

Free Competition Is Voluntary Cooperation

From the viewpoint of anyone who is considering all the economic activities of a social group, "free competition" is another name for voluntary cooperation. This may seem a surprising statement, especially in modern times when many advocates of cooperative enterprise are criticizing competition and the profit motive. That cooperation is the opposite of competition seems to be generally assumed. However, careful analyses of the economic activities for which these words are names reveal that "free competition" and "voluntary cooperation" are two different names for the same economic behavior.

Sometimes the specific use of a word becomes clearer when placed in contrast with that to which it does not refer. This step in the analysis is especially important for the word "competition," because it is so often associated with war. Phrases such as the "wasteful warfare of competitive enterprise" or the "commercial war" are common figures of speech. In order to avoid this seriously misleading association of ideas, the vital differences between free competition and war must be considered carefully.

Competition and War

Reference to standard dictionary definitions and brief consideration of the customary uses of these words facilitate explaining the association of competition and war. Webster's Third New International Dictionary includes in its definitions of "competition" the following phrases: "the act of seeking what another is endeavoring to gain at the same time and usually under or as if under fair or equitable rules; common strife for the same object; strife for superiority; rivalry for a prize." The word "competition" is common in describing sporting events of one kind or another. In this connection, common usage speaks of the winner (perhaps identifying him as the recipient of a prize), and his rivals in the contest are said to have been defeated.

The words, "win" and "lose," "victory" and "defeat," also are associated with war. Armies march on to victory or to defeat. To the winner go the spoils of war, a circumstance that tends to make war even more closely associated with competition for prizes.

That most human beings have formed the habit of associating ideas long has been noted. Only those individuals who develop the additional habit of discriminating can successfully avoid the fallacies that may be introduced when conclusions are drawn from careless associations of ideas. Therefore, one can readily understand how the close association of such striking ideas as winning, losing, victory, and defeat should have fostered the generally accepted notion that competition is analogous to war.

When a specific definition of "war" is used, the difference between it and competition becomes more

clear. The first definition of "war" in Webster's Second Edition is "the state or fact of exerting violence or force against another." In this connection, "violence" is used in its most extreme sense, of course. Every war that has been fought has demonstrated that there cannot be any Marquis of Queensberry rules for war.

The essential difference between war and free competition is rules. In games, and even in the prize ring, unrestricted violence against the opponent is never permitted; whereas in war such violence is the accepted mode of conduct. As everyone who has trained soldiers for the battlefield is aware, much of the training period is devoted to overcoming acquired habits of fair play, to teaching that a blow below the belt is not only permitted, but is essential to victory. What could possibly be farther removed from free competition?

The distinction between warfare and free competition becomes even more sharply delineated when the dictionary's use of "competition" in connection with economic problems is considered. The definition is: "the effort of two or more parties, acting independently, to secure the custom of a third party by the offer of the most favorable terms." Restating the definition for "war" emphasizes the contrast: "state or fact of using violence against another." These more precise applications of terms reveal that writers who associate free competition with war seriously mislead their readers as well as themselves.

That competition is not analogous to war now seems clear, but that of course does not prove the opening assertion, "From the viewpoint of anyone who is considering all the economic activities of a social group, 'free competition' is another name for 'voluntary cooperation.'" Inasmuch as the behavior named "competition" has now been somewhat clarified, the next step is to analyze the actions described by the word "cooperation." Also to be made clear is the significance of "voluntary" as contrasted with "involuntary" cooperation.

Voluntary and Involuntary Cooperation

The word "cooperate" is simply defined as "to act or operate jointly with another or others." Usually a common objective is implied, such as a mutual benefit. Therefore, although two or more parties are involved in a war, that all concerned are using violence against others does not make them joint operators in the sense in which those words are used in describing cooperation. Evidently, therefore, cooperation and competition have at least something in common, each excludes the idea of war.

We now consider what behavior is referred to by "voluntary" as contrasted with "involuntary" cooperation. Again the selection of certain notions that should be excluded will be helpful.

Except for a Robinson Crusoe cast upon a desert isle, or an occasional hermit who has wholly withdrawn from contact with his fellow men, all human beings must cooperate with their fellows to a minimum degree. The unalterable circumstances of man's existence force cooperation. In fact, the species would soon cease to exist if this minimum of cooperation, including cooperation between the sexes, were discontinued. For all practical purposes, therefore, every living individual must cooperate with others to some extent.

For the purposes of this discussion, analyzing what the minimum degree of cooperation must be at any particular time or place is not essential. We need only remember that the unalterable circumstances of man's existence force upon him some degree of cooperation. To cooperation required for the preservation of the race (such as the cooperation of a mother nursing her child) we apply the name "inevitable cooperation."

