CHAPTER 7

Plenty by Competition

THE TECHNIQUES of the market place evolve from man's unceasing drive toward a richer and fuller life. One technique that plays a most important part in this general purpose is competition, or the vying among the specialists for the favor of the community. Although the competitors are motivated by self-interest, each one seeking the custom of his fellow men, the effect of the rivalry is to bring an abundance into the market place, to the greater benefit of Society. To win favor for his offerings, as against the offerings of others in the same line, each competitor tries to improve his capacity for production, as to quantity or quality; each seeks to better his competence.

But, what is competence, and how is it determined by those whose trade is sought? Getting down to the bedrock of definitions, competence is a grade of performance, and as the word is generally used it designates a high grade. Its opposite is incompetence, a low grade, and in between there must be a number of gradations. A performance is good or bad, competent or incompetent, only in comparison with other performances.

If Smith is the only cobbler in town, and we are unacquainted with the workmanship of cobblers in other towns, how can we judge his skill? The best we can do under the circumstances is to compare his performance with what we could do for ourselves as amateur cobblers; before he came, that was the best service we had. Let us concede that our monopoly cobbler is a decent fellow and that he does the best he can for our footwear. But he is under no compulsion to do better, and his best may be determined by his conscience or the state of his health. Like the rest of us, he dislikes the irksomeness and weariness of toil and tries to get by with the minimum of effort. Since we cannot take our trade elsewhere, and Smith is aware of this, his natural inclination is to take a let-well-enough-alone attitude toward his workmanship, and in fixing his prices he follows the rule of "all the traffic will bear." The only restraint on his monopoly impulse is the possibility of driving his customers to self-help cobbling and losing their trade.

Only when Brown opens a rival shop in town is Smith compelled to look to and prove his competence. To attract trade the newcomer either undercuts the erstwhile monopolist or improves on the quality of his work; the latter retaliates by offering to sole shoes "while you wait"; Brown invents, or buys from an inventor, a machine enabling him to cut his labor costs, turn out more jobs in a given time, and therefore to charge less than Smith; and so it goes. Each improves his performance in some way, not out of compassion for his customers but out of regard for his own well-being. Nevertheless, it is the community that profits by the rising standard and shows its appreciation by patronizing the specialist who, all things considered, serves their interests best. They applaud the performance, not the performer.

The practical measurement of competence is the profit-and-loss statement of the competitor, for in it are recorded the favorable or unfavorable votes of the Society he serves. Thus, the income of the auto mechanic reflects the repairs he has effected, the profits of the manufacturer prove his ability to produce what is wanted, the salary of the managerial genius comes off the production line. Each has been rewarded by Society for his performance, as compared with the performances of his competitors, and his gain is proof enough that Society has gained. It follows then that a Society of affluent competitors is one in which the wage level, or the general fund of satisfactions, is high.

The coming of Brown may be a benefit to the community, but to Smith it is a discomfit. Heretofore, his craftsmanship and the price he charged for his service were fixed by his own convenience, but now he is compelled to meet standards set by another. The monopoly impulse in him, which he shares with all human beings, is disturbed. Therefore, Smith is inclined to prevent Brown from offering his competitive service to his trade and under primitive conditions might resort to arms. Since a growing Society frowns upon such crude methods, he turns to a more sophisticated use of force, that of convincing his neighbors that scarcity in some way improves their lot; that "home industry" should be encouraged; that Brown is an inferior human being and therefore a detriment to the community; that lower prices endanger the "general economy." Perhaps his argument is convincing because each of his neighbors entertains the hope of a monopoly position of his own, of getting something for nothing; at any rate, he succeeds in using collective force to achieve his private purpose. And thus come scarcity-producing laws, such as protective tariffs, exclusion acts, prohibitions on laborsaving devices, restraints on trade, or a tax on enterprise.

