen” that “do not help much in the analysis of real industries and real firms where one wants to know what *has* happened or what *will* happen.”⁶ By the 1990s, his role as an expert witness in antitrust cases kept him involved in the “real world,” but the life of the mind that had begun to pass him by in the previous decade fully passed. Game theoretic accounts of industrial organization became popular, and the Harvard case study method that he had taught to generations of MIT economists, not to mention lawyers and judges and corporate executives, came to seem antiquated - important, but not quite academic enough to be taught in the world’s leading economics department. Students interested in the mathematical theory of games, who had once been intimidated by his detailed case knowledge, came to believe that Fisher was perhaps simply missing the point.⁷

Fisher’s career is both an index and a cause of the larger changes in both the profession and the American political economy, and the smaller changes in MIT economics. Ideologically, Fisher stood in between the midcentury Harvard consensus on antimonopoly and the late twentieth century Chicago revision; personally, he was a product of deep and continuing interactions with both poles. To see just how far the ideology of American Keynesianism traveled over the course of the twentieth century, it will be useful to benchmark Fisher’s career to the social, political, and

⁵ Franklin M. Fisher, “Games Economists Play: A Noncooperative View,” *The RAND Journal of Economics* Vol. 20, No. 1 (Spring, 1989), pp. 113-124.

⁶ “My Career in Economics: A Hindcast,” can be found in the Franklin M. Fisher Papers (hereafter FMFP), Box W2 folder “My Career in Economics: A Hindcast, 1995 (?)” at the Duke University Rubenstein Library.

⁷ Carl Shapiro, “The Theory of Business Strategy” *The RAND Journal of Economics*, Spring, 1989, Vol. 20, No. 1 (Spring, 1989), pp. 125-137. For the larger game theory revolution in IO, see Richard Schmalensee & Robert Willig (Eds.), *The Handbook of Industrial Organization* (North-Holland, 1989); Sam Peltzman, “The Handbook of Industrial Organization: A Review Article,” *Journal of Political Economy* (1991) 99/1, pp. 201–217; John Sutton, *Sunk Costs and Market Structure: Price Competition, Advertising, and The Evolution of Concentration* (MIT press, 1991).

intellectual context of his early education at Harvard, where strong New Deal views on the corporation were already in flux, giving way to a Cold War corporate liberalism.⁸

PART I: FRANKLIN'S EDUCATION

MEETING KAYSEN

When Fisher entered Harvard at the age of 18 in 1952, he had planned to pursue a degree in philosophy. After a bad experience with a teaching assistant, however, he decided on history instead. As a part of the history requirements, he needed to take one course in either political

⁸ The term “corporate liberalism” was coined by James Weinstein, *The Corporate Ideal in the Liberal State* (1968). It subsequently came to stand in for a whole school of historiographical interpretation of the Progressive Era, the foundations of the modern American administrative state, and thus the 20th century. The most impressive and authoritative exposition of this view is Martin J. Sklar, *The Corporate Reconstruction of American Capitalism, 1890–1916: The Market, the Law, and Politics* (Cambridge, 1988), but the publication date is misleadingly late: even his student’s dissertation, James Livingston, *Origins of the Federal Reserve System: Money, Class, and Corporate Capitalism, 1890–1913* (Cornell, 1986) appeared before Sklar released his masterwork. An earlier exposition, which has become something of an historiographical punching bag, a stand-in for vulgar Marxism, is Gabriel Kolko, *Triumph of Conservatism: A Reinterpretation of American History, 1900–1916* (Free Press, 1977). Through Kolko and his extensive writing on the connection between corporate liberalism and foreign policy, e.g. *The Politics of War: The World and United States Foreign Policy, 1943–1945* (Random House, 1968), we can trace the school back further to the so-called “Wisconsin School” of diplomatic history. This school begins with William Appleman Williams, *The Tragedy of American Diplomacy* (Dell, 1959); Walter LaFeber, *The New Empire: An Interpretation of American Expansion, 1860–1898* (Cornell, 1963); and Thomas J. McCormick, *China Market: America's Quest for Informal Empire, 1893–1901* (Quadrangle Books, 1967). While these works were generally associated with the New Left, the corporate liberal school of interpretation in fact had wide appeal, as can be seen for instance in the work of Murray Rothbard, *The Origins of the Federal Reserve*. In fact its earliest exponent was the ex-Trotskyist-cum-neo-conservative James Burnham, *The Managerial Revolution: What is Happening in the World* (Day, 1941), whose work shaped the imagination of everyone from George Orwell *1984* (Secker & Warburg, 1949) to C. Wright Mills *The Power Elite* (Oxford, 1956); on which see Louis Menand *The Free World: Art and Thought in the Cold War* (Farrar, Straus and Giroux, 2021), chapter 2. Finally, while the views of corporate liberals like Kaysen were the contemporary targets motivating the attacks of Sklar, Kolko, Williams and Rothbard, they were the proximate inspiration and model for work in economic history by uncritical historians too. The magisterial Alfred D. Chandler Jr., *The Visible Hand: The Managerial Revolution in American Business* (Belknap, 1977) in particular is identifiably a product of Harvard corporate liberal case study method, as is the “organizational synthesis” in business history outlined by Louis Galambos, “The Emerging Organizational Synthesis in Modern American History,” *The Business History Review*, XLIV, 3 (Autumn 1970), 279-90, “Technology, Political Economy, and Professionalization: Central Themes of the Organizational Synthesis,” *The Business History Review*, 57 (Winter 1983), 471-93, and “Recasting the Organizational Synthesis: Structure and Process in the Twentieth and Twenty-First Centuries,” *Business History Review* 79 (2005), 1-38. Reading the ideological manifestos of people like Kaysen, organic intellectuals of corporate liberalism during the high New Deal era, puts all these historiographical classics in proper context, and in some cases in proper genealogical sequence. For a revisionist account of the relationship between liberalism and corporatism, see Stephan J. Link, *Forging Global Fordism: Nazi Germany, Soviet Russia, and the Contest over the Industrial Order* (Princeton, 2020).

science or economics. In his short autobiography, Fisher recalls discussing the matter with two people, Gavin Langmuir and Philip Glaessner, who suggested the economics route. Although he does not elaborate on this point himself, the personalities and histories of these two men are significant, in particular the fact that they were both Jewish. Langmuir, later a professor at Stanford, would have been a history graduate student at the time, specializing in the history of anti-semitism. Glaessner was Fisher's distant cousin; he had survived imprisonment in Nazi POW camps in World War II before obtaining a PhD in economics at Columbia, after which he worked his way up the ladder at the research department of the Federal Reserve Bank of New York. In the generally antisemitic atmosphere of 1950s Harvard, it is not a surprise that Fisher, the son of two Jewish lawyers from Manhattan, looked to these men in particular for advice.⁹ On top of that, he was still a young man himself, and he was entering a world populated by giants: former Austrian finance ministers and rocket scientists, Nobel laureates and war heroes, poets who dined with Supreme Court justices. It was at places like Harvard that men like General Marshall announced their plans to reconstruct entire continents. Of course he was nervous. He was about to be swept up in it all and transformed into one of the giants himself – once he met the right people. Both of his friends were encouraging about economics, and generally despairing about Harvard political science, which would have been “too easy” for a student like Fisher.¹⁰ By contrast “Ec 1: Principles of Economics,” had just begun to use Samuelson's *Economics*, now in its second edition, and the mathematics was challenging even for the graduate students.

Unexpectedly, Fisher enjoyed the combination of math and application enough to continue into intermediate microeconomics in his sophomore year. There he encountered “the oligopoly

⁹ On antisemitism in economics, see the indispensable E. Roy Weintraub, “MIT's openness to Jewish Economists” in (ed.) Weintraub *MIT and the Transformation of American Economics* (Duke, 2014).

¹⁰ “My Career in Economics.”

problem” that was to consume him for the rest of his life. Economists knew how firms behave when there are many buyers and sellers and prices are set competitively by the market, and how firms behave when they are the only buyer (or seller) in the market; fairly straightforward calculations of cost and benefit could be deduced from the neoclassical assumptions canonized by Samuelson. The oligopoly problem consisted in the fact that a few firms, all eyeing one another suspiciously, had an almost unlimited set of strategic considerations. Do firms try to compete on price, quality, or quantity? Do they try to produce at maximum capacity and drive the others out of business to secure monopoly profits for themselves, or tacitly signal to the others intentions of industrial peace so they can all coordinate around high prices and split the quasi-monopoly profits that resulted from collusion? The hardest part of the oligopoly problem was that strategies are recursive: it only makes sense to try and collude if the firm thinks that the other oligopolists will not try to immediately induce cut-throat competition, which means that firms’ expectations about other firms’ expectations of their own behavior have to be taken into account – and vice versa. The term paper Fisher wrote on it was incomprehensible to the teaching assistant, so it was turned over to the head teaching assistant Merton J. Peck. He in turn handed it off to the professor, Carl Kaysen.¹¹

The paper is now lost, but Kaysen understood it. He was sufficiently impressed that he insisted Fisher switch majors to economics and spend the next year in individual, directed studies with him. This was quite special treatment. Directed studies, if they happened at all for sophomores, usually included groups of a dozen or more undergraduates. “Carl took the view that smart undergraduates ought not to take Harvard’s undergraduate economics courses.” Kaysen also

¹¹ “My Career in Economics.” This account is also reported by Robert Litan, *Trillion Dollar Economists: How Economists and Their Ideas have Transformed Business* (Wiley, 2014), p. 103, who was one of Kaysen’s later graduate students at Yale.

regarded Harvard's first-year graduate theory course, taught by Edward Chamberlin, as "not very good."¹²

This must have been a rather stunning remark, given the stature of Chamberlin in economics generally and at Harvard in particular. Chamberlin had independently invented the theory of "monopolistic competition" in 1933, and with it the modern field of industrial organization.¹³ Monopolistic competitors had differentiated products that were nevertheless close substitutes (e.g. Coke and Pepsi), and so only partly competed with each other for demand. Chamberlin had shown that this market structure could be analyzed using the tools of neoclassical economics. Whenever an industry was making above average profits, other firms would "enter" the industry, competing them away, except insofar as "barriers to entry" put limits on this process. In that case an industry might become "concentrated" among a few oligopolists. Worse, the more concentrated an industry, the more likely it was that firms would find ways to "coordinate" price and output decisions, at which point they might even be able to replicate a full monopolistic outcome.