After the boundary of cooperation forced by unalterable circumstances is passed, customs, institutions, and laws established by men may force cooperation on the part of individuals. Such involuntary cooperation may be so extensive that virtually all the economic activities of men are prescribed by the State or other agency that forces the maximum degree of involuntary cooperation.

What is Free Competition?

In an earlier section of this discussion, the phrase "free competition" was used repeatedly, but only competition was described. Inasmuch as the ideas suggested by the qualifying word "free" are essential to a clear understanding of the subject, description of what is meant by "free competition" is necessary.

Many writers who use this phrase "free competition" fail to realize that competition implies action in accordance with certain rules of procedure. Free competition, therefore, does not carry any implication of a "free for all" fight, with gouging, biting, kicking, and scratching all permitted.

Evidently the rules and regulations governing or affecting competition may tend to create a fair field with no favor; or they may, on the other hand, through the award of special privileges of one kind or another, give advantages to some that are denied to their fellows. The phrase "free competition" implies the former condition. "Free competition," therefore, implies that each individual concerned must comply with the rules, and the rules (including all the customs, institutions, and laws of the social group) are such as to ensure a fair field with no favor.

There is no implication that free competition has ever actually prevailed or does now prevail in any locality. It may have occurred in the past, may occur somewhere at present, and conceivably may occur in the future at some time or place. That it does not now prevail in the United States, for example, does not lessen the usefulness of the notion for the purpose of this discussion.

Referring again to the economic behavior called "competition," we repeat the definition: "the effort of two or more parties, acting independently, to secure the custom of a third party by the offer of the most favorable terms." In other words, economic competition is the effort of two or more people to produce a commodity or service for a third party and to offer it on the most advantageous exchange basis from his point of view. In short, where there is free competition the competitors are striving to perform those economic functions that are most desirable from the viewpoint of

the consumer. Of course, nearly all of the consumers also are competitive producers. (In this connection, specialization, or the division of labor, not only increases the effectiveness of human effort but also raises to a higher level the minimum degree of cooperation required in an economic society.)

Free Competition and Voluntary Cooperation

If we enlarge our viewpoint, so that instead of considering only a few individuals, we regard the social group in its entirety, free competition seems to be that situation in which men are voluntarily cooperating. All of the group, by purchasing what they prefer, encourage those best qualified to provide the desired economic things including services. Each of the group who is offering things in the markets voluntarily seeks to cooperate by performing in that economic role where he can most effectively serve his fellows and thereby maximize his own reward in the market place. In practical effect, under perfectly free competition, producers cooperate with consumers by endeavoring to provide the best of whatever is desired at the least cost. Thus "competition" and "cooperation" become, under such conditions, merely different labels for the same highly efficient economic behavior.

Also important in this connection is the fact that the economic behavior we label "free competition," or "voluntary cooperation," results in the greatest possible total of benefits for all who participate. Unlike the competition in games where some lose what the victors win, and unlike war in which even the winner may lose more than he gains, freely competitive economic behavior enables each participant to gain the greatest possible reward by voluntarily cooperating in a procedure whereby all concerned benefit.

Conditions in the World

One need only look about the world and observe conditions as they are to see the point brought out in this discussion. In the early days of this country, when free land was available for the taking, the Nation was closer to a condition of perfectly free competition or voluntary cooperation than it is today. Perhaps the world's nearest approach to free competition, or voluntary cooperation, still is found in this country, in spite of the increasing interference with free competition that has resulted from the growth of special privilege and government intervention. In Russia, on the other hand, there is today nearly the opposite extreme. There is what was originally intended to be a fully cooperative society, but free competition has been nearly eliminated, and we find in its place involuntary cooperation, forced labor, in fact widespread slavery.

Both careful reasoning and the obvious facts point to the same conclusion, that free competition is another name for voluntary cooperation and that the elimination of free competition leads to a condition of involuntary cooperation, that is, slavery.

In this brief discussion we have not attempted to ascertain whether or not free competition is desirable. That, no doubt, depends on the results to be achieved, the personal desires of those who are involved, and many other factors. Were the public to realize that free competition is voluntary cooperation, much nonsense that has been written on the subject could be discarded. A fresh start then could be made in the consideration of pressing problems, with the confident expectation of better results.

STATISTICAL INDICATORS

Among the primary leading indicators of business-cycle changes, the index of housing permits decreased substantially during January. At least part of this decrease probably was attributable to the severe weather conditions then; therefore, the decrease may be unrelated to cyclical conditions. Nevertheless, some doubt has arisen that this series continued to expand cyclically, and we now appraise it as probably expanding. The percentage of primary leaders so appraised remains 75.

