

# COMPETITION

## *Encouraging excellence in the marketplace*

LAWRENCE W. REED

Gym Now Stresses Cooperation, Not Competition” blared a headline in the July 5, 2000, edition of the *New York Times*. The story was about an elementary school where “confrontational” games, team sports, and elimination rounds were changed or scrapped so that differences between students’ athletic abilities would be minimized. For instance, they would be no more “strike-outs” when the students played baseball. Every team would get an equal 10 minutes at bat, then 10 minutes in the field. If a student was not good at swinging a bat, he or she could hit the ball off a tee instead. Traditional dodge ball, deemed too rough and tumble, was banned altogether. Everybody would get to “win.”

Perhaps this emphasis on inclusiveness, self-esteem, and “kumbaya” is fine for a grade school gym class, but it would make for a rather boring Olympics. And were it imposed as the guiding rule in the world of production and trade, it would condemn millions to poverty and early death.

In economics, competition is not the antithesis of cooperation; rather, it is one of its highest and most beneficial forms. That may seem counterintuitive at first. Doesn’t competition necessitate rivalrous or even “dog-eat-dog” behavior? Don’t some competitors lose out to those who are better, faster, or cheaper? A definition is in order. Competition in the marketplace means nothing less than striving for excellence in the service of others for self-benefit. In other words, sellers cooperate with consumers by catering to their needs and preferences.

What about those restaurants that do not seem to be striving for excellence at all, where surly waiters bring poor food to your table at a high price? Everyone has been to one or two of those. But a competitive market does not mean that everybody is equally competitive. The most competitive firms are those that work the

hardest and the smartest to provide the quality and service that consumers desire most at the best price. They do so not because they like or even know you, but because, in a free market, that’s how businesses survive, grow, and do well.

If restaurants performed the way that the students now do in that elementary gym class, their dining patrons would undoubtedly employ many choice words to describe the results. “Cooperation” would likely not be one of them. In the real world, being competitive means appealing to customers, and usually more than once;

the “self-esteem” part comes later, if and when you succeed.

Many people think that competition is directly related to the number of sellers in a market. According to this popular notion, the more sellers there are, or the smaller the share of the market any one of them has, then the more competitive the market. This view, however, is simplistic and often dead wrong. Competition can be just as fierce between two or three rivals as it can be between 10 or 20.

Moreover, market share is a slippery notion. Almost any market can be defined narrowly enough to make someone look like a monopolist instead of a competitor. I have a 100% share of the market for articles by Lawrence W. Reed, for example. I have a far smaller share of the market for articles, generally.

In the early 1970s, the US Federal Trade Commission (FTC) filed a suit against cereal makers Kellogg, General Mills, and General Foods. The FTC claimed that the three companies were inherently anti-competitive because, together, they sold about 80% of all ready-to-eat cereal. Ten years and a lot of wasted taxpayer money later, the suit was dismissed. It was rather obvious to everyone except the regulators that those three companies



### KEY CONCEPTS

## In the real world, being competitive means appealing to customers, and usually more than once.

not only compete against each other, but also against anything that anyone eats for breakfast—from bacon and eggs to a Coke and a cigarette.

Markets are inherently competitive when the incentive for profit is allowed to work, though sometimes it takes time and investment for new competitors to make a difference. To ensure that competition happens, governments do not have to decree it; all governments have to do is prevent and punish force, violence, deception, and breach of contract. Enterprising individuals will compete because it is in their financial interest to do so.

In the nineteenth century, Colin Pullinger typified the spirit of British competitive entrepreneurship. He designed a “perpetual mousetrap” that could humanely catch two dozen mice per trap in a single night, and then sold two million of the devices. Perhaps Ralph Waldo Emerson had Pullinger in mind when he famously wrote, “If a man write a better book, preach a better sermon, or make a better mousetrap than his neighbor, tho’ he build his house in the woods, the world will make a beaten path to his door.”

Competition does many things. It spurs creativity and innovation. It prods producers to cut costs. It encourages improvements in quality. You wouldn’t think of stopping a horse race in the middle and complaining that one of the horses was ahead. The same should be true of

free markets, wherein competition is a dynamic, ceaseless process by which the leader today can easily become the follower tomorrow.

Consider one of the most competitive markets in the world: consumer electronics. Thanks to competition, you can buy a hand-held calculator today with a hundred times the computing capability of its counterpart of 20 years ago, and at a fraction of the cost. Sellers may not start businesses because they want to “cooperate” with consumers, but that is the way things go; the businesses that fail to compete are left by the wayside.

An economy where competition is hobbled, taxed, or otherwise legislated against would be hopelessly stagnant. Mousetraps might never change, even if they didn’t work. So which would you prefer: an economy in which sellers compete or one in which they can’t and don’t? The answer is a no-brainer.

### Suggestions for further reading

Amentano, Dominic (2007). *Anti-Trust: The Case for Repeal*. Ludwig von Mises Institute.

Folsom, Burton (1987). *The Myth of the Robber Barons: A New Look at the Rise of Big Business in America*. Young America’s Foundation.

Miller, Roger Leroy, Douglas K. Benjamin, and Douglass C. North (2007). *The Economics of Public Issues*. Addison Wesley. ■



\***Key Concepts** is a series of essays on the fundamentals of economics and markets. In addition to appearing in *Fraser Forum*, these essays will form the basis of a live Ask the Professor discussion, held at [www.fraserinstitute.org](http://www.fraserinstitute.org) each month.

Please join us on September 24 at 11:00 am Pacific time for an online discussion of this essay with Lawrence W. Reed.