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Competing thoughts on the economy of competition

Governments are clamping down on oligopolies in a bid to infuse competition. But is competition always better?

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Representative image: Reuters

'Capitalism without competition isn't capitalism. It's exploitation.'

This is what US President Joe Biden said on July 9, 2021, while signing an executive order promoting competition across American industries and labour markets. From pharmaceuticals, agriculture and tech companies to banks and Internet service providers, the directive is indicative of the range of industries on which future regulations may be imposed. Together with restrictions on non-compete agreements in labour contracts, these regulations, when they come into force, are expected to check the monopoly power of giant corporations in setting high prices for goods and services and, at the same time, ensure an increase in real wages for a large section of the working class, which have broadly-speaking stagnated in recent decades. Given Biden's **recent** assertion that "trickle-down economics had never worked", it seems the only way to tackle the issue of rising inequalities in income and wealth and the consequent polarization in American society that it has led to, is to ensure greater competition between established firms and also from potential entrants.

The existence of competition in ensuring efficiency of the market system is perhaps the most fundamental tenet of mainstream economics. The efficiency that economists speak of arises from firms producing a level of output at the lowest possible costs, which not only turns out to be most profitable for these firms but also the most beneficial to consumers. In addition, competitive markets ensure that firms are constantly forced to innovate with new products and with technologies that lower costs in their search for competitive advantage thereby leading to endogenous (from within the system) economic growth. Furthermore, if labour markets remain competitive without large firms exerting their power over setting wages, then real wages would rise with increases in the productivity

of labour. Unfortunately, with the growing concentration in industry, real wages have starkly decoupled from productivity gains since the inception of the neoliberal era, circa the 1970s. Drawing upon economic theory and the disturbing trends observed in the US, Biden reiterated: 'The heart of American capitalism is a simple idea: open and fair competition.'

Even though the virtues of competition may seem obvious, it is interesting to go back in history to see how this idea has been contested ever since Adam Smith expounded it in 'The Wealth of Nations'. Smith's elaboration on the virtues of competition and the free entry of independent British merchants and traders was targeted at the monopoly of the English East India Company over the Indian market, acquired from a charter conferred on it by the monarchy. However, in a response to Smith, the East India Company sarcastically argued: "He [Smith] allows, that a Company may be chartered to open a new trade, and to encounter all the difficulties, and bear all the losses, inseparable from every enterprise. Then, after having smoothed the way, they are to retire, and let others reap the fruits of their labours." What the Company articulated was the existence of sunk (irrecoverable) costs that would be impossible to recover without some kind of monopoly power to make, what economists refer to as, economic profits or, in other words, profits in excess of what they would have earned on their next best investment opportunity. However, there was something else that the Company restricted by preventing the access of free merchants to the Indian market: settler colonization. While this was essentially done with a view to protecting the Company's own interests, free competition may nonetheless have fundamentally altered the course of Indian history as it had in North America.

Although the ideas of Smith prevailed and the Company gradually lost its monopoly power over trade with India, the relevance of monopolies did not end. To the contrary, within a span of less than a century, 'big business' dominated the US economic landscape. From the railroad 'robber barons' like Jay Gould and Cornelius Vanderbilt to Andrew Carnegie (steel), John D. Rockefeller (oil), J.P. Morgan (finance), Richard Sears and Alvah Roebuck (retail), just 1 percent of businesses controlled over 40 percent of the US economy by the first decade of the twentieth century. To check the growth of these large enterprises, the US Congress passed the first anti-trust law, the Sherman Act of 1890. However, contrary to popular belief, economists had a small role, if any at all, in proposing such a law against monopolies. Rather, it was a series of political events that eventually led to a political decision to control the trust companies.

Even as businesses dodged the Act by devising new structures like holding companies, it is interesting to recognize that more than well-known economists, there were others coming from a background of the American labour movement who actually supported big business. Amongst them, George Gunton remains one of the most articulate proponents of not only large businesses but also an advocate for higher wages and lowering the number of working hours. His support for big business was based on several arguments: economies of scale, capacity to invest in new technologies, cost reduction and lower prices, better conditions of work, job security given the lesser likelihood of companies going bankrupt, availability of lucrative positions within the corporate hierarchy, a larger workforce that makes unionization feasible and the ability of firms to engage with labour unions, sustainable profitability and better wages for workers, and so on. It is tempting to reduce Gunton to a being a conservative; however, he was equally vociferous that unionized labour claim higher wages and lesser working hours so that they enjoy their leisure time with greater consumption of goods and services. In fact, his view that standards of living determine real wages, which in turn induces capital accumulation, can be considered a precursor to Keynes' demand-centric approach to macroeconomics.

Gunton's ideas also finds resonance in the idea of co-respective competition propounded by Joseph Schumpeter. Here oligopolistic firms, which are also the dominant players in an industry, coordinate strategies in order to minimize excessive risk and uncertainty while making large investment decisions. At the same time, avoidance of cutthroat or coercive competition along with a strong unionized workforce ensured not only better wages and greater job security to employees but also economic profits to firms. In the 1960s, US corporations achieved annual **profits** of 15-20% of sales annually even as the share of **labour** rose from 65% to more than 72% of GDP between 1950 and 1970. Along with the rise of the neo-Keynesian welfare state in the post-World War II period, co-respective competition is often credited to have ushered in the 'Golden Age of Capitalism' among the advanced nations of the world.

Perhaps it was the era of globalization that followed, which undermined the collective power of labour – with greater capital mobility and immigration policies – while simultaneously enabling corporations to grow larger with access to global markets, that has once again become a cause of serious concern. Serious enough for Biden to have raised an alarm over it. Without the adequate countervailing power of the state and unions, these corporations are now being perceived in the US as 'oligarchs' who are in control of public policy rather than as creators of productive wealth that had to be divided among stakeholders. Nonetheless, it is worth pondering over some of the counterarguments to the other extreme – cutthroat competition – so that policymakers may at least anticipate 'unintended consequences' of their purposeful actions.

Views are personal and do not represent the stand of this publication.

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