The ratio of the number of persons employed in non-agricultural industries to the working-age population increased substantially during January. The 2-month moving average of this series exceeded a peak reached during July, which removed doubt that the nonagricultural employment ratio is expanding cyclically. All of the primary roughly coincident indicators are appraised as expanding.

No additional data were received for any of the primary lagging series. The percentage of this group appraised as expanding cyclically remains 83.

That 75 percent of the primary leading indicators are appraised as expanding has favorable implications for the near-term cyclical trend of general business activity.

PRICES CONSUMER PRICES

Note: Data other than percent changes from a year earlier are seasonally adjusted unless indicated otherwise.

According to the Department of Labor, the Consumer Price Index (CPI) increased 1.2 percent, or at a compound annual rate of 4.7 percent, before seasonal adjustment during the 3 months ended in January. At 175.3 (1967=100), the level of the unadjusted index during January was 5.2 percent more than that a year earlier. Adjusted for seasonal variation, the compound annual rate of increase during the 3 months ended in January was 6.1 percent, which was the largest such increase since that during the 3 months ended in July 1976.

The CPI is an estimate of the cost of a particular "market basket" of goods and services. This "market basket" purportedly represents the typical spending patterns of "urban wage earners and clerical workers," and is based on survey responses of such consumers. To the extent that an individual family's budget differs from the average of those surveyed, the CPI may not provide a useful measure of that family's living costs. Nevertheless, the CPI is the most comprehensive measure available of such costs. The accompanying table shows the relative

importance of various sub-indexes of the CPI and their rates of change during selected periods.

As the table clearly indicates, prices of different classes of consumer items do not change by the same amount during specific time periods. During the year ended in January 1974, food prices increased more than those of any other expenditure class; during the year ended January 1975, housing costs rose the most; and during the years ended in January 1976 and January 1977, transportation costs increased the most. Moreover, within each expenditure class, price changes vary among the many component items. Such variations in price changes may mean that cost-of-living adjustments to, say, wages may in fact not keep constant the well-being of recipients.

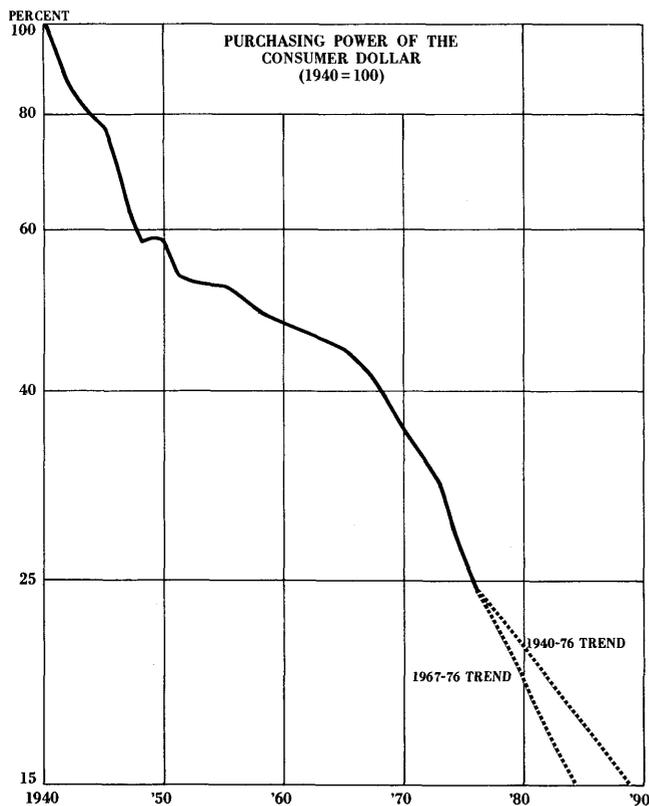
Such adjustments might increase the well-being of recipients who are able to alter their spending so as to increase purchases of items whose prices have changed comparatively little and to curtail purchases of items whose prices have increased markedly. For example, chicken breasts recently were 32 percent more expensive than in 1967, but the price of pork chops increased 68 percent during the same period. Depending on a family's preference for pork or chicken, its purchases of pork chops might have decreased and those of chicken might have increased. The satisfaction obtained from the new spending pattern would be larger than it was in 1967 if the family budget, increased by a cost-of-living adjustment, enabled them to purchase the same amounts of each that they did in 1967. In an extreme case, a family might have been indifferent between pork chops and chicken breasts and have purchased, say, 50 pounds of each at \$1.00 per pound in 1967. The recent index of such prices would be 150, and a 50-percent cost-of-living adjustment would provide them with \$150 for such purchases. However, 100 pounds of chicken breasts would cost \$132, leaving the family with \$18 to use for other outlays in 1977, without any reduction in its 1967 standard of "white meat" consumption.