Either Brown is prevented from offering his services to the community, or his goods are kept out of the market place, or a tax is levied on his improved machinery—or maybe a labor union prevents him from using it. It is by force that Smith retains his comfortable monopoly position; it is by force that competition is prevented from enriching the market place.

It is an odd circumstance that such scarcity-producing measures are not self-enforcing, simply because the monopoly impulse is counterbalanced by the stronger urge of the human for abundance, and the conflict results in lawbreaking by the very law passers. Thus comes the practice of smuggling, of tax evasion, of bootlegging, as well as the resort to substitutes for the product made scarce by monopoly. It is not surprising that Smith's neighbors, who helped him avoid competition, avail themselves by devious methods of Brown's services.

When a monopoly position is achieved, when competition is eliminated or restrained, competence has a new meaning. It no longer designates a standard of performance fixed in the market place. The monopolist, the one who controls the supply of a desirable commodity or service, regulates his performance by a neat formula: the highest price which will yield him the highest net profit. If he increases the output beyond a predetermined point, he must lower the price so as to induce greater consumption, and nothing is gained. If he increases the price, consumption will fall and so will his net profit. Competence in a monopoly therefore consists in finding (by the trial-and-error method) the exact profit-yielding ratio between price and performance. The profit-and-loss statement of a monopoly business reflects only in part the service it has rendered Society; it also includes an exaction price made possible by the scarcity it is able to cause.*

The key to monopoly is scarcity. Some scarcities are natural, such as mineral deposits and land sites; there is no way for humans to duplicate them. The ownership or control of these limited opportunities to produce enables the monopolist to exact a rent price for the use of them. The rent price is fixed by their relative scarcity—or by the yield of any given site over that of any other site available to use. In point of fact, the rent price is fixed by competition among users or producers for exclusive possession of these locations.

Other scarcities are made by law, and the mechanism by which these scarcities are effected is always a coercive restriction on competition. Although the restrictive measures are sometimes concocted by individuals or groups in search of a monopoly price, these are of little effect unless and until they are implemented with the strong arm of the law, as when it imposes trade regulations, tries to fix prices, subsidizes inefficient producers at the expense of efficient ones, enables labor organizations to put limits on enterprise, or grants special privileges to favored individuals. This brings us to a consideration of the part played by the political organization of Society in its economy, which we must leave to a later chapter. For the present, we leave the matter with this observation: there cannot be an effective blocking of

* The competitor, like the monopolist, seeks the highest price which will yield him the highest net profit. But, because he is unable to control supply, and thus induce a scarcity, his highest price is what competition will allow him to charge, which is always lower than what he would like. In a competitive business, the net profit breaks down to interest on investment, replacement of capital, and the wages of superintendence. Only in a monopoly business is there a "little extra."

man's urge for abundance through competition without the aid of the law. That is, every scarcity-making device rests on political coercion.

Indeed, those who decry competition on pseudohumanitarian grounds look to the law to restrain competition, even as they call upon the law to prevent the monopoly exactions made possible by such restraint. Their argument is that those who are possessed of less ability are handicapped in the competitive struggle and will be hurt unless the more competent are shackled. (Sometimes they urge the discouragement of initiative by proposing that the profits which bring out initiative be taxed away, sometimes they contemplate the impossible task of rooting out the profit motive altogether.) But how can any member of Society be hurt by an abundance in the market place? If Brown, because of his greater skill or industry, takes shoe business away from Smith, his success is proof that he has rendered a greater service to the members of the community; they are the better off because of his efficiency. He has produced better shoes, or a greater variety of styles and sizes, or through improved methods has lowered his costs and reduced prices. But his efficiency is meaningless unless they buy his shoes; buying his shoes means that they have produced something he wants. That is to say, any increase in the production of one desirable thing calls for the production of other desirable things. In the case of Brown, his burgeoning shoe business necessitates the production of more shoe findings, shoe boxes, and other incidentals, to say nothing of stimulating such services as transportation, bookkeeping, selling; furthermore, he must employ more people in his operation. In this profusion of activity, Smith is sure to find a remunerative occupation of some kind, and though his pride may suffer because he had not been able to keep up with the standard set by Brown, his well-being may have been improved. The old adage has it that "competition is good for business," and when business is "good" all Society prospers.

