Competition versus Monopoly: Combines Policy in Perspective

Reviewed by Roger Arnold

There are numerous well-known definitions of economics, but the one that best captures what economics is about is James Buchanan's definition, namely: "Economics is the science of markets or exchange institutions."

Sadly, most economists do not "do economics" with this definition in mind. They "do economics" in the same way that one would imagine an engineer "does engineering." It is all very mechanical.

Donald Armstrong is not like most economists. He is an economist who knows that economics is first and foremost about markets, about exchange. And with that proper focus, he has created a splendid work—a work rich in the nuts and bolts of everyday economic life, a work that cannot be summarized (much to its credit) in a handful of equations and curves.

This book is about many things, but mostly it is, as the title notes, about competition and monopoly. Specifically, it is a constructive criticism of the neoclassical two-dimensional price theory which looms large in the discussions of the firm and market structures in the best-selling economics textbooks. More specifically, it offers a replacement for the orthodox structuralist theory of competition.

The replacement—the behavioral theory of competition—is grounded in an emphasis on process rather than outcome, a Hayekian view of competition, a rather Rothbardian view of monopoly, and a place (thankfully) for the entrepreneur. This is all new stuff to anyone who has not utilized his peripheral vision and looked beyond the mainstream discussion of the firm, perfect competition, and monopoly found in most economics textbooks. In fact, to this person it is an entirely new language. But it is a language that accurately conveys what is happening in the real world when it comes to the firm, competition, and monopoly.

One senses that if Donald Armstrong could have his way, the model of perfect competition would tomorrow disappear from center stage of the theory

---

Competition versus Monopoly: Combines Policy in Perspective by Donald Armstrong.

of prices and markets. It is too bad Armstrong cannot have his way. The model, as he points out, is not only totally artificial, but it is misleading. It implicitly emphasizes the number of firms in an industry (which is difficult to define) as the sole determinant of whether or not competition exists. In the limited framework of neoclassical two-dimensional price theory, more firms in the industry mean more competition. Nothing else matters. Nonsense. There are other dimensions to competition, as Armstrong clearly points out.

Furthermore, there is the fact that this totally artificial market structure of perfect competition—which, by the way, many orthodox economists will admit is not even close to being descriptive of the real world—is put forth by these same economists as the proper benchmark for other market structures to be measured up against. (How else could it be that economists speak about "dead weight losses"?) What must first-year economics students think when presented with all this hullabaloo?

What also must they think when they encounter monopoly? As Armstrong points out in his book, they probably think that monopoly is something that it is not. This is because the students' teachers probably think that monopoly is something that it is not. Chapter 5, which deals with monopoly, is a must to read for anyone who thinks that a monopolist is a single seller of a good, is interested in the easy life, and can and will charge a price for his good that is above the competitive level. The theme here is: What you think monopoly is, and how you think it behaves, are probably all wrong.

An important message of this book is that government policy, based on a wrongheaded notion of competition and monopoly, is bound to create more problems than it solves. Take, for instance, the most common and blatant example. A government official, thinking that the model of perfect competition is the ideal, notes that in the model, in equilibrium marginal cost is equal to price, and that in the long run economic profits are zero. Great! What next? Well, armed with this information the government official can undertake a policy of search and destroy: search for those firms selling above marginal cost and making greater than zero economic profit, and destroy them. Either that, or get them to toe the perfect competition line—all in the name of economic justice and consumer sovereignty, of course.

Economics professors and university students have the most to benefit from this book. It offers a trenchant and correct criticism of much of what they are teaching and learning. One can only imagine how things might be different today on the economic front if Armstrong's ideas had been taught in the colleges, universities, and law schools of this country over the past three to four decades. If one makes the reasonable assumption that ideas based on reality are better than those based on fantasy, then it follows that things would have been much better. And that should tell the person thinking of reading Armstrong's book just how important it is to follow through.

A Response to the Framework Document for Amending the Combines Investigation Act

Reviewed by Roger Arnold

It is sad that Walter Block had to write this essay. If politicians were less interested in power, if bureaucrats were less interested in meddling in the affairs of the economy, and if the majority of academic economists were less starry-eyed over statistics and more knowledgeable of the way free markets work, then this essay would not have had to have been written. But, alas, the world is what it is, so this essay did have to be written. Walter Block was certainly up to the task.

First, a little background. The *Combines Investigation Act* is one of those pieces of economic legislation seeking to bureaucratize and politicize the Canadian economy. It is part of the rationalist-constructivist mindset that implicitly assumes that if government officials do not have a hand in what happens in the economy, well then, nothing good can naturally happen. To the rationalist-constructivist, the only good hand is a visible hand. To them, Adam Smith's invisible hand truly is invisible.

Specifically, the *Combines Investigation Act* addresses issues such as competition, industry concentration, mergers, price fixing, cartels, vertical integration, and price cutting.

In Spring 1981, along came the Canadian Minister of Consumer and Corporate Affairs, André Ouellet, who put forth his "Proposals for Amending the *Combines Investigation Act*: A Framework for Discussion." Briefly, Minister Ouellet's proposals for reform sought to make the *Combines Investigation Act* more interventionist and meddling.

Enter Walter Block, senior economist for The Fraser Institute. Block specifically set out to criticize Minister Ouellet's proposals, to criticize the *Combines Investigation Act* in general, and to teach some good economics in the process. It is the latter goal that is likely to be the most interesting to the reader of this essay.

Walter Block is a master at destroying economic myths in a simple, understandable, and convincing way. He proved this beyond a doubt in his book

"A Response to the Framework Document for Amending the Combines Investigation Act" by Walter Block.