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Author(s): Henry C. Simons

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THE REQUISITES OF FREE COMPETITION

By HENRY C. SIMONS
University of Chicago

The requisites of free competition are the measures and policies necessary to survival of our established economic and political institutions. In putting this construction on the topic assigned to me, I am following, not only my own inclinations, but also the suggestion of the program committee.

My task is that of restating and presenting for discussion a position which I outlined some time ago in a pamphlet, under the subtitle of *Some Proposals for a Liberal Economic Policy*. Time permits only a sketching of that position and only meager reference to specific proposals. I shall try to define basic objectives; to describe a comprehensive policy; to translate general proposals in terms of proximate objectives and specific measures; and to criticise the current drift of policy and opinion. Attempting all these things, I shall be successful in none of them. But my function is merely that of opening discussion.

The preservation of freedom is, I submit, the most important end of policy and the most promising means to other valid social objectives. Abhorring violence, revolutions, and dictatorship, I believe that we must choose between freer competition and increasing political control and that, for real policy, the choice lies simply between a competitive system and authoritarian collectivism. Compromise schemes, and the so-called American compromise especially, are mirages luring us away from everything we really prize.

There are many routes back to authority. We may abandon economic and political freedom, either deliberately, or merely by continuing to drift, to temporize, to experiment, without any policy at all. To preserve liberty, however, and, indeed, to protect all those things whose recent accretion defines human progress to modern minds—to this end a positive economic program and a sharp alteration in the long-established course of governmental policies are indispensable. And the insights of old-fashioned economic liberalism point the only possible way.

The more proximate objectives of a traditionally liberal economic policy, under modern conditions, may be defined in terms of the problems: first, of money; second, of monopoly and regulation; and, third, of inequality. These objectives I shall try to describe concretely. The proposals involved are radical, of necessity; a conservative policy now demands radical implementation. What is requisite, however, is not drastic measures, but only a radical redirection of policy and the pointing of legislation toward definite long-term objectives. Repudiating gradualism, one repudiates the whole

liberal faith. The proposals which follow must therefore be regarded as defining a direction of policy, rather than as prescriptions for drastic reform.

I. Monetary Proposals

- A. The establishment of definite, stable, legislative rules of the game as to money or, in other words, the creation of a national monetary system which will minimize monetary uncertainties and provide a definite, secure basis for monetary anticipations.
- B. The sharp focusing of responsibility for observance and execution of the monetary rules.

These two proposals may be interpreted to mean, among other things:

- 1. Repudiation of central banking and, in general, of all schemes involving monetary authorities (dictators) with discretionary, policy-determining powers;
 - 2. Establishment of the monetary rules as a sort of extra-constitutional mandate governing budgetary practices of the central government. (The monetary rules must be implemented through, and in turn must determine, fiscal policy.)
- C. Financial reform (banking reform primarily) aiming at sharp differentiation between money and private obligations.

Increasing concentration in the hands of the central government of the power to create money and effective money-substitutes. (By money-substitutes I mean all obligations which are widely acceptable, not only for use as circulating media, but also for use in cash reserves or hoards.)

This is not the place to defend what some of you regard as a crank scheme of banking reform. A few general remarks must suffice.

We must abandon and avoid a financial system under which funds actually invested in production and trade are, at the same time, legally available to creditors on demand or on short notice. Not only must we prevent the periodic multiplication of money substitutes; we must also face the fact that substantial liquidation of investment is inherently impossible, and remodel our permissible financial practices accordingly. Practical solution may be found merely in narrow limitation upon the borrowing powers of private corporations and in withdrawal of the special status which the state, through special charter, regulation, examination, guarantee, and innumerable other measures and policies, has conferred upon the obligations of banks.

A main reason for radical banking reform lies in the prospect that banking, if it persists in its present form, will be nationalized or, at least, subjected to increasing governmental regulation, the result in either case being political control over the direction of investment. If we could separate sharply between the function of issuing money, the function of warehous-

ing and transferring funds, and the function of mobilizing funds for investment, then government control over enterprises performing the latter function (or the last two functions) might easily be confined to the provision of ordinary safeguards against fraud, and the threat of political influence in the allocation of investment funds, minimized.