The anticompetition advocates like to stress the point that large aggregations of capital put the "little fellow" at a disadvantage; because of the means at his disposal the "big fellow" is able to buy raw materials in large quantities and therefore at a lower price, to put in the most advanced machinery, to invest in expensive selling campaigns. Quite true. Putting aside the fact that all this merely means greater production for the benefit of Society, the record shows that bigness in itself imposes restrictions on production; the ponderous plant lacks the flexibility necessary to meet the vagaries of human desire. Brown, the large shoe manufacturer, cannot cater to the foot that does not conform to some norm or to the whims of the fastidious wearer. His plant is geared to mass production. It is Smith, who either did not choose to become a manufacturer or was not adapted for the role, who must serve this clientele, which always grows in proportion to the increase of wealth in the community; the number of small plants or "specialty shops" keeps pace with the number and size of large industrial units. In fact, the large plant admits its limitations when it turns over to its smaller competitor the jobs it cannot do as efficiently.

There is nothing wrong with competition that competition cannot cure. The faults of competition are in the impediments that are put in its way by force—the restraints, taxes, and regulations that handicap some competitors and give others a monopoly or quasi-monopoly position. Competition serves Society best when it is free. In the field of cultural satisfactions no one would propose that competition be shackled, that the better singer be compelled to perform under poorer acoustic conditions than those afforded the second-rater, or that the discrepancies in artistic ability be equalized by law. There is common agreement that in those occupations the impartial verdict of the market place is final, even if it decides that the inferior ballplayer would better serve Society, and himself, by driving a truck. Since the expectation of material rewards (the profit motive) plays a big part in stimulating desirable competition among these cultural specialists, it should follow that competition among those engaged in the production of material things is equally desirable. The artist also seeks to satisfy his desires with the minimum of effort.

On the score of humanitarianism, free competition commends itself on the ground that those who are necessarily outside the field of production, or partly so, are in better case in an economy of plenty than in an economy of scarcity. The physically handicapped, the children, and the aged must in any event be taken care of, and their lot is better in a household where the pantry is full.

To repeat, this does not pretend to be a book on economics. It is rather an attempt to show that economics plays a big, if not major, part in the formation and development of social integrations and institutions, and toward that end it was necessary to outline, broadly, the economic principles which bear upon the thesis.

Any inquiry into the nature of or reason for Society (and its attendant political institutions) must begin with an examination of its integer, the individual. Any other approach would be like starting in mid-air. But the individual proves to be a rather complicated phenomenon, with variable and

lusive characteristics, casting a variegated light on his so-
ial habits. We must put these aside and seek in the evidence
f his behavior, throughout history and wherever we find
im, a constant pattern. This, and there can be no question
bout it, is his life-long preoccupation with the making of a
ving. His will to live compels him to be the "economic
ıan." Even the nonmaterial facets of his makeup—meta-
hysical, cultural, and spiritual—are in one manner or an-
ther tied in with the way he goes about making his living.
'he constancy of his concern with economics indicates that
: must be the foundation on which he builds his social en-
ironment; all else is superstructure.

Society, then, is basically an economic phenomenon. It is
n aggregation of individuals who, by means of the tech-
iques emerging from cooperation, better their circum-
tances. It is a means of raising the general wage level; if it
id not effect that result it would tend to disintegrate. The
ocial integrations we call primitive are those in which the
conomic techniques have not been developed, for one rea-
on or another, while the advanced Society is one that ex-
loits them as fully as the cooperators know how. A perfect
ociety, or one as perfect as human knowledge can make it,
ould be one where these techniques, collectively called the
ıarket place, operated without friction; this, the world has
ot yet seen, for reasons that will be explored in the follow-
ıg chapters.