Monopoly And Competition

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Free competition is as much threatened by coercive attempts to perfect it as by direct abuse of monopoly powers

According to the writers of economic textbooks, competition is not just competition; there is "perfect competition," "imperfect competition," "non-price competition," "unfair competition," "potential competition," "workable competition," "monopolistic competition," and a host of other kinds.

To the degree that I understand these terms, the distinctions between the various kinds of competition are primarily based upon the number and relative size of the producers or buyers in a market for a given product. The range is from so-called "perfect competition" where there are a great many producers, no one of which is significantly large, to "monopoly" where there is only one producer. In theory — and I think in theory only — there is also a paralleling consequence to prices. Thus, under so-called "perfect competition" producers can theoretically get very little for what they produce, while under "monopoly" the producer can theoretically charge whatever people are willing to pay rather than do without the product.

And finally, there is often some sort of social judgment that is implied. The implied judgment is that "perfect competition" is a good thing — an objective generally to be sought or achieved by law, while anything less than so-called "perfect competition" is something short of perfection with monopoly at the tail end of the procession being regarded as something very bad that ought to be abolished and forbidden.

That such a social judgment is achieved is, I suppose, quite natural. There is an insidious semantic inducement to do so in the very terminology itself. Thus these economists have set up for theoretical analysis a hypothetical condition which, in the real world, seldom, if ever, exists at any time or place. They have given this condition a name, to wit: "perfect competition." Perfect competition assumes producers so numerous and small that the disappearance of any one of them would be unnoticed. It also assumes complete information and mobility of resources — that is, entry into or withdrawal from production being relatively costless.

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Any scholar at any time has a perfect right to establish a hypothesis, give names to concepts, define his terms, make and state assumptions, abide by them, and reason from them. These are, indeed, the methods of scientific analysis. In this case, however, the choice of the name, "perfect competition," was, I think, a little unfortunate. It is popularly interpreted to mean the "best kind of competition." The technician using this terminology is also able to point to any industry in America and say that competition in that industry is "imperfect" or "oligopolistic." To make it "perfect," all large units of production must be forcefully broken up into little bits. From there on out, discussion is more likely to become demagogic than discerning.

This gets things turned upside down because the fact is that so-called "perfect competition" is not the best kind of competition for America. As a matter of fact, it is probably the very worst kind, from the point of view of getting the maximum production and distribution of the good things of life. I believe this to be true: If the economist's ideal "perfect competition" were ever legislatively imposed and enforced in this country, prices would not be lower but very much higher; and productivity would decline so far and so fast that millions of us would literally die of starvation and destitution.

One does not have to go any further than his own home and back yard to prove this. Thus in the little economic world of the home, mother has a monopoly of preparing the meals, while father has a monopoly on mowing the lawn. Now suppose "perfect competition" were imposed and they were forced to compete with each other. Well, I can testify that father's time spent in the kitchen would be largely wasted, and mother's time behind the lawnmower might be a shade less effective than father's. Net result: The family's living scale would go down.

In the community at large, under an enforced "perfect competition," the only way that the more efficient producers could possibly be kept from getting a bigger share of the market would be to forbid them to do so under threat of fine, imprisonment, or punitive taxation. Thus the inefficient would be sheltered; costs and prices would be kept up; the benefits of the division of labor would be denied;