

The Virtues of Competition

When I discussed reasons to esteem the free market last week, I conspicuously left out any reference to competition. That might have seemed strange, but I did it because the subject deserves its own treatment.

I won't say much here about the strictly economic functions of competition — its role, for example, in driving down prices and driving up the quality of goods and services. Competition among employers is also important for maximizing workers' bargaining clout. This is why earlier American libertarians, like Benjamin R. Tucker and his cohorts, objected to all government limits on competition, including banking restrictions. State-fostered monopoly is the enemy of freedom and prosperity.

Besides these aspects, F.A. Hayek added to our appreciation of competition when he elaborated its role in the expansion of knowledge. In "Competition as a Discovery Procedure," Hayek wrote,

Competition is important only because and insofar as its outcomes are unpredictable and on the whole different from those that anyone would have been able to consciously strive for....

Which goods are scarce, however, or which things are goods, or how scarce or valuable they are, is precisely one of the conditions that competition should discover: in each case it is the preliminary outcomes of the market process that inform individuals where it is worthwhile to search. (PDF)

Thus the competitive process — wherein anyone is free to offer goods and services to potential buyers who in turn are free to decline and look elsewhere — discloses information we would not otherwise obtain. That process is indispensable to human welfare because crucial knowledge about people's preferences, talents, and resources is widely dispersed and thus lies beyond anyone's direct access in its entirety. Moreover, important information is forged only through encounters with unanticipated market alternatives. Hayek was understandably frustrated by theories of competition "in which all essential conditions are assumed to be known — a state that theory curiously designates as perfect competition, even though the opportunity for the activity we call competition no longer exists."

While people of varying ideological persuasions might readily concede these benefits, there nonetheless remains what I think of as an aesthetic objection to free-wheeling rivalry among sellers in the market. Because competition entails winners and losers, in some people's eyes it appears less humane than its supposed opposite: cooperation. But competition and cooperation are not as different as they may appear. Observe: I enter a bazaar with a multitude of vendors. I spot two who are selling shoes. I would like a new pair of shoes and can buy from only one of the vendors. The two, then, are competing — but competing to do what? Competing to cooperate with me, of course.

Competition, then, is the natural offspring of cooperation and freedom. Divorcing freedom from cooperation would mean mandatory cooperation. I don't know about you, but I don't like the sound of that.

It is also odd that some folks who are wary of monopoly don't welcome competition as the only alternative. It is odder still that some who dislike private monopoly are accepting of government monopoly, such as single-payer health care or, more generally, state socialism. I see no reason to think that government monopoly would be better than private monopoly. History certainly gives us no reason to think so.

At any rate, we need not choose between forms of monopoly, because we can have competition if we want it. All we need do is keep government out of all economic activity. Monopoly is not a market phenomenon, but rather the product of government privilege, which, like all government activity, is rooted in force. And we all know who has a comparative advantage in procuring favors from government. Hint: It's not average working people.

I raise these issues hoping that advocates of freed markets may engage in fruitful conversation with those who long for liberty but have an aversion to competitive markets. Such a conversation has a precedent in America's past. The libertarians associated with the old market-anarchist *Liberty* magazine (1881–1908) actively engaged other opponents of the reigning statism on these matters. For example, in 1888 one W.T. Horn asked in the pages of the magazine “whether is competition or co-operation the truest expression of that mutual trust and fraternal good-will which alone can replace present forms of authority, usages and customs as the social bond of union?” He continued,

The answer seems obvious enough. Competition, if it means anything at all, means war, and, so far from tending to enhance the growth of mutual confidence, must generate division and hostility among men. If egoistic liberty demands competition as its necessary corollary, every man becomes a social Ishmael. The state of veiled warfare thus

implied where underhand cunning takes the place of open force is doubtless not without its attractions to many minds, but to propose mutual confidence as its regulative principle has all the appearance of making a declaration of war in terms of peace. No, surely credit and mutual confidence, with everything thereby implied, rightly belong to an order of things where unity and good-fellowship characterize all human relations, and would flourish best where co-operation finds its complete expression, — viz., in Communism.

To which editor Benjamin R. Tucker responded,

The supposition that competition means war rests upon old notions and false phrases that have been long current, but are rapidly passing into the limbo of exploded fallacies. Competition means war only when it is in some way restricted, either in scope or intensity, — that is, when it is not perfectly free competition; for then its benefits are won by one class at the expense of another, instead of by all at the expense of nature's forces. When universal and unrestricted, competition means the most perfect peace and the truest co-operation; for then it becomes simply a test of forces resulting in their most advantageous utilization.... Where freedom prevails, competition and co-operation are identical.

Could anyone seriously think that two vendors at a bazaar are engaging in warfare? Two shops on the street? Two companies? On the contrary, in a freed market devoid of privilege their rivalry serves consumers and sharpens their own skills. At worst, one vendor may learn she is not cut out for the work, leading her into another occupation for which she has a comparative advantage. Thus we see the efficiency and discovery roles of cooperation-via-competition in action.