Out of these ideas sprang an entire school of thought. Various known as the Harvard School of Antitrust or the Structure-Conduct-Performance paradigm, it developed through a long series of industry case studies by Chamberlin's colleague, Edward S. Mason, looking at the specific strategies firms used to differentiate their product, raise barriers to entry, and collude in concentrated markets.¹⁴ The paradigmatic case study, the one on which later studies would be

¹² "My Career in Economics."

¹³ "My Career in Economics." Chamberlain, *The Theory of Monopolistic Competition: A Re-orientation of the Theory of Value*. The same year Joan Robinson had independently argued along similar lines.

¹⁴ D. H. Wallace, *Market Control in the Aluminum Industry* (Harvard University Press, 1937). Mason, *Economic Concentration and the Monopoly Problem* (Harvard University Press, 1957), an edited volume of his papers, most written in the late-1930s. Edward S. Mason and Thomas S. Lamont, "The Harvard Department of Economics from the Beginning to World War II," *The Quarterly Journal of Economics*, Aug., 1982, Vol. 97, No. 3 (Aug., 1982), pp. 383-433.

modeled, was conducted by Mason and Chamberlin's student, D.H. Wallace's dissertation book analyzing the aluminum industry.

Wallace's study was in many ways the perfect beginning, since its form and content presaged many of the dilemmas, intellectual and political, facing the Harvard group's new project. Alcoa was *the* American monopoly, epitomizing everything populists hated about corporations in the early twentieth century. Owned and managed by Treasury Secretary Andrew Mellon, it was at the heart of a number of political and cultural scandals throughout the 1920s and 1930s, from violent suppression of labor organizers and economic competitors to outright political corruption and support of fascism in Europe.¹⁵ To the extent that the concept "crony capitalism" means anything, it means Alcoa in the early twentieth century. After the election of FDR, it became the *bête noir* of New Deal antimonomopolists, who easily turned it into a symbol of reactionary corporatism during a series of high-profile Congressional investigations known as the Temporary National Economic Committee (TNEC, 1938-1941), when a series of private lawsuits encouraged by the administration failed to bite.¹⁶ In that context, the first application of the new Harvard theory of oligopoly to a real case, dry and technical though it was, nevertheless proved riveting to a broad and sympathetic audience. Using data publicly released by one of the private suits, *Baush Machine Tool Co. v. Aluminum Co. of Am.* (1934), Wallace compared the American monopoly, which controlled 95% of aluminum production in the US, favorably with the oligopolistic situation in Europe. Most reviewers concluded that despite Wallace's heroic efforts, however,

¹⁵ For more on Alcoa, see Matt Stoller, *Goliath: The 100-Year War Between Monopoly Power and Democracy* (Simon & Schuster, 2019).

¹⁶ The TNEC remains criminally understudied, so the best overview is still David Lynch, *The Concentration of Economic Power* (Columbia University Press, 1949).

the book illustrates both the weakness and the strength of private research. Its weakness lies in inability to get at fundamental data. Institutions which are the center of controversy will not open their archives to the world. Only government can reach into the hidden recesses, and in this industry the numerous government investigations have not hitherto yielded published data which can be called adequate.¹⁷

Hence the need for TNEC, a joint Congressional-Executive branch committee, composed of members of both houses of Congress and representatives of several Executive departments (Justice, Labor, and Treasury) and commissions (Federal Trade and Securities & Exchange) whose mission, as expressed by Roosevelt, was to embark on the "great investigation" of the rising concentration of income and economic control in America, which many in the administration held responsible for the Depression, and to suggest legislative remedies. Using its vast subpoena powers and executive apparatus, the TNEC became a data collecting machine, hoovering up the account books of private corporations, hauling chief executives in front of committees to justify themselves, and publishing a vast archive of monographs on particular problems related to economic concentration.¹⁸

When TNEC progressed beyond fact finding to expert testimony, the hearings themselves turned into an intra-administration debate about the nature, causes, and cures of the Depression. On one side appeared the antimonopolists like Thurman Arnold and Harold Ickes, who railed against "economic oligarchy" and "the 60 families" that should simply be broken up.¹⁹ On the other

¹⁷ A. H. Feller, *Harvard Law Review*, Vol. 51, No. 8 (Jun., 1938), pp. 1465-1468, this quote 1467.

¹⁸ See Robert A. Brady, "Reports and Conclusions of the Temporary National Economic Committee," *The Economic Journal*, Vol. 53, No. 212 (Dec., 1943), pp. 409-15 for a summary of its published results and conclusions. This quote from "Anti-Monopoly," *Time magazine* (May 9, 1938).

¹⁹ "Anti-monopoly," *Time*. See also Alan Brinkley, *The End Of Reform: New Deal Liberalism in Recession and War* (Knopf Doubleday, 1996) chapter 6.

appeared Keynesians like Alvin Hansen and Laughlin Currie, who testified that the rise in economic inequality was a drag on aggregate demand since it tended to increase savings, the ultimate upshot being that private investment would no longer assure full employment. TNEC thus became a “showcase for Keynesian economics.”²⁰ A few TNEC witness, the planners, were willing to go even further: Arthur F. Burns testified what he had long preached, that “striving after individual competition as a neat self-regulating device is fruitless because, by its nature, it cannot be established and maintained by law. We are compelled to pass beyond to the direct selection of economic objectives as a basis for the policy of the state.”²¹ When Burns reviewed Wallace’s book in 1938, he went further than the first reviewer's calls for TNEC to collect data more aggressively, instead wondering aloud whether the science of industrial organization was possible at all in a society based on private property.²²

Wallace at least argued that it could be, and proposed a number of solutions to the Alcoa monopoly problem. His alternatives were an eclectic and pragmatic mix of antimonopoly, spending, and planning, from consumers' coops, sponsorship of additional private competitors to shift aluminum industry into a private oligopoly, government regulation of price and investment on the lines of a public utility, public aluminum production to compete with Alcoa, and outright nationalization.²³

As we saw in the introduction to this dissertation, the Reconstruction Finance Corporation wound up trying all of the above during the war. Wallace was tapped to run the Office of Price Administration, and worked closely with the RFC to breakdown monopolies of all kinds in the

²⁰ Herbert Stein, *The Fiscal Revolution in America, revised edition* (American Enterprise Institute Press, 1990), p. 167-8.

²¹ Arthur R. Burns, *The Decline of Competition* (McGraw-Hill, 1936) p. 539, quoted in Galbraith, *American Capitalism*, p. 59. Note that this is not Arthur F. Burns, famous Fed chairman in the 1970s.

²² Arthur R. Burns, *The Annals of the American Academy of Political and Social Science*, Vol. 198, Present International Tensions (Jul., 1938), pp. 188-189.

²³ D. H. Wallace, *Market Control in the Aluminum Industry* (Harvard University Press, 1937).

early 1940s. The Harvard School had to be carried on by others, however, since soon after the war Wallace was drafted as President of Princeton's new Wilson School for Public Policy.²⁴

The school's theoretical views were first stated in a 1938 manifesto by Mason, and canonized in the late 1950s by Chamberlin's student Joe Bain in two books, *Barriers to New Competition* (1956) and *Industrial Organization* (1959).²⁵ Bain's core theses were that "market structure" (a term coined by the Harvard group) affects the firm's conduct (pricing behavior), which in turn influences the industry performance (profits).²⁶ The implications of these views as they were elaborated over the course of papers, books, seminars and workshops were that there was clear and solid grounds for an aggressive antitrust policy.²⁷ Further, since Bain considered market structure to have straightforward implications for firm conduct, and hence for performance, accounts of firm conduct could be dispensed with, and the new aggression in antitrust policy could be based on analysis mainly of concentration metrics.

Chamberlin had revolutionized the profession with a new research agenda, founded a school of thought, and as we will soon see these became the academic counterpart to the explosion of antitrust case law that appeared over the course of the 1950s. Who was Kaysen to be so dismissive?²⁸

²⁴ Mason and Lamont, "The Harvard Department," 438-9. Wallace was denied a tenure track position at Harvard and let go as lecturer there in 1939, caught up in the same sweep as Galbraith and Sweezy, victims of James B. Conant's economizing and professionalizing drive to eliminate radicals from campus.

²⁵ Mason, "Price and production policies of large- scale enterprise," *American Economic Review*, 29 (1) (1939) 61–74.

²⁶ Gilbert Faccarello and Heinz D. Kurz (eds.) *Handbook on the History of Economic Analysis. Vol. III* (Elgar, 2016) p. 297.

²⁷ Ewald T. Grether, "Industrial Organization: Past History and Future Problems," *The American Economic Review*, May, 1970, Vol. 60, No. 2, pp. 83-89.

