world can be seen from different standpoints, that each can render the others absurd, and that none of this makes everything absurd nor renders it impossible to stay with one's own standpoint and to enjoy the difficulties of doing so as part of the sport of living.

This is indeed an admirable quality and a high virtue, and there are many other striking virtues, illustrated from Trollope's novels, in Letwin's chapters on manners, occupations, love, ambition, and religion.

But if it is a general truth that nothing in life is perfect, that all good things have "the defects of their virtues," then the conspicuous question left unposed by Letwin is, "What is (morally) *unattractive* in the gentleman?" My own answer: gentlemen are, characteristically, unperturbed (or secretly pleased?) at their own rarity.

Why is this a defect? Because if Letwin is correct, the gentleman is he or she who responds appropriately to the understanding of human nature as "the capacity to shape a character." Human nature is, of course, perfectly general. Then how can gentlemen be so unconcerned about their own rarity? Do they idly suppose it is because only a few are made "of the right stuff"? Then they fall into fallacious elitism, for the stuff of which gentlemen are made is none other than the human nature in which all persons participate equally.

Perhaps the gentleman has oftenest (not always) enjoyed certain conditions that are not general? Letwin suggests as much in her defense of hereditary aristocracy.

Those who, in the nursery, or in the drawing room, have heard nothing coarse or sordid, who have had the opportunity to converse with the cultivated and wise and have possessed the books with the leisure for reading and reflecting, are more likely to be fit to live on an eminence and serve as a model to their fellows. If such people have taken care over many generations to hand on their achievements and not to adulterate their inheritance, they will form a class who consistently display the virtue of a gentleman in its most polished form.

What is the purpose of this "display"? Letwin says it is to provide a model; but as a model the gentlemen have evidently been ineffective, for we are told that they were always a rarity and are now nearly extinct. The gentlemen's unconcern over this suggests that the purpose of their display may in fact have been to exhibit themselves, not as models for emulation, but as eminences to be revered.

Why should we not be concerned that a people, and not just a class, "take care over many generations to hand on its achievements and not to adulterate its inheritance"? But if we are so concerned, how can we be uninterested in the question of generalizing the conditions conducive to this outcome? Neither Letwin nor the gentleman she and Trollope describe show a trace of such an interest.

The book is marred by negligent proofreading. My copy has a list of "errata" pasted to the flyleaf and contains an additional 45 typographical errors to the point at which I stopped counting. A well-produced book contains three or four such errors, and an excellently produced book contains none. I am reminded of this book's advice that the gentleman exhibits "a readiness to take pride even in performing unnoticed, tedious tasks."

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Do Mergers Matter?

Mergers in Perspective.
By Yale Brozen.
Washington, D.C.: American Enterprise Institute. 1982. 85 pp. $14.95/$6.95.

Reviewed by William P. Field

Mergers in Perspective contains a wealth of information on the newly important merger issue. Yale Brozen, professor of business economics at the University of Chicago, begins by pointing out that the United States has the world's most restrictive laws with respect to mergers. The central issue of concern in the book is the wisdom of such laws.

Brozen first summarizes the US merger experience, with merger waves occurring in 1898–1902, 1926–30, and 1966–70. A fourth wave seems to be materializing at present. The character of these mergers has changed drastically. Horizontal mergers dominated in the 1898–1902 period, when the notorious trusts in oil, tobacco, steel, and other industries were formed. In the 1960s and today, conglomerate mergers for market extension, product extension, or between unrelated firms have dominated. This change in the nature of mergers has resulted primarily from changes in antitrust legislation and enforcement, with horizontal mergers between significant competitors almost totally prohibited since 1950.

Brozen subsequently examines whether these merger waves led to rising industrial concentration. While the 1898–1902 wave did, the evidence indicates that average concentration in American industry has changed little throughout the rest of the 20th century. Neither government policy nor the actual level of merger activity seems to have had any significant effect on concentration. Even the mergers of the 1898–1902 period had little permanent effect on the structure of American industry. Brozen argues, with considerable evidence and logic to support his position, "that fundamental technological and economic forces determine industry structure and that it is little different today from what it would have been without the turn-of-the-century consolidations."

Brozen devotes a major portion of the book to conglomerate mergers because of their current relevance, first analyzing the effect of conglomerates on efficiency. Dennis Mueller has argued that conglomerate mergers do not increase efficiency because the acquiring companies earn only normal returns on the assets acquired. Brozen criticizes this reasoning because it ignores the existence of a competitive market for acquisitions. The prices of companies eligible to be acquired are bid up until only a normal return can be earned by the acquiring company. More meaningful evidence supporting the greater efficiency of the acquiring company lies in the premiums paid for acquired companies. These premiums have averaged 25 percent or more since 1955.