Monetary reform invites emphasis in this discussion, for it is both urgent and especially promising. Given release from a preposterous financial structure, capitalism might endure indefinitely its other afflictions; but, assuming continuance of our financial follies (which, without definitive rules of policy, are inevitable), it becomes academic to consider how the system might be saved.

The immediate necessity is the reduction of monetary uncertainty—the adoption of a generally acceptable rule of policy, through which it may be possible to prevent the chaotic financial boom which credit expansion and dishoarding now imminently threaten. A rule calling for stabilization of some inclusive commodity-price index—and, I should urge, at its present level—offers the only possible escape from present chaos and the only promising basis for a real monetary system in the now significant future. Given such a rule, we might obtain salutary fiscal and central bank action which otherwise will be politically impossible. The long depression has only put us in the mood to draw and quarter anyone who, wisely, would deny us the stimulation of an exciting prosperity. But a rule might save us from ourselves where nothing else will.

Monetary reform can be immensely salutary without being drastic or disturbing; and the political situation is relatively favorable. We have now no monetary system at all, and have never had anything that deserved the name. The reactionary position on monetary questions is weak—though weaker intellectually than politically—and our friends on the left, fortunately, have no position at all.

II. Monopoly Proposals

A. The deliberate creation and preservation of competitive conditions in all industries where effective price competition is possible.

There must be vigorous and vigilant prosecution of conspiracy in restraint of trade and, above all, thoroughgoing reform in corporation law. The right to charter large corporations must be vested exclusively in the federal government; and the powers conferred on these legal creatures must be carefully and narrowly limited. (From the viewpoint of practical reform, both our monopoly problem and our financial problem have to do largely with abuses of the corporate form, i.e., with the careless, extravagant dispensing of corporate powers.)

Sharp separation must be made between operating companies and investment trusts, with restrictions and prohibitions designed to confine the ac-

tivities of each class of corporations closely to its own special, separate sphere. Operating companies should be denied the right to own securities of other such companies; and elaborate precautions should be taken, both against interlocking control, and against practices among the investment trusts which would tempt or permit them to influence the price and output policies of other corporations. Operating companies must be limited in size, under special limitations prescribed for particular industries by the Federal Trade Commission, in accordance with the policy of preserving real competition.

Among persons whom the Administration and the press have recently elevated and transferred to the status of leading economists, such proposals are ridiculed as products of a horse-and-buggy mentality, and condemned as calling for sacrifice of the economies of mass production. But no sane advocate is asking for perfect competition; and no critic who is at once fair and competent will picture the policy as requiring drastic change in the organization of production. The requisite changes have to do mainly with ownership units and control devices, not with operation. There would be a breaking down of enormous integrations into more specialized firms, with ownership separation among phases of production which are now largely separate in place and in management. For horizontal combinations, the policy would require ownership separation among operating units which are now connected by little more than common advertising and selling organizations. The need for organized, jointly-financed industrial research can be met by special arrangements. If there are cases where real production economies require units too large for effective competition among them, some sacrifices ought to be made in both directions; indeed, one finds here a reason for proposing the generally objectionable expedient of an administrative authority with some discretionary power.

The other monopoly proposal I will submit in two forms.

- B. Increasingly sharp differentiation between industries requiring and enjoying governmental control of prices and all other industries, and the narrowest limitation of the former category.

Avoidance of the regulation expedient, as a permanent solution for the railroads and utilities, and, above all, the utter repudiation of this expedient as a feasible, tenable compromise between socialization and free competition for other industries.

Given current trends of legislation and opinion, this is the important and distinctive article of a liberal creed.

III. Proposal Regarding Inequality

The reordering of government expenditure (including subsidies, explicit and implicit) and of taxation, deliberately for the purpose of diminishing greatly the prevailing inequalities of wealth, income, and power.

The promising measures to this end would include: adoption of a broader and less casuistic definition of taxable personal income; closing of enormous, obvious loopholes for avoidance of progressive taxes; establishment of a normal tax rate of, say, 20 per cent; sharing of federal revenues from the personal income tax with the states; and abolition of all excises, save the gasoline taxes, from federal and state tax systems.