²⁸ The historiography on the Harvard antitrust group tends to emphasize the coherent, school-like nature of the group, since it is narratively convenient to set-up them up as the foil for the later rise of the Chicago School, which is taken to be the protagonist of the second half of the twentieth century. As tends to happen with most schools of thought, however, the closer one zooms in on the Harvard School the less consensus one finds among its alleged members. Indeed, what is striking about the Harvard group is the extent to which most participants explicitly rejected what are

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As it would turn out, Kaysen was Fisher’s lifelong mentor, friend, sponsor, and soon business partner; he would go on to be a top security advisor on nuclear policy in the Kennedy-Johnson administrations, and end his career after a decade as the director for Princeton’s Institute for Advanced Study.²⁹ But Fisher wouldn’t have known that in 1955. To the Harvard undergrad, Kaysen would have been a newly-minted PhD, pushing the Harvard School beyond the aging Chamberlin-Mason duo. Kaysen would have also been one of the only Jewish men to have made it through the gauntlet of Harvard economics to a tenure track position there. Seymour Harris had been the first when he joined the faculty in 1922. As a result of Harvard’s unspoken quota policy, however, Harris was also the *only* Jewish faculty member, and had to wait until 1945 to receive tenure. As Harvard galloped towards an enlightened liberal policy on race and religion in the 1950s, Kaysen became the second.³⁰

by all accounts its main tenets. Hovenkamp for instance, currently the consensus-favorite textbook summary of the history of American antitrust, says “Harvard School economics was heavily “structuralist,” which meant that it was apt to view markets as noncompetitive whenever they deviated from what were thought to be basic competitive conditions... while the Chicago School emphasized the ways that firms would continue to compete notwithstanding imperfect structures, the Harvard School emphasized the ways that firms could avoid competing.” But as we will see, this is just not true. Mason, Kaysen, Turner, Peck, and Fisher all emphasized the need to go beyond an analysis of structure precisely because effective competition could still be secured in highly concentrated markets – thus the need for detailed case studies. For the standard histories, see Ewald T. Grether, “Industrial Organization: Past History and Future Problems.” *American Economic Review* 60/2 (1970), 83–9; William G. Shepherd, “Donald Turner and the Economics of Antitrust,” *Antitrust Bulletin* (1996) 41(Winter): 935–48 and “Edward S. Mason.” pp. 209–10 in *Pioneers of Industrial Organization: How the Economics of Competition and Monopoly Took Shape* (Elgar, 2007), ed. Henry W. de Jong and William G. Shepherd; Rudolph J. R. Peritz, *Competition Policy in America: History, Rhetoric, Law* (Oxford University Press, 1996); Henry W. de Jong, and William G. Shepherd (eds.), *Pioneers of Industrial Organization: How the Economics of Competition and Monopoly Took Shape* (Elgar, 2007); Herbert Hovenkamp, *The Antitrust Enterprise: Principle and Execution* (Harvard University Press, 2005), this quote p. 35, “United States Competition Policy in Crisis: 1890–1955,” *Minnesota Law Review* (2009) 94: 311–67, and *The Opening of American Law: Neoclassical Legal Thought, 1870–1970* (Oxford: Oxford University Press, 2015).

²⁹ Dennis Hevesi, “Carl Kaysen, Nuclear Test Ban Negotiator (and Much More), Dies at 89,” *New York Times*, Feb. 19, 2010.

³⁰ On the quota system, see Seymour Martin Lipset and E.C. Ladd Jr., “Jewish Academics in the United States: Their Achievements, Culture and Politics.” *American Jewish Yearbook*, 1971, quoted in Weintraub, “MIT’s openness.” A case can be made for Leontief, who earned tenure after 14 years in 1946, as the second, since his mother was Jewish. But between his secular Soviet education and his Old-Ritualist Eastern Orthodox father, he had a complicated self-understanding that changed over time, shifting both how he presented himself and how he was perceived. None of the

Kaysen started a PhD in economics at Columbia but was quickly drawn in by the war, first to the Office of Strategic Services (1942-3) and then to the Air Force (1943-5), where he was a part of teams calculating optimal bombing targets and flightpaths. At OSS he met Edward Mason, who convinced him to come to Harvard for graduate study instead of returning to Columbia. Kaysen continued his career in the Society of Fellows in 1947, becoming an assistant professor at Harvard in 1950, and completing his doctorate in 1954, the term in which he read Fisher's paper, taking him under his wing. That same year, Kaysen and Mason inaugurated what would soon become a famous Antitrust Seminar at Harvard, jointly coordinated by the Economics Department and Law School, with lawyers Kingman Brewster (later president of Yale University and then ambassador to the Court of St. James) and Donald Turner (later U.S. assistant attorney general for antitrust from 1965 to 1968). The seminar was studded with stars from law and economics, and other participants included Morris Adelman, Joe Bain, Robert Bishop, Robert Bowie, David Cavers, Kermit Gordon, Lincoln Gordon, John Lintner, Albert Sacks, and Donald Trautman.³¹ Fisher was being given a box seat to the frontiers of thinking about antitrust.

Although Mason had been inspired by Chamberlin's insights to pursue his industry case studies, he had also quickly concluded that Chamberlin's theories were "non-operational." The difficulties of putting theory into practice was something Mason knew a great deal about. His early career had focused almost exclusively on the intellectual and political history of communism and anarchism, with not unsympathetic articles on Fourier, Blanqui, and St. Simon, culminating in his first book

standard accounts of his life, including the memoir co-written with his wife, even hint at discrimination, Estelle Leontief, *Genia and Wassily: A Russian-American Memoir* (Zephyr, 1987), though this may simply be a product of the comprehensive silence on the topic of antisemitism in the history of economics mentioned above. In any case, the larger point in the main text still holds.

³¹ Kaysen and Turner, *Antitrust: Policy: An Economic and Legal Analysis* (Harvard University Press, 1959), xix.

on the history and significance of the Paris Commune in the socialist movement.³² For many years in the late 1920s and early 1930s, Mason taught Economics 7b, variously named “Programmes of Social Reconstruction” or “Socialism and Social Reform.” It was, as the name suggests, a course on radical economic theory – “socialism, communism, anarchism and the single tax” – from the nineteenth century utopians to Lenin’s *Imperialism*. But with the election of Roosevelt in 1932, the National Recovery Administration caught his attention and he turned to the economics of the corporation, emerging with the work of Chamberlin and Robinson.³³ He picked up a co-lecturer for his socialism course named Paul Sweezy, and together the two began teaching a second course, Economics 61a “The Corporation and Its Regulation.”³⁴ These were wildly successful, so that by 1939 he decided to add a second course, Economics 62b “Industrial Organization and Control” for advanced students, including one John F. Kennedy.³⁵

Mason’s first forays into industry case studies started in the late 1930s, when he was hired as director for the Labor Department’s economic studies for the Temporary National Economic Committee (TNEC), in which position he supervised fifty research economists in the production of six monographs on specific topics of interest to Labor and TNEC. They continued when he was hired by the Office of Production Management (OPM) in 1941 to work on raw materials problems for the war, where he was in favor of using the Reconstruction Finance Corporation to break up the tin and aluminum monopolies along the lines of Wallace’s proposals from years before.

³² “Fourier and Anarchism,” *The Quarterly Journal of Economics*, Vol. 42, No. 2 (Feb., 1928), pp. 228-262; “Blanqui and Communism,” *Political Science Quarterly*, Vol. 44, No. 4 (Dec., 1929), pp. 498-527; “Saint-Simonism and the Rationalisation of Industry,” *The Quarterly Journal of Economics*, Vol. 45, No. 4 (Aug., 1931), pp. 640-683. *The Paris Commune: An Episode in the history of the socialist movement* (Macmillan, 1930).

³³ “The National Recovery Administration,” *The Quarterly Journal of Economics*, Vol. 49, No. 4 (Aug., 1935), pp. 668-679.

³⁴ Harvard University, *Report of the President of Harvard and Reports of Departments for 1937-38*, p. 85. Cited in Irwin Collier, *Economics in the Rear-View Mirror*.

³⁵ National Archives, Collection JFK-1: John F. Kennedy Personal Papers, Series: Harvard University Files, File Unit: Course listing. “John F. Kennedy Harvard Course Transcript.” Kennedy’s three courses in economics were all with Mason and Sweezy in 1938-1940.

Moving from success to success, Mason then became deputy director at OSS of the Research and Analysis Branch, working as its chief economist and overseeing nearly seven hundred research economists. After the war, he was hired by Will Clayton in the State Department, where he worked on the detailed implementation of the Marshall Plan on the Materials Policy Commission (MPC).³⁶

As a war planner across a range of different wars – class, world, Cold – Mason found Chamberlin’s ideas about market power hard to use. The neat neoclassical theories connecting structure-conduct-performance in a linear sequence were not adequate to capturing the “muddy, but not uninteresting, field” of “real life” industrial organization. “No one who is other than eclectic, methodologically speaking, has any business in the field.”³⁷ But after accumulating a great wealth of empirical detail, Mason’s general results were dogmatically apophatic. None of the great questions of industrial organization were amenable to a clear answer: overall competition was neither increasing nor decreasing; the rule of reason and “per se rules” were both unreliable guides to proper antitrust enforcement; Marshallian theory was unrealistic but Chamberlin’s was so abstruse as to be impossible to apply. As one bemused reviewer concluded, “Mason is in essence a debunker.”³⁸

Mason and his student, Kaysen must have felt that Chamberlin’s first year graduate theory course was simply a waste of time for bright students like Fisher. The decades of tacit knowledge and accumulated empirical material were better taught directly to him orally by the masters themselves. And if Fisher was going to learn economic theory, better that he learn the modern, mathematical variety rather than Chamberlin’s vintage diagrams. Chamberlin used very few equations, and the graphs he drew to explain his ideas were straight out of the 19th century: demand and average cost

³⁶ Edward S. Mason, “Edward S. Mason Oral History Interview” July 17, 1973 By Richard D. McKinzie, Harry S. Truman Library. Available online here: <https://www.trumanlibrary.gov/library/oral-histories/masones>.

³⁷ Mason, *Economic Concentration* p. 4.

³⁸ G. Warren Nutter, “Review of *Economic Concentration and the Monopoly Problem* by Edward S. Mason” *Journal of Political Economy*, Vol 65 No 6, p. 544.

curves, but no marginal cost curve. As a result of these limitations and his weak personality, Chamberlain spent the rest of his career somewhat pathetically defending his ideas and trying to control their reception, a tall order given the evident preference shown by the profession for the nearly equivalent analysis of monopolistic competition coming from across the Atlantic by Joan Robinson.³⁹ Kaysen simply kept his star pupil away from the aging control freak, and had Fisher placed in John Chipman's graduate mathematical economics course; unlike Chamberlin, Chipman used Samuelson's *Foundations*.

