PLATONIC COMPETITION

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A Publication of

The Jefferson School
of Philosophy, Economics, and Psychology

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The doctrine of "pure and perfect competition" is a central element both in contemporary economic theory and in the practice of the Anti-Trust Division of the Department of Justice. "Pure and perfect competition" is the standard by which contemporary economic theorists and Justice Department lawyers decide whether an industry is "competitive" or "monopolistic," and what to do about it if they find that it is not "competitive."

"Pure and perfect competition" is totally unlike anything one normally means by the term "competition." Normally, one thinks of competition as denoting a rivalry among producers, in which each producer strives to match or exceed the performance of other producers. This is not what "pure and perfect competition" means. Indeed, the existence of rivalry, of competition as it is normally understood, is *incompatible* with "pure and perfect competition." If that is difficult to believe, consider the following passage in a widely used economics textbook by Professor Richard Leftwich:

"By way of contrast, intense rivalry may exist between two automobile agencies or between two filling stations in the same city. One seller's actions influence the market of the other; consequently, pure competition does not exist in this case." (Richard H. Leftwich, *The Price System and Resource Allocation,* Third Edition, Holt, Rinehart and Winston, Inc., New York, 1966, p. 24.)

While competition as normally, and properly, understood rests on a base of individualism, the base of "pure and perfect competition" is collectivism. Competition, properly so-called, rests on the activity of separate, independent individuals owning and exchanging private property in the pursuit of their self-interest. It arises when two or more such individuals become rivals for the same trade. The concept of "pure and perfect competition," however, proceeds from an ideology that obliterates the existence of individuals, of private property, and of exchange. It is the product of an approach to economics based on what Ayn Rand has characterized as the "tribal premise." (Ayn Rand, *Capitalism: The Unknown Ideal,* The New American Library, New York, 1966, p. 7.)

The tribal premise dominates contemporary economic theory, and is, as Miss Rand writes, "shared by the enemies and the champions of capitalism alike . . ." The link between the concept of "pure and perfect competition" and the tribal concept of man, is a tribal concept of property, of price and of cost.

According to contemporary economics, no property is to be regarded as really private. At most, property is supposedly held in trusteeship for its alleged true owner, "society" or the "consumers." "Society," it is alleged, has a right to the property of every producer and suffers him to continue as owner only so long as "society" receives what it or its professorial spokesmen consider to be the maximum possible benefit. As Professor C. E. Ferguson, a supporter of the "pure and perfect competition" doctrine, declares in his textbook: "At any point in time a society possesses a pool of resources either individually or collectively owned, depending upon the political organization of the society in question. From a social point of view the objective of economic activity is to get as much as possible from this existing pool of resources." (C. E. Ferguson, *Micro-economic Theory,* Richard D. Irwin, Inc., Homewood, Illinois, 1966, pp. 163f.)

According to the tribal concept of property, "society" has a right to one hundred percent of every seller's inventory and to the benefit of one hundred percent use of his plant and equipment. The exercise of this alleged right is to be limited only by the consideration of "society's" alleged alternative needs. Thus, a producer should retain some portion of his inventory only if it will serve a greater need of "society" in the future than in the present. He should produce at less than one hundred percent of capacity only to the extent that "society's" labor, materials and fuel, which he would require, are held to be more urgently needed in another line of production.

The ideal of contemporary economics—advanced half as an imaginary construct and half as a description of reality, with no way of distinguishing between the two—is the contradictory notion of a private-enterprise, capitalist economy in which producers would act just as a socialist dictator would wish them to act, but without having to be forced to do so. (For an account of the origins of this alleged ideal, see Ludwig Von Mises, *Human Action.*) In accordance with this "ideal," contemporary economics tears the concepts of price and cost from the context of individuals engaged in the free exchange of private property, and twists them to fit the perspective of a socialist dictator. It views the system of prices and costs as the means by which producers in a capitalist economy can be led to provide "society" with the optimum use and "allocation" of its "resources."

A price is viewed not as a seller's monetary reward earned in the free exchange of his private property, but as a means of *rationing* his products among those members of "society" or the "sovereign consumers" who happen to desire them. Prices are justified on the grounds that they are a means of rationing, superior to the issuance of coupons and priorities by the government. Indeed, rationing itself is described by Professor George Stigler, in his popular textbook, as "non-price rationing," prices allegedly being the form of rationing that exists under capitalism. (George J. Stigler, *The Theory of Price*, Revised Edition, The Macmillan Company, New York, 1952, p. 83.)

Similarly, a cost, according to contemporary economics, is not an outlay of money made by a buyer to obtain goods or services through free exchange, but the value of the most important alternative goods or services "society" must *forego* by virtue of obtaining any particular good or service. On this point, Professor Ferguson writes:

"The social cost of using a bundle of resources to produce a unit of commodity X is the number of units of commodity Y that must be sacrificed in the process. Resources are used to produce both X and Y (and all other commodities). Those resources used in X production cannot be used to produce Y or any other commodity. To use a popular wartime example, devoting more resources to the production of guns means using fewer resources to produce butter. The social cost of guns is the amount of butter foregone." (Ferguson, *op. cit.*, p. 164.)

On the basis of this concept of cost, contemporary economics holds that the only relevant cost of production is "*marginal* cost." As a rule, and roughly speaking, for the concept can only be approximated, "marginal cost" is held to be the cost of the labor, materials and fuel required to produce an additional unit of a product. Their value is supposed to represent the value of the most important alternative goods or services that "society" foregoes in obtaining this additional unit.

The concept of "marginal cost" *excludes* the cost of existing factories and machines. The reason for this exclusion is that these assets are "here," they were paid for in the past and, therefore, their cost is not regarded as a concern of "society" in the present.

All prices, according to this view, should be *scarcity* prices, i.e., prices determined by the necessity of balancing a limited supply against a comparatively unlimited demand.

Supply, in the context of this doctrine, means the goods that are *here*—in the possession of sellers—and the potential goods that the sellers would produce with their existing plant and equipment, if they considered no limitation to their production but "marginal cost." *Demand* means the set of quantities of the goods that buyers will take at varying prices. Every price is supposed to be determined at whatever point is required to give the buyers the full supply in this sense and to limit their demand to the size of the supply.

The essence of this theory of prices is the idea that every seller's goods and the use of his plant and equipment belong to "society" and should be free of charge to "society's" members unless and until a price is required to "ration" them. Prior to that point, they are held to be *free goods,* like air and sunlight; and any value they do have is held to be the result of an "artificial, monopolistic restriction of supply"—of a deliberate, vicious withholding of