I should like to discuss the first two suggestions in detail; but I can only append here a few general observations:

1. Along the above lines, current sentimental liberalism finds its only safe and appropriate outlet.
2. The reduction of inequality, as an object of reform, can and must stand on its own feet. As a means for increasing purchasing power, for preventing overproduction, overinvestment or oversaving—whatever those nice words may mean—it is utterly ludicrous; and to consider it seriously in this light, is to reflect innocently and unwittingly on purely monetary problems, and to study fantastic implementations for monetary policy.
3. It is urgently necessary for us to quit confusing measures for regulating relative prices and wages with devices for diminishing inequality. One difference between competent economists and charlatans is that, at this point, the former sometimes discipline their sentimentality with a little reflection on the mechanics of an exchange economy.

To these three main objectives of liberal policy, I will now add two others which, while subsumable under the other three, deserve special attention.

IV. Proposal Regarding Foreign Trade and Agricultural Policy

Gradual but complete abolition of the gigantic federal subsidies implicit in our tariff structure and rapid termination of subsidies and production control for agriculture.

Tariff reform, as a main step toward liquidation of the growing political interference with relative prices, seems utterly imperative. So long as internal trade was substantially free, tariff legislation might be regarded as a somewhat harmless outlet or catharsis for all the antisocial, pork-barrel, log-rolling propensities of our political leaders and representatives. Now, however, if the whole field of internal prices is not to be opened up to orgies of political manipulation and democratic corruption, the practice of special legislation on behalf of particular producer groups must be attacked on the whole front, and in its traditional applications especially. The open season on consumers must be abolished; for, if the direction of tariff changes is not reversed, we cannot hope to prevent wholesale extension of tariff politics into interference with internal trade. The NRA is now, I hope, only an unpleasant memory; but we cannot rely upon the Supreme Court

as our only protection against the suicidal proclivities of representative government.

With freer foreign trade, the maintenance of effective competition in domestic markets would be much easier, and would require much less severe limitation on the size of corporations. Sound monetary reform, moreover, would greatly weaken the familiar apologies for tariff handouts and facilitate tariff reduction—and this is perhaps the place for some further remarks on monetary policy.

The stabilization of a price index at its present level would permit us to maintain indefinitely both free export of gold and the present gold price. Such a combination of arrangements, indeed, would invite deliberate recourse to a continued lowering of our tariff wall as a means for preventing any further accretion of our enormous gold hoard, for trading off the greater part of our monetary gold for something useful or remunerative, for promoting recovery in countries which have some need for gold, and for improving both world trade and the temper of international relations. Such a program would also serve, incidentally, to confine the gains from our recent debasement mainly to producers of our export staples. If, under established monetary rules, further reduction of our tariff eventually becomes incompatible with free export of gold at the prevailing price, tariff reduction should be continued and the gold price and exchange rates allowed to seek their own level.

My fifth and last proposal might be classified as another monopoly proposal; and it obviously exposes me to the charge of defining a policy merely in terms of its ends.

V. Proposal Regarding Merchandising

Recognition of the enormous waste of resources in advertising and distribution and of the awful bewilderment of consumers as a major problem of public policy.

For discussion of this problem I have neither time nor competence. The main opportunities lie in organized consumer education or, as a poet friend puts it, in the development of protective coloration for the buyer. But one may be hopeful of other changes: the development of consumer co-operation and (more important) of agencies, governmental and private, for informing and advising consumers; the development of standard specifications, standard testing, uniform grades, and accurate and informing labels for consumer goods. There is much that governmental agencies can do, especially by way of facilitation and encouragement, to promote these and other movements toward efficient distribution.

Returning now to the subject of regulation, I must comment very briefly, if only because of the strain involved in obeying the dictates of polite discourse.

In my pamphlet, I suggested early transition to government ownership for the railroads, and gradual movement in that direction with the other utilities. Candidly, I feel that our situation with respect to these industries will always be unhappy, at best; and I have no genuine enthusiasm for public ownership. My advocacy of the change is motivated primarily as an attack upon the notion, now common in high places, that our arrangements with respect to the railroads provide a simple and admirable model for the control of other industries generally. This is the substance (if any) of recent oratory on the subject of industrial planning, and the essential position of the prominent advocates of "bigness controlled." This plausible compromise between competition and collectivism is merely an alluring mirage along a downward course from which there is no returning; and it could be conceived and proposed, out of intelligence and insight, only by an ardent fascist.