By the end of his junior year, Fisher had developed a reputation in the department. Although Harvard did not require any math of its economics undergraduates, and very little of its graduate students - the course in mathematical statistics taught by Guy Orcutt only covered OLS and did not use linear algebra; the course in mathematical economics barely used calculus, much less differential equations - but Fisher was instructed by Kaysen to teach himself math. In his memoir, Fisher recalls how it "terrified" the other graduate students when he spent the semester with Chipman finding all the errors in Samuelson's textbook.⁴⁰ This memory is not a product of excessive self-regard. In a letter to Theodore Schultz, Mason said

Fisher is something of a wunderkind, having graduated summa cum laude from Harvard at the age of 18. He published a mathematical article on Welfare Economics when he was a senior, and those who can understand it say it's good. He is only 20 now, and, of course, it

³⁹ Nahid Aslanbeigui & Guy Oakes, "Hostage to Fortune: Edward Chamberlin and the Reception of The Theory of Monopolistic Competition," *History of Political Economy* (2011) 43 (3): 471–512. It is not literally true that there was no marginal cost curve in Chamberlin's 1933 book, as Aslanbeigui & Oakes claim – it is mentioned in a footnote, where he claims it is irrelevant and can be dispensed with in favor of just an average cost curve if scarcity rents are excluded, which he then assumes to be the case for the rest of the book. Chamberlain, *Theory of Monopolistic Competition*, p. 15ff.

⁴⁰ "My Career in Economics."

is difficult to say how he is going to turn out. He may be another Paul Samuelson, and on the other hand he may not.⁴¹

In his memoir Fisher recalls spending the winter of 1956-7 in a solo reading course with Solow on simultaneous equation methods. He had just started as a graduate student at Harvard, but he does not explain how he managed to get undivided access to the attention of another university's professor – much less someone of Solow's stature. It must have been some reputation.

In 1957 Fisher was elected to Harvard's Society of Fellows, and by 1959 he had an assistant professor job at the University of Chicago, with the promise of a similar position back at Harvard after his term abroad. Again we call on the testimony of a letter to Theodore Schultz, this time from Seymour Harris, the head of the Harvard economics department:

Fisher will not have his Ph.D. until June 1960. He is just out of college three years and has been offered an assistant professorship at Carnegie Tech. We have now promised him a similar appointment, and in fact he said he would prefer to be at Harvard.⁴²

What was unusual about Fisher and Kaysen was that they were learning to apply modern econometrics to perform their case studies. Mason had relied on narrative, detailed institutional descriptions, direct testimony and discussions from market participations (sometimes subpoenaed, as with TNEC; sometimes patriotically given as with OPM, OSS, and MPC) and aggregate market statistics on concentration and profits to analyze his industries. But that method had almost already gone out of style at the very moment it appeared. The 1930s were the decade of the revolutionary

⁴¹ University of Chicago Archives. Department of Economics, Records. Box 42, Folder 9, letter dated December 27, 1957. Note that Mason is not correct here: Fisher entered Harvard at 18 and graduated at 22, and in December of 1957 would have been 24. But the mistake speaks directly to his reputation. The article in question was "Income Distribution, Value Judgments, and Welfare," *The Quarterly Journal of Economics* (1956) vol. 70(3), pp. 380-424.

⁴² University of Chicago Archives. Department of Economics, Records. Box 42, Folder 9, letter dated January 5, 1959.

breakthroughs in econometrics coming out of the Cowles Commission and the United Nations.⁴³ Stochastic difference equations, measure-theoretic probability theory, even simple empirical techniques like two-stage least squares – all were absent. The field of industrial organization, having been pioneered at Harvard by Chamberlin and Mason, did not keep up. Fisher recalls in his memoir that industrial organization “was in the doldrums, and the brighter students usually did not go into the field.”⁴⁴ Nor had it kept up with the mathematical modeling revolution centered on Samuelson. Instead it was “largely empirical... heavily oriented towards public policy, especially antitrust.”⁴⁵

Whether or not the brighter students went into industrial organization, the Mason group at Harvard was having a large effect within a broadening field of American antitrust policy in the 1950s. That decade, private antitrust suits exploded, as new rulings allowed individual lawyers to bring suits on behalf of competitors and suppliers and not rely on government initiative. In the first half-century of the Sherman Act, there had been a mere 175 private antitrust suits, and plaintiffs rarely won; but over two thousand private antitrust suits were filed in the 1950s alone.

Public antitrust attacks also multiplied during this time. The most spectacular results had been achieved as a result of the war, when the RFC sponsored competition in monopolistic industries, and the private oligopolies it spawned continued to exist long after VE Day. By 1956, Alcoa only made 43% of North American aluminum, and the rest of the market was split between Kaiser (27%), Reynolds (26%), and Anaconda (4%), all sponsored by the RFC, including the sale of

⁴³ Mary Morgan, *The History of Econometric Ideas* (Cambridge, 1990).

⁴⁴ “My Career in Economics.”

⁴⁵ “My Career in Economics.”

mines, factories, and equipment after the war at rock bottom prices.⁴⁶ Truman's DOJ filed major suits against IBM and AT&T. The Celler-Kefauver Act of 1950 strengthened the Clayton Antitrust Act of 1914, which had amended the Sherman Antitrust Act of 1890, tightening up rules around mergers and acquisitions. Judges interpreted it so tightly that, in 1966, the Supreme Court blocked a merger between two grocery chains that had just 7.5% of the Los Angeles market. Eisenhower's DOJ filed against General Electric, Westinghouse, RCA, Allied Chemical, U.S. Steel, DuPont, Kennecott Copper, Bethlehem Steel, Firestone Rubber, and National Steel – all this, despite the fact that Eisenhower's cabinet included three GM executives, DuPont had been a large campaign donor, Harvey Firestone was one of Eisenhower's longtime family friends, and the Treasury Secretary himself (George Humphrey) had been chairman of National Steel. Even an already-emasculated Alcoa came in for attack from Eisenhower's lawyers.⁴⁷

Most importantly for Fisher, who would later defend IBM from antitrust suits in the 1970s, the Truman administration brought a case against IBM in 1952 for restraint of trade in the punch card business. IBM dominated the data processing industry, which had exploded during World War II, as all organizations with even a minimal degree of complexity were forced to rationalize their logistics systems. IBM came out on top because, in addition to outright theft of important French technological patents, the Pentagon had used IBM machines to prosecute the global war effort – over two million IBM punchcards were used *per week* at Bletchley Park to crack Nazi codes. But the same military-industrial complex that had buoyed IBM's rise was also its main threat: the electronic computers the Pentagon invented were increasingly commercialized after the war,

⁴⁶ For the larger story of postwar reconversion and the subsidized sale of war factories to private capitalists, see Mark R. Wilson, *Destructive Creation: American Business and the Winning of World War II* (University of Pennsylvania Press, 2016)

⁴⁷ William M. McClenahan Jr. and William H. Becker, *Eisenhower and the Cold War Economy*, p. 175. See also Stoller, *Goliath*, chapter 7, for a useful synthesis and overview that I rely on here.

eroding IBM's share of the data analysis business. It was in this context that, according to the Truman's Assistant Attorney General and head of the Anti-Trust Division, H. Graham Morison, IBM had been "violating the antitrust laws and getting away with it for years."⁴⁸ The CEO, Thomas Watson Sr. was an old school "robber baron," a throwback to an earlier era of American capitalism. Years later, Morison recalled in an interview the charges he threw at Watson Sr.:

"you stole the French Bull patent. It was an illegal act, you have suppressed competition, you have control of all of your paper stock of cards, no other cards can be profitably made that will fit the IBM machines, so they have to buy the essential cards from you. You will only rent your machines, you won't sell, you have taken aggressive action against the beginnings of potential competitors who had other like machines." And I said, "On the facts, IBM really deserves a criminal suit, but I've only filed a civil suit against your company, but I believe, Mr. Watson, that in time, if you would go in right now and accept the decree, don't litigate, this will save your company," but I said, "the technology of electronics, which is fast emerging, from all I can gather from the Bureau of Standards, and it is going to pass you by and you will be an antiquated company in the major business of your company."⁴⁹

There are two important points here. First, Morison was saying that despite the evident and extremely rapid technological innovations happening in the data processing industry – to the point, indeed, of putting IBM out of business – the Truman DOJ still felt it necessary to prosecute IBM for its conduct, bundling pieces of hardware together, and bundling hardware and software. This was precisely the kind of wasteful antitrust enforcement that Fisher would later castigate as bad

⁴⁸ Jerry N. Hess, "Oral History Interview with H. Graham Morison," National Archives, Harry S. Truman Library Museum, August 10, 1972, available here: <https://www.trumanlibrary.gov/library/oral-histories/morison>.

⁴⁹ Hess, "Oral History Interview with H. Graham Morison."

law and bad economics. Why go out of the way to prosecute the equivalent of a horse-and-buggy company for restraining trade in the year of our lord 1952?

Second, Watson Sr. famously disagreed with the prediction of IBM's obsolescence. He thought electronic computers were so unreliable that IBM would be able to maintain its monopoly on data processing well into the future. And Watson Sr. felt so strongly about this that he overruled his research department, his board of directors, and even his own son, all of whom wanted IBM to enter the electronic computer industry to keep up with changing times. But the power of this entrenched robber baron, who privately held a controlling share of his company, meant that his instincts dictated company policy. Until, that is, the 1952 lawsuit. Years later, Watson Jr. reported to Morison:

“I've never forgotten what you told my father. I know you did it gently, and he, of course, was emotionally upset, but you were absolutely right. And as his son, I couldn't say it, but we were going to be passed by and just the pressure of this decree, because he dominated the company, was the only thing that saved us.”⁵⁰

That is, apart from any actual enforcements or court decisions, just the threat represented by the suit alone was enough to hothouse IBM executive decision making into an innovative mode.

Amidst this ferment, the Mason group had a large and interested audience for its speculations about the role of corporations in America. In 1950, the summer between Kaysen's time at the Society of Fellows and his appointment as assistant professor, Mason arranged for him to take up a clerkship

⁵⁰ Hess, “Oral History Interview with H. Graham Morison.” This evidence is not conclusive, indeed it is suspect and self-congratulatory on the part of Morison. Research into the business history of IBM will be required to determine exactly what role the antitrust suit played in the changing company strategy. The only major monograph on the subject, Thomas J. Watson Jr., *Father, Son, and Co.: My Life at IBM and Beyond* (Bantam, 1990), does at least confirm the interpretation in the main text.

with Mason's friend Charles Wyzanski, a federal district court judge in the First Circuit in Boston. Wyzanski was trying a major antitrust case, *U.S. v. United Shoe Machinery Company*, and wanted an economist who could comment on the complicated market analysis involved. This was the first major attempt to apply economic theory in an antitrust case. It became the basis of his dissertation.⁵¹ The application of the Harvard IO case study method to a real case was widely considered a success – it was the basis of Kaysen's tenure appointment – and was the beginning of an entire genre of activist intellectuals turning practical problem solving into academic credentials, a genre in which Fisher would be the next leading expert after Kaysen.

