

BUTLER SHAFFER. *IN RESTRAINT OF TRADE: THE BUSINESS CAMPAIGN AGAINST COMPETITION, 1918–1938*. CRANBERRY, N.J.: ASSOCIATED UNIVERSITY PRESSES, 1997. Pp. 284.

A naïve view holds that politicians are benevolent and businessmen are evil; thus, any governmental measure opposed by business must be in the public interest. When such a view becomes widespread, tyranny follows. Fortunately, few Americans exhibit such ignorance.

An equally false view holds the opposite—that businessmen are intent upon serving consumers through peaceful means, and will only support those governmental measures beneficial to the commonweal. This flawed analysis is also liable to tyranny, and may even be the more pernicious, given its superficial plausibility. Many people—including this reviewer, not so long ago—subscribe to it, and politicians have often exploited this approach in their pursuit of ever-increasing power.

Of course, the fundamental flaw is to consider “business” a monolithic entity with a unitary set of interests. One must realize that the interests of textile firms do not coincide with those of automakers, nor those of “big business” with those of sole proprietorships. Indeed, one must acknowledge the initially counterintuitive notion that big business, in the battle against pesky upstarts, may actually *clamor* for increased government regulation.

Such is the claim made in Butler Shaffer’s *In Restraint of Trade*. As he puts it,

It is the purpose of this book to inquire into the attitudes of business leaders toward competition during the years 1918–38 and to see how those attitudes became translated into proposals for controlling competition through political machinery under the direction of trade associations. (p. 15)

Shaffer then proceeds with a rigorous defense of this thesis. Relying on copious quotations, he documents how the enforced cartelization of the War Industries Board in World War I offered the entrenched businesses “a temporary respite from what many regarded as the killing pace of commercial warfare” (p. 18). The rising prevalence of the collectivist creed contributed to the growing popularity of the notion that “decision-making that emphasized the well-being of the *individual firm* was to be eschewed” to emphasize “the *collective* interests of the *industry* itself” (p. 19). Indeed, the very underpinnings of the free market were being challenged:

One finds industry leaders and trade groups railing constantly against the “price cutter,” the “cutthroat” competitor, and the entrepreneurial interloper who dared to “invade the territory” of an established competitor. (p. 19)

Early on, Shaffer details the rise of trade associations and codes of ethics, which allows for some downright entertaining quotations, a welcome delight for a book concerned with inter-war trade practices. The American Bottlers of Carbonated Beverages, for example, solemnly pledged, “My desire shall not be to undersell my fellow bottlers, but to contend with them for first place in the quality of my products and service I render my patrons” (p. 65). A prominent textile trade association offered a similar exhortation: “Legitimate competition is the life of the industry, but unscrupulous competition is injurious to yourself, to your competitor, and to your industry” (p. 65). However, the doubletalk of these codes pales in comparison to the rhetorical excellence of the American Warehousemen’s Association, which framed its proscriptions of price-cutting not as an attempt to strengthen the industry, but to rescue the beleaguered consumer:

Nothing so shakes the confidence of the Public as the knowledge that only through haggling and bargaining can it be sure of obtaining the lowest and presumably fairest rates; nothing is so unfair to the unsuspecting and trusting customer; nothing is so damning to the effort to establish confidence and good-will and to carry on our business legitimately and honestly on a plane of fair dealing with equal advantage to all. (p. 65)

Those familiar with the used-car dealer’s “No Dicker Sticker!” and the wholesaler’s “Every day is a sale day!” will ruefully conclude that, yes, indeed, history repeats itself.

Shaffer explains that these initially voluntary codes and associations failed in their announced purpose to eliminate “unhealthy” price-cutting, and soon turned to government to enforce such “voluntarism.” He then offers the single most powerful critique of the predatory pricing bogey that this reviewer has ever seen (pp. 67–68), though it does not quite satisfy the reader acquainted with Game Theory (e.g., even if a big firm is reaping inordinate profits, why would it be strategically wise for any *individual* upstart to challenge it, if the big firm has the resources to ruin at least the first few such challengers?). Such theoretical concerns aside, Shaffer decisively demonstrates that predatory pricing is not a realistic danger, and that ostensible historical examples of the strategy are dubious.

Book Reviews

The book's one serious shortcoming is Shaffer's fascination with chaos theory. He attempts to defend *laissez faire* as the only policy consistent with the findings of this relatively young scientific field. Although Shaffer's treatment is commendable in that he clearly knows the subject—in contrast to other writers who have seized upon the results of chaos to justify their particular stances—it is nonetheless untenable. He does not simply offer chaos theory as a passing analogy to the economic system; rather, he devotes nine full pages to the development of his case (pp. 37–45), and returns to the theme in his concluding remarks (p. 208). Shaffer goes so far as to liken the pricing system for a given product to a “strange attractor”—a technical term—and to consider “money, new technology, information, or other resources” as “externally derived energy” in the same sense that a physicist would (pp. 37–38).

It cannot be emphasized enough that despite the philosophical interpretations of many of the theory's leading practitioners, chaos studies the behavior of *completely determinate* systems. The field's name derives from the fact that in *practice* (not in *principle*), knowledge of the system's initial state is always imperfect—which leads to hugely erroneous predictions—and also to the fact that even *with* perfect knowledge of the initial conditions, computational difficulties (due to nonlinearities) make it impossible to describe the future state of the system. The fascination with such systems derives not from their complexity *per se*—it is a trivial task to write a system of insoluble equations—but from the fact that such “chaos” can result from a few simple “laws of motion” which, at first glance, appear entirely innocuous.

Shaffer's work will be palatable to the reader acquainted with Austrian economics, and contains references to Rothbard, Kirzner, Hazlitt, Machlup, and Mises. It is, therefore, particularly odd that our author's treatment of chaos theory neglects all standard Austrian criticisms of formalism in economics—specifically, the fact that in human affairs, there *are* no constant relationships (unlike the laws governing the models of chaos). Rothbard had it right when he said that chaos theory is a welcome innovation in that it explodes the familiar claim that the results of mathematics or physics “prove” the scientific necessity of central planning, but that chaos theory itself is no paradigm for a theory of human action.

In this context, we must also frown upon Shaffer's supplemental use of the laws of thermodynamics to “justify” *laissez faire*. If the goal

is really to “avoid an entropic death” (p. 38), then the first thing we should do is kill all the engineers, since they build those wicked machines which transform orderly fossil fuels into random thermal energy.

All such quibbles aside, Shaffer’s book is a wonderful resource in which the author takes great pains to demonstrate the intellectual honesty of his account. The Introduction and first three chapters offer an airtight defense of the main thesis, while the subsequent chapters provide exhaustive quotations and data concerning the experiences of individual industries. In this respect, *In Restraint of Trade* will satisfy both the curious layman and the serious scholar.

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