Additional evidence on the efficiency of conglomerates is provided by their greater value added per employee and their higher level of wages relative to single-industry firms. Exactly why conglomerates are more efficient is unclear. Their greater efficiency may be a result of joint use of facilities and personnel, removal of incompetent managers, closure of unproductive operations, or advantages in raising capital.

Brozen next looks at the question of conglomerate power. He considers the predatory pricing issue, explaining the view of most economists specializing in industrial organization that an attempt to monopolize by temporarily selling at a loss to bankrupt competitors is highly unlikely to be a profitable policy. While conglomerates do have a superior ability to lose money, the amount that has to be lost in the act of monopolizing is so large that huge profits would have to be made on the monopoly established. But any attempt to raise prices inevitably must face the danger of entry of new competitors. Thus, the successful use of predatory pricing by conglomerates seems quite unlikely. Brozen effectively responds to such anticonglomerate arguments as the danger of reciprocal dealing and the possibility of mutual forbearance.

Some economists have argued that conglomerates should be forced to enter industries by beginning from scratch rather than merging with existing firms, claiming that the new entry would increase competition and that conglomerate mergers prevent this expansion of competition from occurring. Brozen points out that this argument ignores the most important reason for conglomerate mergers—the opportunity to acquire poorly managed assets. Evidence indicates that conglomerates generally acquire firms that are significantly less profitable than the average for their industries. After acquiring such relatively unprofitable firms, the acquirers, on average, are able to earn a competitive return. Thus, such conglomerate takeovers perform the socially valuable function of weeding out incompetent management. Barring such mergers would drastically restrict this social gain. Also, barring firms from selling their assets to large conglomerates would make development of new firms less attractive. Brozen concludes that restrictions on conglomerate mergers simply protect inefficient management and discourage the development of new firms.

Brozen next considers the issue of aggregate concentration (dominance of the entire economy by a small number of firms). He questions arguments regarding the dangers supposedly resulting from higher aggregate concentration. It is dominance of a market for a specific product that yields monopoly power. Huge size provides little power if substantial competition exists in every market. Brozen challenges the almost universally accepted position that aggregate concentration has been rising, arguing that a more reasonable interpretation of the evidence indicates the trend is toward declining aggregate concentration.

In examining the economic and political power of the largest firms in the US economy, Brozen claims that the giant firms of the past and present really have had very limited economic power. With respect to political power, it is the smaller (and more numerous) firms that generally have more influence. Government policy toward the oil industry has consistently favored independents over the majors. The huge firms in the automobile and pharmaceutical industries certainly have had little success in recent years in combatting government regulators. Farmers, trade associations of small firms, and organizations consisting of licensed professionals, on the other hand, seem to have much greater political influence.

Brozen concludes that, with respect to horizontal mergers, there is little need for government restriction. Even mergers for the purpose of monopolizing are generally unsuccessful in achieving that goal. Also, concentrated industries often perform better than unconcentrated industries, with only a very small number of competing firms necessary to force competitive pricing policies. With respect to conglomerate mergers, Brozen has no doubts at all—all restrictions should be eliminated. Basically, Brozen argues that mergers, rather than being a method of monopolizing, are actually a crucial element of the dynamic market process.

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What Every Taxpayer Should Know

Better Government at Half the Price
By James Bennett and Manuel Johnson
Aurora, Ill.: Caroline House.
1981. 115 pp. $5.95.

Reviewed by Lou Witzeman

"The Bureaucratic Rule of Two"—that a service provided by a public agency rather than a private firm costs more by a factor of two—receives stunning economic proof in *Better Government at Half the Price.* The book should be destined for the hands of every taxpayer with an income of more than $500 per month and an IQ exceeding 67.

The authors commence with Ben Franklin's old axiom, "In this world nothing is certain but death and taxes." This axiom, coupled with their concluding statement that "taxes can be cut dramatically, yet no government services need to be reduced (though perhaps many should be)," captures the flavor of the authors' argument. They proceed to itemize an amazing array of services that can be and have been provided by private enterprise at prices consistently following the Bureaucratic Rule of Two. Many of the services are sacred cows of traditional governmental operations, such as fire and police provision.

Carefully documented with data drawn from private research and governments' own files, the book submits proof of its hypothesis. It then offers a fascinating chapter presenting the opposing views of labor unions, which frankly admit that their words are self-serving and then trot out the old negative myths about big, bad business.

The book can be read easily in an evening. The Internal Revenue Service in its infinite wisdom and caprice should elect