It was a major moment of transition, since it also marked the moment when Harvard IO “entered the room” where decisions are made in the peacetime economy. Instead of gathering up scraps that fell to the public record from private lawsuits, as Wallace had done, Kaysen was now in a position to view materials more comprehensively and proactively, and to influence the outcome. Kaysen was being asked to weigh in on whether Machine Shoe had engaged in illegal behavior or not, and his answer had real weight in the trial. It would have been inappropriate, in that context, to follow Wallace and to speculate on the nature of private property or to propose radical solutions like nationalization, state planning, or subsidized competition. The new opportunities for Harvard IO thus came with new restrictions, since the position of responsibility and influence limited Kaysen's ability to register larger criticisms of or proposals for American capitalism.

Although Kaysen's work was a success, the particular judicial mechanism by which the presiding Judge appointed his own expert witness was not. Wyzanski later became a senior fellow at the Harvard Society, and regularly attended the collective Monday dinners obligatory for the Fellows

⁵¹ Kaysen, “*United States v. United Shoe Machinery Corporation*” : *An Economic Analysis of an Antitrust Case* (Harvard University Press, 1956).

– just one more way in which East Coast elites circulated through institutions like Harvard, the courts, and the Democratic party, interacting with young members of their own class and molding the next generation of elites. In the late 1950s, when Fisher was at those dinners, he recalls a conversation with Wyzanski:

I asked Wyzanski whether his experiment with Carl had ever been repeated. He instantly replied quite emphatically, “No! And it never should be!” Since that experiment was widely considered a great success, I was surprised. Wyzanski said that Carl, as the clerk who had the ear of the judge, had too much power. (Although Wyzanski obviously thought he had dealt adequately with this in deciding the case, he did not think that every judge working with such an expert would be able to do the same.)⁵²

Instead Wyzanski promoted the use of expert witnesses by the litigants themselves, each of whom would then be able to consult and attack multiple perspectives on the same case. No one would then be in a position where they felt the need to hold back for fear of insulting the judge’s “pet.”⁵³ One of the most important expert economics witnesses in late-twentieth century antitrust suits, of course, would be Franklin Fisher.

CORPORATE PLANNING

After achieving tenure, Kaysen went on to become one of the chief theorists of a new liberal relationship to corporations, promoting himself among elite Democratic party circles. Writing in a widely cited *New Republic* article in 1954, Kaysen observed that in marked contrast to the antimonopoly tradition of politics that had dominated the Democratic party since Jefferson, and

⁵² Fisher, “Carl Kaysen: 1920-2010,” *Proceedings of the American Philosophical Society*, Vol. 156, No. 3, September 2012.

⁵³ *ibid.*

was in evidence in the fire and brimstone of the TNEC, “concern with Big Business and competition has sunk to the level of ritual in the current liberal creed.”⁵⁴

What forces had wrought this change, according to Kaysen? In a word, the Keynesian Revolution. This ideology, which came to be known as ‘corporate liberalism’ in American historiography, is expressed by Kaysen in such a raw form that it is worth quoting him at some length.

Politically, endogenous evolution within the liberal art of government, together with the help of external “shocks” had ensured the final death of *laissez faire*. Thanks to the Depression and the War, “the great issues of Government intervention have been settled, for good” in favor of a sensible liberalism.

Keynesian economics [has] created a powerful array of weapons to arm the Government in dealing with these problems. In recent years the liberal position in economic matters has consisted largely of urging the importance of using all available means to promote employment and promoting a program of income redistribution through income taxation, social security, government housing construction, government health programs, and the like.⁵⁵

Institutionally, changes in the nature and position of corporations had tamed the Gilded Age monopolists, and “the power of Big Business in our total society is on the wane.”

The Federal Government itself has become the largest single factor in our economic life: the largest employer; the largest spender; one of the largest investors. Trade unions have become an economic and political force of the first magnitude. The Money Trust has

⁵⁴ Kaysen, “Big Business and the Liberals, Then and Now,” *The New Republic* (November 22, 1954), pp. 118-20.

⁵⁵ Kaysen, “Big Business and the Liberals, Then and Now.”

disappeared, and Wall Street is a symbol only to students and those with long memories. Increasingly, every large business is its own banker. Production and marketing, rather than finance, are the characteristic activities of business.⁵⁶

But it was more than the encirclement of corporations by other institutions and the retreat of banks that had calmed liberal's antitrust passions, according to Kaysen. Economically, progress had also done much of the work. "Most strikingly, we have grown very rich" the result of which is that the "edge has been taken off the struggle over the distribution" and the liberal feels less compelled to pursue the fight.⁵⁷ This structural transformation in consumption, in turn, altered the meaning of corporations for ordinary consumers. "Big Business stands for efficiency, science, productivity: cars, television sets, nylon, synthetic soap" not the bosses or robber barons. As a result, although "Big Business is a symbol which still provokes popular hostility to some degree, it also carries with it great popular appeal."⁵⁸ Moreover, increasing wealth was itself a further cause of structural transformation in the economy, lifting us onto a higher historical plane where the struggle over the corporate form was less relevant:

As we grow richer, we spend an increasing fraction of our income on distribution and service industries, areas in which small business frequently competes on equal terms with big. Manufacturing, the sphere of Big Business, is no longer growing in relation to total output.⁵⁹

Kaysen here updated Engles' Law – the empirical observation that spending on food rises with income, but at a sublinear rate so that as a proportion of total consumption spending the food bill

⁵⁶ Kaysen, "Big Business and the Liberals, Then and Now."

⁵⁷ Kaysen, "Big Business and the Liberals, Then and Now."

⁵⁸ Kaysen, "Big Business and the Liberals, Then and Now."

⁵⁹ Kaysen, "Big Business and the Liberals, Then and Now."

decreases – to apply to manufactured goods, and speculated that “Big Business” was a phenomenon confined entirely to manufacturing. These observations have held up remarkably well, as shown below in figures 4 and 5.

But Kaysen did not take his predictions past the present to any logical conclusions. He didn’t speculate what the implications for liberalism might be if it was really true that corporate managers and concentration metrics were declining in importance as time went on, with small-businesses in service and state employment in education and health picking up the slack. Instead, for Kaysen, American liberalism appeared forever suspended in a golden hour, led forward by the best and brightest and their sparkling managerial hierarchies.

Kaysen took his political theory of the corporation farther when speaking solely to professional economists. In a 1957, at the 67th annual meeting of the American Economic Association, Kaysen gave a talk on “The Social Significance of the Modern Corporation,” in which he argued that American capitalism had been transformed with the appearance of the “soulful corporation.”⁶⁰ Large, complex in structure with sprawling organizational charts and many departments, founded on mass production and mass marketing, the modern corporation relied on advanced technological forms of production that in turn required unprecedented capital budgets to finance. These functional imperatives had winnowed away the traditional forms of capitalism, characteristic of the 19th century: heroic, family-oriented entrepreneurs had been split into professional, salaried managers on the one hand and owners on the other, with power and control shifting decisively towards the former. “Ownership is disappearing” because “stockholding is widely dispersed; no single group of persons, in or out of management, has significant control over corporate action

⁶⁰ Carl Kaysen, “The Social Significance of the Modern Corporation,” *American Economic Review*, Vol. 47, No. 2, *Papers and Proceedings of the Sixty-eighth Annual Meeting of the American Economic Association* (May, 1957), pp. 311-319.

resting on stock ownership” – relics of a pre-(managerial)-revolutionary past like Watson Sr. notwithstanding.⁶¹ The proletarian masses had also been transformed. “The whole labor force of the modern corporation is, insofar as possible, turned into a corps of lifetime employees, with great emphasis on stability of employment.”⁶² This earned docility and class peace for the modern corporation. Paradoxically, the very capitalist modernization process that had replaced status by contact had, by an ironic historical inversion, reproduced a society of orders: “membership in an enduring institution has replaced relations of ownership and employment all the way up and down the corporate hierarchy.”⁶³

But far from signaling a retrogression to some neo-feudal era, the rise of the modern corporation in fact was a second primitive accumulation, a dispossession that was progressive in character:

The factory system separated the worker from the instruments of production and effectively broke up the identity of household and productive unit characteristic of agriculture and prefactory handicraft activity. The modern corporation extends this process in turn to the capitalists; they too are parted from effective ownership of productive property; for them, too, the household and the enterprise are decisively separated. The modes of recruitment and promotion within the enterprise are more and more impersonal and universalistic in relation to the family world of property ownership. Again, the actual processes of management are carried on to the greatest extent possible in a rationalized and objective way. It is only somewhat fantastic to think of replacing the managerial hierarchy with an

⁶¹ Kaysen, “Social Significance.”

⁶² Kaysen, “Social Significance.”

⁶³ Kaysen, “Social Significance.”

appropriately complex computer built so as to learn from its own mistakes, so far as its decision-making functions go.⁶⁴

Their massive size gave the soulful corporations a reprieve from the traditional constraints of competition between many buyers and sellers. Instead of supplying a common product at market-dictated prices, the soulful corporation made new use of its market power:

(1) to insure the security and permanence of the institution, by aggressive creation and occupation of developing markets and technologies, so far as possible; (2) to pass on benefits to the “members” of the institution at all levels of the institutional hierarchy; and (3) to pass on benefits to the general public, chiefly in the shape of new product and lower-cost technologies for making old products more abundant, but also in other ways.⁶⁵

The emphasis here on innovation – “creation,” a word used rather casually by economists – reflects the continued influence of Schumpeter on the Harvard school, even after his death in 1952. The second half of Schumpeterian innovation, however, “destruction,” receded into the background. The capitalist process of “creative destruction” carried out by entrepreneurs was becoming a regularized part of the modern corporation's daily functioning. Instead of stemming from the demonic genius of a lone businessman, more akin to an artist than an accountant, innovation was being automated by the large bureaucratic corporation in the form of research and development departments. Schumpeter had foreseen these transformations and predicted the rationalization and large-scale centralization of innovation – hence the socialism part of *Capitalism, Socialism, and*

⁶⁴ Kaysen, “Social Significance.”