A London economist, criticising my position, has suggested that complete and unregulated monopoly is preferable to government ownership for the railroads. Waiving quite trivial dispute, I should add "and clearly preferable to regulation for other industries." Unregulated, extra-legal monopolies are tolerable evils; but private monopolies with the blessing of regulation and the support of law are malignant cancers in the system. The conception of regulation as a device for protecting the public against monopoly exploitation is significant, in the real world, mainly as an apology for governmental enforcement of minimum prices and wages at levels higher than monopolies could maintain without the support of law. (It may be interesting here to recall that railroad regulation used to be regarded as a means for keeping rates down.)

I am, indeed, not much distressed about private monopoly power. Given sound monetary and banking reform, our institutions could survive, and the system thrive, against an enormous amount of private racketeering. Serious exploitation could be prevented merely by suppression of lawless violence and of grossly unfair competition (in the pre-NRA sense of that phrase). Labor organizations, of course, may depopulate and de-industrialize our metropolitan areas and force us to abandon transport over steel rails; and enterprise organizations may impede economic progress. But the ways of competition are devious and its vengeance—government intervention apart—will generally be adequate and admirable.

The real monopoly problem thus derives from the prospect that the state rarely will permit private monopolies to bear the consequences of their own actions. Monopolists will run to the government for protection against any threat to their unstable equilibrium, just as they always have done in the face of competition from abroad. The government is thus likely to be drawn into the enforcement of fair minimum prices; and, incidentally, among all the vague conceptions of popular, political economics, there is

none quite so misleading, treacherous, and subversive to sound policy as the conception of "fair price." Competition, once long suppressed, threatens awful disturbance when it reappears, and calls for readjustments which, while clearly required for the general welfare, are too painful for legislatures, with their infinite solicitude for articulate minorities, to endure.

This is the compelling reason for stamping out private monopoly. For every suppression of competition gives rise to an apparent need for regulation; and every venture in regulation creates the necessity of more regulation; and every interference by government on behalf of one group necessitates, in the orderly routine of democratic corruption, additional interference on behalf of others. The outcome along these lines is: an accumulation of governmental regulation which yields, in many industries, all the afflictions of socialization and none of its possible benefits; an enterprise economy paralyzed by political control; the moral disintegration of representative government in the endless contest of innumerable pressure groups for special political favors; and dictatorship. (I omit inflation, calling it a symptom rather than a disease.)

If you can envisage these things only in a distant future, I would remark that the United States is part of a larger world, and I would remind you of the recent silver legislation and, more emphatically, of the Guffey-Snyder bill, which, incidentally, is the perfect case in point for my whole argument on monopoly and regulation. If such legislation can be pardoned on grounds of apparent expediency, the responsible leaders can vindicate themselves only by testifying to awful moral decay in the system and to awful errors of policy, however remote in origin. And if anyone believes that these beginnings picture unfairly the potentialities of an economy of planning, of organized negotiation, and of regulation, he is not burdened with political insight.

Against all apologies for tariffs and for recent legislation, economists may submit, as generally decisive, the presumption that any price or wage which requires the support of force or law is relatively too high; and others may join us in observing that, in a democracy especially, force and legality must be economized. Thus, the fundamental issue, for liberals, is the same old issue of protection, of governmental intervention on behalf of particular groups and against the community. If we cannot now create and maintain a powerful moral pressure against use of the power of the state on behalf of organized producer minorities, the game of representative government is up. This, I hope, epitomizes and explains the whole position which I have tried to present.

Our monetary problems are conspicuous and intriguing; but here, as with the problems of inequality and merchandising, liberal reform faces no great obstacles. There is here no strongly adverse drift of policy or opinion—only intellectual confusion and hesitation. In opposing political control of

relative prices and wages, however, liberalism defines itself and its own, and perseveres in its discouraging struggle—against powerful, cumulative historical trends; against the vested interests of innumerable sheltered minorities; against the persuasive sophistries of mercantilism, new and old; and against the efforts of its own misguided friends.

The stakes in this contest are now tremendous. The future of the liberal faith and of the democratic ideal is now in American hands. And, ignoring factors far outside my competence, I submit that the choice we make between freer competition and increasing regulation of prices and wages will largely determine whether we lead Europe out of the valley or follow it down and down.