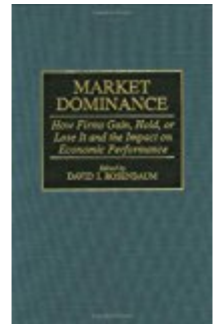

David I. Rosenbaum, ed.. *Market Dominance: How Firms Gain, Hold or Lose It and the Impact on Economic Performance.* Westport, Conn.: Praeger, 1998. viii + 274 pp. $69.50, cloth, ISBN 978-0-275-95604-2.

Reviewed by Christopher J. Castañeda

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Powerful firms can force the inefficient allocation of resources. If the market fails to discipline such firms, should government policy do so? In this collection of essays edited by David I. Rosenbaum, Professor of Economics at the University of Nebraska-Lincoln, fourteen authors study this issue by analyzing eleven dominant firms operating in ten industries. Each essay is essentially a case study that examines an industry dominated for varying time periods by a particular firm. In the case of automobiles, both Ford and General Motors are scrutinized in a single essay; the chapter on the tobacco industry probes several firms that comprise the Tobacco Trust. Altogether, the authors query issues related to corporate dominance in the oil, tobacco, aluminum, magnesium, film, automobile, computer, software, health insurance, and long-distance telephone industries. Some of the subjects, such as the rise of Standard Oil between 1865 and 1911, the early histories of Ford and GM, and AT&T's long-term monopoly are familiar to students of big business. Other essays scrutinize less well known examples of firm dominance such as Blue Cross's role in health insurance and Dow Chemical's involvement in the magnesium industry.

The essays are expectedly complementary. They elucidate common factors that thematically link each story of dominance. Six traits generally characterize these firms in their rise to dominance, maintenance of monopoly, and (in most cases) loss of control. The common traits that facilitated the development of dominance in these examples are: being a first mover; strong leadership; cost advantages often through economies of scale; effective product promotion to stimulate demand; strategic use of patents and technology; and general dominance through size. While these characteristics suggest that a generally efficient firm is most likely to attain a commanding position in its industry, efficiency provided only one path towards dominance; AT&T, Standard Oil, and the tobacco trust also achieved market control by preying on competitors and engaging in price wars.

The rise to dominance in these cases typically followed implementation of cost advantages. Dow and Alcoa had lower costs in certain stages of production; Ford pioneered cost efficient assembly line manufacture; GM lowered its costs through massive sales volume; and Kodak created cost advantages for itself by exploiting the complementary camera and film markets. Vertical integration, the authors contend, was not always an effective strategy for dominance; at GM integration facilitated lower cost production in the firm's early years yet brought high costs later.

These cases also suggest common strategies for maintaining market control. Innovating and implementing new technology, and protecting it through patents, contributed to sustained dominance and generally empowered these firms; in other instances new technologies allowed businesses to challenge existing industry leaders. Strong and progressive management also characterized firms in control of their markets. Chief executives who understood their markets and were able to make insightful strategic decisions based on changing market conditions "led the evolution of their industries" (p. 234). Dominating firms controlled by dominating leaders are hallmarks of corporate America, yet all have finite life spans. Today we ponder the future of a Microsoft without Bill Gates. Indeed, a chief manager can also lead a firm to dominance and then take it to the house of problems. Henry Ford became "autocratic ... and unable to respond to changing market conditions" (p. 247). At Kodak and IBM, a variety of factors contributed to the decline of management's sagacity and these firms' loss of market control.

Microsoft and the Tobacco Trust are the only organizations in this study which remain dominant. The other firms lost their market control for a variety of reasons generally defined as a loss of advantage: management became arrogant and inflexible, market conditions changed, and the government flexed its own muscle. In the case of Standard Oil, a combination of new supply areas in the mid-continent and California along with a proliferation of Gulf Coast refineries changed the oil industry's market structure as well as Standard's position in that market. Federal anti-trust policy also contributed to the demise of many firms' hold on their markets. The U.S. Supreme Court dissolved Standard Oil in 1911, AT&T's monopoly ended with the Modified Final Judgment of 1982, anti-trust action directed at IBM changed its corporate strategy, and Microsoft is fighting a similar battle today.

These concise and brief case studies provide cogent summaries of the rise and fall of very big business within a market context. In the case of tobacco, the topic is not monopoly but oligopoly and the Tobacco Trust. The authors of this essay note that during the twentieth century, three to four firms consistently controlled from 80 to 98% of the cigarette sales market. For comparative purposes, the editor/authors might have included another essay on an industry dominated by oligopoly. For example, recent congressional debate about the efficacy of the Public Utility Holding Company Act (1935) suggests another industrial study which most likely contains similar lessons.

Ultimately, this collection of essays concludes that government intervention in markets is justifiable in certain instances. While dominant firms often bring technological innovation and more efficient production methods to their industries, they sometimes stifle competition and misuse the power that their very size creates. Since some "[d]ominant firms can become inefficient, yet remain dominant for many years" and others "can price inefficiently without attracting successful entry," a government policy toward dominance is required (p. 253).

Not only should antitrust policy be used to prevent dominant firms from quashing competition, government should consider its antitrust policy within broader trade policy. Rosenbaum concludes that since in some industries only foreign competitors were able to overcome a U.S. dominant firm's advantages, "a fairly open trade policy may be one tool to limit the power of dominant firms" (p. 254). It is not only market forces which determine the destiny of powerful firms, it is often price wars, strategic acquisitions, pricing schemes, and other management strategies intended to stifle competition that need to be controlled if not by the market then by policy. The call for reasonable domestic policy is somewhat muted in the sense that policy is described generically. Altogether, this is an interesting collection of essays which suggest that dominant firms should be responsive to reasonable rules of competition which, left unenforced by the "invisible hand" of the domestic market, should be exacted by foreign competitors or promulgated by government policy and law.

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