⁶⁵ Kaysen, “Social Significance.”

Democracy. What he had not foreseen was the possibility that even when this process was well-advanced, Americans would continue to be happy to call corporate planning capitalism.

Kaysen emphasized what he called the “immortality” of the soulful corporation. “Adaptation and increase are permanent features of the modern corporation... through growth and change the enterprise endures beyond the decay of particular markets, particular sources of supply, particular technologies.”⁶⁶ Without the prospect of death hanging over management - barring some catastrophic blunder on their part – the new aristocrats of corporate capitalism were free to become “responsible.” They could credibly commit to long-term plans in capital allocation, and have enough left over to behave ethically towards its many members. “There is no display of greed or graspingness; there is no attempt to push off onto the workers or the community at large part of the social costs of the enterprise.”⁶⁷

Going beyond market power and its observable behavioral consequences, Kaysen took up the “standpoint of social processes in general” to evaluate the larger effects the corporate form was having on American economic life. Having worked himself up into a romantic lather over the new corporation’s responsible soul, Kaysen nevertheless registered important dangers. He was anxious that the transformations in production, consumption, and labor which the responsible souls had brought about were completely unchecked, ungrounded, set free from traditional constraints competition put on economic agents. The new freedom was dizzying.⁶⁸

The combination of a high proportion of internal financing with the inherent bias toward expansion and change leads to exemption of these decisions from the capital market tests

⁶⁶ Kaysen, “Social Significance.”

⁶⁷ Kaysen, “Social Significance.”

⁶⁸ Søren Kierkegaard, *The Concept of Anxiety*.

of profitability; and even the test of profitability, alone, is not an adequate one in the circumstances of noncompetitive markets.⁶⁹

Without rivals or banks to discipline them, management did not have to justify itself to anyone but the corporations members. Liberated to pursue whatever ends they chose, the economic problem for management assumed existential proportions: what ends would they choose? Faced with the task of asking the question “will it (ultimately) be a good thing, instead of, will it pay (soon)” corporate managers were forced to become political philosophers, contemplating the good life and the good city for its members. Thus “the soulful corporation becomes less and less distinguishable, except in the matter of formal control and management responsibility, from the socialist enterprise.”⁷⁰

Under the combined assaults of Schumpeterian innovation and Galbraithian preference-formation, Kaysen thought the new society the modern soulful corporation was bringing into being was also eroding the very conceptual foundations of economic analysis.

Yet at the same time, the modern corporation changes the substance of economic activity in such a way that the relevance to its activity of the basic notions of economic rationality becomes doubtful. In a world in which tastes are substantially formed and rapidly changed by sellers, concepts of efficiency which rest on satisfying given consumer preferences lose their sharpness. While new products are created, old ones are in effect destroyed, not just displaced by consumer preference for the new. On the cost side, the new plasticity of technology under the efforts of organized applied science again dulls the edge of the notion of a best technique. Seek, and ye shall find. New techniques are to be had for the (costly)

⁶⁹ Kaysen, “Social Significance.”

⁷⁰ Kaysen, “Social Significance.”

asking. The question becomes, what shall we ask for? If products were fixed, this part of the problem might be manageable, taken alone, but the intimate association of new techniques and new products makes this a poor consolation. The broader the scope of research, the greater its quantitative importance, the more the output of anything new is jointly supplied with that of everything new, and the less close is the relation between a particular output and its costs on which the rationale of efficiency rests.⁷¹

With both rationality and efficiency gone, the conceptual foundations of economics were undermined, managers found themselves thrown into a situation where decisionism presented itself as the natural ethical stance. “The question of the economic rationality of the criteria governing these decisions is left open.” Indeed, to the extent that self-maintenance and growth to produce the good for a permanent and self-contained membership list were the main goals of the corporation, “the less clear becomes the distinction between inputs and outputs” and with it the very ideas of efficiency and economizing. The virtue of the competitive market had been that it constrained private power and the businessman’s prerogative: only one unique decision was ever rational or efficient, and all others led to failure, so elites were checked, and even more importantly they knew what their goal in life was. Now nothing but nihilism reigned, to be confronted by great men. Yet Kaysen did not long for the return of competitive discipline: “it is far from clear that the tests of the market are appropriate to determine the answers to these questions.”⁷² The value of novelty and innovation was something inherently beyond measurement or calculation. Pushed into a dialogue internal to the responsible soul about the nature of the Good, which is not amenable to calculation or indeed any formal criteria, Kaysen pushed his audience further into mysticism. Since

⁷¹ Kaysen, “Social Significance.”

⁷² Kaysen, “Social Significance.”

“what management takes into account is what management decides to take into account” the managers are no longer dealing with merely an economy. Instead, “we are dealing with a way of life.”⁷³ Whatever seemed right to the managers *would be* right, and no coherent account of error, mistake, judgment, or critique would be possible.⁷⁴ Truth and right drop from the equation, and are replaced by a vitalism of the new corporate aristocracy.

Again, Kaysen did not elaborate on these striking observations. Instead, his views became somewhat schizophrenic, on the one hand retreating into nostalgia for the competitive market, in which businessmen would again face constraints that defined the one thing needful for them, and on the other luxuriating in the contentment that, for now, the new corporate aristocracy was in alliance with his politics and clique. The corporate reaction to Keynesian successes was, according to Kaysen, accommodationist. “Big Business, on the whole, has been weaker and less united in its opposition than small business.”

To some extent. Big Business is beginning to see itself as the beneficiary rather than the victim of Government policies which aim at promoting effective demand in order to maintain a high level of employment.

With the victory of the Keynesian revolution in government, only the old-fashioned problem of monopoly remained as a real problem, though it involved the economic power of business in particular markets, rather than some general power position in society as a whole. It was to this problem that the Mason group, and especially Kaysen’s faction within it, addressed themselves over the course of the 1950s.

⁷³ Kaysen, “Social Significance.” For more on the resonances with Wittgenstein, Kripke and Mises, see Joel Isaac, “The Political Economy of Uncertainty in the Twentieth Century” (manuscript).

⁷⁴ Rahel Jaeggi, *Critique of Forms of Life* (Harvard University Press, 2018).

In 1959, the same year Bain published *Industrial Organization*, Kaysen in collaboration with Turner, the lead lawyer for the Harvard antitrust group, came out with their magnum opus *Antitrust Policy: An Economic and Legal Analysis*. Mason wrote a forward for it, in which he differentiates Kaysen and Turner from other contributions to the field of law and economics. One school of thought, “representing many antitrust lawyers and a few judges,” dismisses economic analysis and evidence “as mere philosophizing.” But “the dominant view appears to be that the substantive issues in the antitrust field are essentially economic.”⁷⁵ According to Mason, lawyers, judges, and corporations were hungry for economic analysis as a way to put guardrails on the interpretation of antitrust law. Contrary to retrospective accounts of “economics imperialism” that see push Chicago economists elbowing their way into lawyer’s territory, there was already a large demand for these perspectives that Kaysen and Turner were merely catering to, not inventing.

What were the other economic analyses on offer that Kaysen and Turner, and indeed the whole Harvard group, were to be differentiated from? The first simply advocated for putting limitations on specific forms of firm conduct. The problem with this view was it would only ever be retrospective, correcting injustices that had already occurred when firms misbehaved, even when economic analysis might be able to identify situations in which abuse of market power is highly likely, and antimonopoly law might be able to prospectively remedy the situation. Another view emphasized intent as a more plausible candidate of scrutiny:

Intent provides an appropriate primary criterion of compliance with or violation of the law, because of the nature of the antitrust law itself. The Sherman Act prescribes a rule of conduct. It does not condemn monopoly; it prohibits monopolizing... Personal motives are

⁷⁵ Kaysen and Turner, *Antitrust*, xxi.

irrelevant. It is the pattern of conduct in a specific set of circumstances that reveals the intent.⁷⁶

The problem, as Mason pointed out, was that the “specific set of circumstances” under which intent mattered indeed had to be spelled out – which takes the analyst away from intent back towards economic structures and analysis, unless lawyers were prepared to return to the prior view that some conduct should simply be *per se* illegal.

The main issue with applying economic theory to case law, in Mason’s view, was that judges and lawyers had to make decisions based upon some ideal of “performance,” but that such ideals were inevitably hard to apply. The ideal of perfect competition was handicapped by the fact that it was “static” and had no way of accounting for innovation or dynamic changes in corporate strategies. It had the benefit of being easy to define, but that was precisely the problem – no industry is ever *perfectly* competitive. And once data on growth rates and the relative susceptibility of different firms, products, industries to cyclical fluctuations were introduced, which they must be for an accurate picture to arrive in court, there was simply no way of accommodating the analysis within the well-defined paradigm of perfect competition. The alternative ideal, which Mason associated with the University of Chicago’s George Stigler, was to make a judgment about performance on the basis of “progressiveness, dynamism, innovation” in an industry. Firms that had shown themselves to be up to the task of vigorous competition, willing to make risky investments to win market share and advance the industry, should be allowed to continue down their chosen paths, even if that resulted in additional concentration, verging on monopolization. The problem with this alternative, according to Mason, was that this ideal “cannot even be defined. There is no known

⁷⁶ Myron W. Watkins, “Review of Economic Concentration and the Monopoly Problem by Edward S. Mason,” *American Economic Review* (September 1957), 747-53 and Alfred E. Kahn, “Standards for Antitrust Policy,” *Harvard Law Review* (November 1956), 28.

way of ascertaining whether the progressiveness of firms or the rate of innovation in a particular industry constitutes good or bad performance in a given situation.” Whatever the abstract merits of pointing out the evolutionary and dynamic character of interfirm competition, in practice it was clearly a politically motivated argument. “A proposal to rely on such tests is an invitation to nonenforcement.”⁷⁷

What then can be the content of the economic analysis of antitrust? True to form, Mason uses the final pages of the forward to undercut the key theoretical contributions of his students and his school and indeed the very book he was forwarding:

The main misconception is that market power or the plane of competition can be inferred directly and exclusively from data relating to the structure of the market. As the phrase is currently used, market structure refers to those permanent, or slowly changing, competitive limitations of which a firm must take account in formulating its own policies. The most important of these limitations are the number and size distribution of buyers and sellers in the market, the conditions of entry of new firms, and the extent of product differentiation, including geographical dispersion.⁷⁸

In part this was still a part of Mason’s polemic against the emergent Chicago school. Stigler had argued that “an industry which does not have a competitive structure will not have competitive behavior” but Mason objects “a study of structure is not enough.”⁷⁹ Indeed “the critical problem” for anyone who wanted to reassess antitrust policy “is presented by oligopoly. A large fraction of manufacturing output in the United States is produced in industries in which three or four or five

⁷⁷ Kaysen and Turner, *Antitrust*, xviii.

⁷⁸ Kaysen and Turner, *Antitrust*, xviii.

⁷⁹ Kaysen and Turner, *Antitrust*, xviii.

firms account for sixty percent or more of the total.” If anti-monopoly laws were applied based on purely structural criteria, American manufacturing writ large would have to be judged illegal; at the same time, judged based on only performance criteria, almost everything but the most cartoonish collusions were licit. “To those who believe, as the authors do, that there is a substantial monopoly problem in the oligopolistic structure of American industry, but that not all highly concentrated markets fall under the ban, there is presented the problem of separating the sheep from the goats.”⁸⁰

Kaysen and Turner begin by showing just how big a flock they are dealing with, using the *Survey of Current Business* to anatomize the current American economy, dividing industries into competitive, “structurally oligopolistic,” and an “exempt” sector in which such standards do not apply. The latter includes all the publicly regulated industries – rail and transportation, electricity and gas, telephone and radio, commercial banking and insurance, and oil and natural gas – and accounts for nearly 20% of GDP. They also agree to simply “pass over in silence” the service sector without elaboration. That leaves manufacturing, which in 1953 accounted for 32% of GDP and 26% of employment.⁸¹ They then split industries into three part typology. Markets were either competitive or one of two types of “structural oligopoly:” Type One (top 8 firms have at least 50% of the market, and top 20 have at least 75%; “recognition of interdependence by the leading firms is extremely likely... likely that the response of the smaller sellers will not limit the behavior of the larger firms”) and Type Two (top 8 firms control 33%, with the rest of the market relatively unconcentrated).⁸² The results revealed a staggering amount of concentration: \$41m worth of Type

⁸⁰ Kaysen and Turner, *Antitrust*, xix.

⁸¹ Kaysen and Turner, *Antitrust*, 26.

⁸² Kaysen and Turner, *Antitrust*, 27.

I industries, \$74m worth of Type II industries, out of a total manufacturing sector worth of \$187m; 61% of American industry was structurally oligopolistic according to Kaysen and Turner.⁸³

What to make of this? The first thing to do was to dispel the Austrian finance minister's ghost, which still haunted Harvard Yard, and assume that

it is not the case that a few firms, managed by men of superior gifts, can and will continue to attract the small number of superior man-agers, and thus will be enabled to outperform all rivals in all fields, were they permitted and motivated to do so. Schumpeter frequently expressed the opposite view. Whether he had any more evidence than a temperamental inclination toward aristocracy is not clear. Perhaps it is best to label this assumption as an article of democratic faith and leave it at that.

Kaysen and Turner contemplated several possible justifications for antitrust enforcement. Perhaps competition was simply an end-in-itself. Perhaps it could be valued as a code of fair dealing and fair conduct, since "the buyer who gets no copper because excessive demand has pushed price to an unprofitably high level does not experience the same sense of unfair treatment as he would if the copper were denied him by the allocation decision of a single supplier." Perhaps it was simply a way to prevent "growth of big business, viewed broadly in terms of the distribution of power in the society at large."

All these motivations were valid – but none provided clear or consistent advice as to how or when to throw the book at monopolists. Hence Kaysen and Turner concluded that only economic *efficiency* could both justify and guide antitrust enforcement. Thus they propose eliminating the classic but ambiguous "restraint of trade," "restraint of competition," or "creation of monopoly"

⁸³ Kaysen and Turner, *Antitrust*, 32.

tests, and substituting a statute authorizing attack, not on conspiracy in restraint of trade, but on “undue market power.” The first step in assessing unreasonable market power was analysis of market structure. Market power might be attained by any of a number of possible “barriers to entry” that prevent perfect competition: “from large capital requirements to high advertising costs and closely held patented technology.” Meanwhile illiquidity in the market for specific capital goods, “and the influence of uncertainty and risk aversion on business decisions, mean that entry and exit often take place with substantial lags after the changes in profitability which occasion them.”⁸⁴ In particular, market power was defined as “a structural situation which permits a firm to behave noncompetitively,” that is to restrict output and fix prices without losing market share because of the increased output or lower prices of rivals. Evidence of market power consists in comparing actual variables of interest – prices, costs, output, capacities, investments – to the perfectly competitive ideal: if prices fail to decline in the face of declining demand or costs or excess capacity; if abnormally high profits persist for an extended period of time; if new rivals do not enter the market during periods of high profits. Specifically, undue market power would be conclusively presumed where for five years or more one company has accounted for fifty per cent of annual sales in the market, or four or fewer companies have accounted for eighty per cent. When found, market power should be eliminated by dissolution, divorcement, and divestiture, except in cases where market power is the result of economies of scale, valid patents, and new processes, products, or marketing techniques. Returns to scale were presumed to have already been identified and placed in the “exempt” sector, as with the classic network industries like telecommunications and rail, and not very prevalent in the rest of the manufacturing sector. Such scale efficiency, they argued, were present on the level of the plant, not the corporation as a whole – the difference

⁸⁴ Kaysen and Turner, *Antitrust*, 6.

between the large and largest firms was how many plants they operated, optimal plant size already having been reached. Thus why the biggest integrated steel firms could differ from one another in output by a factor of 10, oil majors by a factor of 20, and chemical manufacturers by a factor of 50: having reached the proper scale to run efficient plants, the returns from consolidating selling, advertising, research, production planning, personnel recruitment etc. were not large enough to liquidate competitors.⁸⁵ The fact that giant firms were not outcompeting merely large firms meant to Kaysen and Turner that a project of deconcentration would restore competition at no cost to economic efficiency. They would tighten merger law, preventing market power beyond a remarkably low threshold: no merger should be allowed to increase the sales of a company beyond 20% of the total market. Finally, Kaysen and Turner proposed the creation of a separate specialized federal court for market power cases, and provided an appendix with model legislation in it. By thus limiting market power, the government could plan a transition from “tight” to “loose” oligopoly more in line with the values and aims of American democracy.

These policies are hard to square with the elegies Kaysen was singing to managerial leadership in the *New Republic* and to the annual AEA meetings above. As Bearle noted in reviewing their work, “Kaysen and Turner assume, without arguing, the classic nineteenth century dogma that great market power is ‘bad,’ while the ‘free market’ is good, and they want it preserved.”⁸⁶

FISHER COMES TOO

Fisher’s first foray into consulting came while he was still a graduate student in the Society of Fellows. Kaysen had been working as a consultant for General Electric’s Research Laboratory on

⁸⁵ Kaysen, “Looking Around: Books About Competition,” *Harvard Business Review* (May-June 1954).

⁸⁶ A. A. Berle, Jr., Review of Kaysen and Turner, *The Review of Economics and Statistics*, Vol. 42, No. 4 (Nov., 1960), pp. 457-9.

general corporate strategy, when he noticed the research department's methods for forecasting electricity demand were little better than graphing historical data and drawing a linear trend into the future. He tapped his star pupil to upgrade GE's econometric equipment, and thus Fisher was inducted into the culture of corporate consulting. Fisher finished conducting the analysis in fall of 1959, the results were eventually published as his third book, *A Study in Econometrics: The Demand for Electricity in the United States* (1962). As Kaysen explained in a preface to the book, Fisher did all the econometrics while Kaysen lent his name to the cover, his connections, and critical "guidance in the shaping of hypotheses."⁸⁷

The analysis Fisher conducted in *The Demand for Electricity* opened many opportunities for him. The book was published as a part of Jan Tinbergen's book series in Amsterdam, *Contributions to Economic Analysis*, which aimed to cover "both the activities of the theoretical economist and the research worker... the theoretical problems encountered in practical research."⁸⁸ Most contributions were on business cycles, national accounting, economic policy, and the "problems of planning." Fisher and Kaysen contributed the Harvard case study method of in depth analysis of single industries, and Tinbergen published it for an international audience.

As Fisher's first major case study, it was also his first encounter with the difficulty of acquiring data for econometric IO. Without the ability to compel testimony or otherwise direct the state to acquire the necessary facts and figures, as Mason had done with the TNEC, OPM, OSS, and MPC, Fisher had to find a new way to compile the raw material for his statistical analysis. While GE was more than willing to allow Fisher to ransack the archives of the Research Lab and the Project

⁸⁷ Fisher and Kaysen, *A Study in Econometrics: The Demand for Electricity in the United States* (North-Holland Publishing Company, 1962), preface.

⁸⁸ Fisher and Kaysen, *A Study in Econometrics: The Demand for Electricity in the United States* (North-Holland Publishing Company, 1962), introduction to the series.

Analysis Section for whatever records he wanted, the project required more than corporate accounts. In order to forecast electricity demand in a meaningful way, Fisher needed to construct indexes for the stocks of electricity using equipment, as well as estimates of the relative electrical efficiency of major equipment classes. As a major vendor and designer of such equipment, GE could provide some data but only so much. To remedy this lack, GE hired three women: Joan L Bolker, Anne L Kinnel, and Cynthia M. Travis, who “provided invaluable help in acquiring data,” traveling to government statistical agencies in DC and New York, spending “several months in the accumulation and processing of the data relating to consumer’s stocks of selected major appliances” that formed the bedrock of his econometric analysis. GE also paid for a team of “computers” at Harvard’s Littauer Statistical Laboratory to perform the “almost Sisyphean computations” needed to implement his advanced statistical techniques. Their names were C. Harvey Willson and Beverly Scott.⁸⁹ Although large IBM mainframe computers were available, they were complex and time consuming to use, and it was cheaper to pay humans for the tedious number crunching tasks once Fisher had designed the formulas and had the data collected.

The book is written in the traditional Harvard IO style. Soporific and severe, a full third of the book is composed of appendices, and of the pages left in the main text another third is taken up by graphs, equations, and tables - some spanning more than two pages. It is the style of a man who is carefully reproducing the analytical structures drawn up on the blackboard because he values completeness and right-angles more than persuasion or readability.

For this history, we need not be detained for long by the techniques and their quantitative outputs. Instead what is striking about the book are the economic conclusions. Household electricity

⁸⁹ Fisher and Kaysen, *Demand for Electricity*, acknowledgements, chapter 2.

demand is a function of the stock of energy-using equipment; adoption of new gadgets follows an S-curve of slow takeup, rapid popularization, and saturation; therefore in the absence of innovation, energy demand tends to reduce to a function of income and population size. Industrial demand for electricity would be the same except for the tendency of large businesses to substitute towards less electricity-intensive forms of machinery over time in response to cost pressures. In both cases, the only way to sustain electricity demand growth above the sum of population and income growth is constant innovation to introduce new consumer goods and new production processes.

The return to innovation would become a constant *leitmotif* of Fisher's theoretical life. It began in 1957 when Kaysen was on leave from Harvard and suggested that, in his absence, Fisher try to formalize Joseph Schumpeter's *Theory of Economic Development*, the font of innovation-talk in 20th century economics departments. Fisher found it too difficult, and had to abandon the project in 1957. But Schumpeter's vision of the competitive economic process - creative destruction - would linger in the recesses of his academic output forever after. Schumpeter had argued that neoclassical economics was fit only to describe a "perfectly rotating economy," a circulation of goods, services, money, credit, and labor in equilibrium, but that the real capitalist economy was characterized by disruptions and evolutionary mutations that expanded the economy in new and qualitatively unpredictable ways. Of course the perfectly rotating economy could "grow" by simply adding "more" - more labor, more credit, more money, more goods and services - but that tended in the long run not to be the source of improvements in living standards, for the basic Ricardian-Malthusian reason that additions to the labor supply were ultimately subject to diminishing returns, and hence any quantitative increases in economic life were bounded above. By contrast, real change over time to living standards came from qualitative alterations arranged

by entrepreneurs, who not only combined capital, labor, and technology but did so in new ways. These innovations came from the competitive drive inherent in the structure of capitalist markets - in a perfectly rotating economy, competition eliminated excess profits, and drove capitalists near to the brink of bankruptcy. To survive, capitalists tried to exit competition by innovating into a new market. Rather than sit and compete down to zero in the horse and buggy market, entrepreneurs tried their hands at other kinds of transportation technologies until they got to the internal combustion engine. By the 1940s Schumpeter had moved to Harvard, where he worked out his vision of capitalism in the atmosphere created by Chamberlin's microeconomics and Mason's case studies. In 1942, Schumpeter dubbed this process "creative destruction." Schumpeter condemned the New Deal antimonopolists at TNEC and elsewhere for failing to appreciate that market power brings benefits as well as costs, because it is precisely by the use of market power that corporations can gain the space they need to innovate, "because monopolization may increase the sphere of influence of the better, and decrease the sphere of influence of the inferior, brains."⁹⁰ The capital, bureaucracy, and long-range planning capabilities of the modern corporation, when headed by an aristocracy of talent, were the main engines of progress. The main economic problem then was not static allocation of factors between firms to produce most efficiently, not "how capitalism administers existing structures" but rather "how it creates and destroys them."⁹¹

The competition that counts is "the competition from the new commodity, the new technology, the new source of supply, the new type of organization (the largest-scale unit of control for instance) -competition which commands a decisive cost or quality advantage

⁹⁰ Schumpeter, *Capitalism, Socialism, Democracy* (1942), especially chapters 7 and 8, this quote 101. See also Edward S. Mason, "Schumpeter on Monopoly and the Large Firm," *The Review of Economics and Statistics*, May, 1951, Vol. 33, No. 2 pp. 139-144.

⁹¹ *Ibid.* p. 83.

and which strikes not at the margins of the profits and their outputs of the existing firms but at their foundations and their very lives. This kind of competition is as much more effective than the other as a bombardment is in comparison with forcing a door, and so much more important that it becomes a matter of comparative in- difference whether competition in the ordinary sense functions more or less promptly; the powerful lever that in the long run expands output and brings down prices is in any case made of other stuff.⁹²

The problem for young Fisher, at least in 1957, was that formalizing the perfectly rotating economy had already been accomplished, and Schumpeter's point seemed precisely to be that the role of the entrepreneur was to break out of formalisms into a new kind of economic life – a role and process that would be hard to formalize! But it was a vision of capitalist life that he came back to again and again, ultimately (in his mind at least) succeeding at formalization in the 1980s. By the end of the 1950s, Fisher had absorbed a wide array of influences, from Edward Mason's experience as a quintessential New Deal Liberal at the TNEC, OSS, and Marshall Plan, to Schumpeter's Conservative reaction against that very New Deal vision. Both streams seemed to come together in Carl Kaysen's Cold War liberalism, which accepted the legitimacy of the modern corporation as the vehicle for social transformation and ethical life.

When Fisher finished his PhD, he was promised a job at Harvard after completing a short stint elsewhere to earn tenure, to avoid the appearance of impropriety and intellectual incest.⁹³ Fisher spent the year 1959-60 at the University of Chicago, and immediately came to the conclusion that it was “at a low point as regards economics.”⁹⁴ The Cowles Commission had just left for Yale, and nothing had replaced it, leaving Chicago relatively backwards in the technical areas of

⁹² Ibid. p. 84-5.

⁹³ University of Chicago Archives. Department of Economics, Records. Box 42, Folder 9, letter dated January 5, 1959.

⁹⁴ “My Career in Economics.”

mathematical economics in which Fisher specialized. Instead, “in the great Chicago tradition, the Economics Department was very ideologically oriented,” and worse, “no one in the department within ten years of my age.”⁹⁵ Hence, although he recalls the department as extremely kind to him, there was no temptation to stay. Until, that is, the offer from Harvard was rescinded. In his autobiography he is cryptic:

“I discovered that (in a story not worth relating) I had been the victim of the ongoing fight over the usefulness of technical economics. That was a fight that had been going on at Harvard since Paul Samuelson’s day, and was not to be satisfactorily resolved for another ten years. I found that agreements would not necessarily be kept. As a result, I was only mildly tempted by later Harvard offers in the early 1960s.”⁹⁶

In a letter to Robert Solow, Fisher hinted that he was back on the job market. “My view that Harvard was the natural, indeed the only, place at which to work has changed dramatically.”⁹⁷ Solow responded with an offer of employment, and by fall 1961 Fisher was at MIT.⁹⁸

⁹⁵ “My Career in Economics.”

⁹⁶ “My Career in Economics.”

⁹⁷ Letter dated January 16, 1960, FMFP, Box C5, folder “Solow, Robert.”

⁹⁸ “My Career in Economics.”

APPENDIX



Figure 1: Franklin Fisher. Photo courtesy of MIT, Department of Economics



Figure 2: Carl Kaysen, photo courtesy of the *New York Times*, Feb 19, 2010.



Figure 3: Kaysen, photo courtesy of Shelby White And Leon Levy Archives Center, Institute for Advanced Study

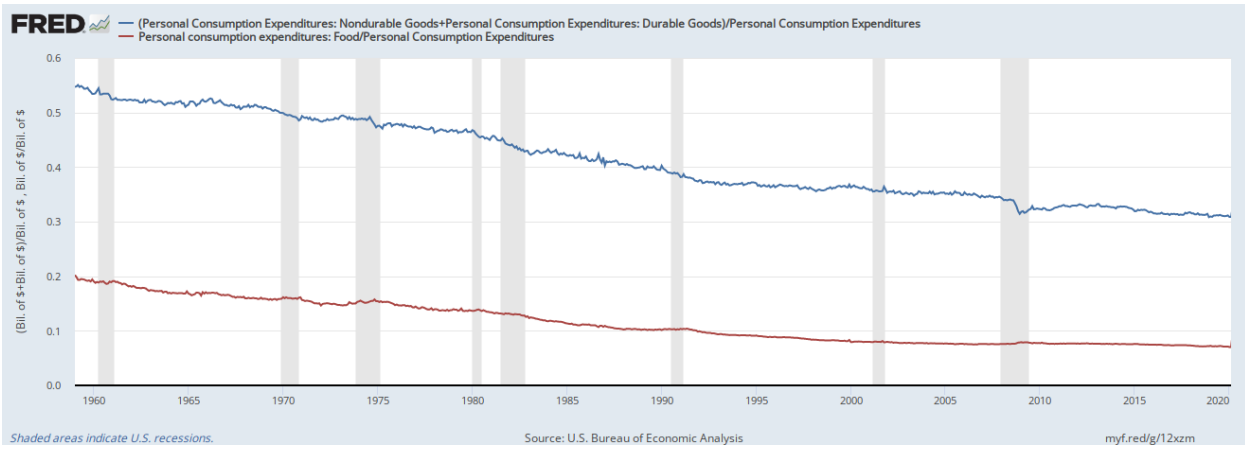


Figure 4: Engles' Laws for food and goods. Whereas goods accounted for 55% of consumption spending at the time of Kaysen's writing (1959) it accounts for 30% today.



Figure 5: If we restrict our observations only to elites and not the economy as a whole, the weight of small businessmen (here represented by dark red dot, “pass-through income”) has been rising steadily compared to capitalists who primarily earn business income as a result of holding C-corporation equity. In 1960, corporate capital accounted for roughly 2/3 of elite income, and small businesses only 1/3, by the end of the century those numbers had been reversed. Source: Matthew Smith, Danny Yagan, Owen M. Zidar & Eric Zwick, “Capitalists in the Twenty-First Century,” NBER Working Paper 25442 (January 2019).