At the other extreme, were the costs of necessities to rise comparatively more than the overall index used to determine cost-of-living adjustments, the well-being of recipients might decrease. By designation, purchasers of necessities would have limited opportunities to alter their spending patterns to take advantage of relatively smaller price increases. Housing must be purchased, as must some types of fuel, for example. As suggested by the data in the table and the results of other research we have done, the "poor" (those who spend mostly for necessities) probably have suffered the most from recent rapid price increases. Of course, the real world is highly complex, and

PERCENT CHANGE IN CONSUMER PRICE INDEXES

Memo: Proportion Of Total	Expenditure Classes	During the Year Ended				During 3 Months Ended*			
		Jan. 1974	Jan. 1975	Jan. 1976	Jan. 1977	Apr. 1976	Jul. 1976	Oct. 1976	Jan. 1977
.25	Food	+19.5	+11.2	+5.8	+1.4	-3.7	+4.5	+1.8	+2.9
.34	Housing	+8.2	+13.4	+7.4	+5.7	+4.0	+6.1	+6.0	+6.6
.09	Apparel and upkeep	+4.7	+8.2	+2.8	+4.2	+3.1	+5.0	+4.4	+6.3
.13	Transportation	+5.9	+11.8	+10.4	+8.9	+7.5	+9.7	+10.5	+8.0
.19	Health and recreation	+4.6	+11.4	+6.5	+6.6	+7.3	+5.8	+6.0	+7.2
1.00	All items	+9.4	+11.7	+6.8	+5.2	+3.1	+6.3	+4.8	+6.1
<i>Commodity and Service Groups</i>									
.25	Food	+19.5	+11.2	+5.8	+1.4	-3.7	+4.5	+1.8	+2.9
.39	Other commodities	+6.1	+12.5	+5.8	+5.5	+3.7	+6.1	+5.5	+6.7
.36	Services	+6.7	+11.4	+8.4	+7.2	+7.8	+7.4	+6.6	+7.1

* Seasonally adjusted, compound annual rates.



we offer the above descriptions only to illustrate that cost-of-living adjustments based on index numbers are not a good substitute for general price stability.

The average purchasing power of the consumer dollar (as measured by the CPI) was 24.6 cents during 1976 compared to that in 1940. During the 36 years since 1940 the average annual rate of erosion of such purchasing power has been 3.8 percent per year, a rate which will halve the purchasing power of the dollar every 18 years. During the most recent 10 years, the purchasing power of the consumer dollar has eroded at an average rate of 5.2 percent. If continued, that rate would cut such purchasing power in half in 13 years, or by 1989. These possibilities are indicated as dashed lines in the accompanying chart.

The history of fiat money inflating suggests that abatements of the rate of price increases should be viewed only as temporary interruptions of a tendency for the

trend to accelerate. Therefore, continued erosion of the purchasing power of the dollar at a larger rate than that during the past 10 years seems probable. That many members of the Carter administration and of the economics profession seem to believe that the current 5-6 percent rate of price increases is "not a major problem" suggests that they fail to recognize or choose to ignore the possibility of a "flight from currency." Such a flight might occur if holders of fixed-dollar obligations were to realize that their after-tax returns actually are negative.

The trend of consumer prices probably will be accelerating upward in the near term also. As the accompanying chart and table indicate, recent increases in food prices have been small. Food prices are the most volatile component of consumer prices, although their long-term changes approximate those of other items. Prices of the nonfood items in the CPI during January were 6.3 percent more than those a year earlier, but food prices increased only 1.4 percent during the same period. According to the Department of Agriculture, prices received by farmers increased 3.5 percent in December and 1.6 percent in January. These increases reversed a downward trend that began last July. The trend of prices received by farmers is usually reflected in consumer food prices 1 to 3 months later. Marked food price increases during the next few months would be reflected in a substantial acceleration of the rate of increase of the CPI.

Increases in the Consumer Price Index during the next few months probably will be larger than those during most months of 1976, inasmuch as food prices apparently have resumed an upward trend.

COMMODITIES PRICES

Index	1976		1977	
	Feb. 16	Feb. 7	Feb. 14	
Spot-market, 22 commodities*	505	553	n.a.	
Commodity-futures	638	825	822	
Steel-scrap	\$77.83	\$72.17	\$72.17	

	Feb. 26	Feb. 17	Feb. 24
Gold	\$132.20	\$136.40	\$141.25

*For the preceding Tuesday. n.a. Not available.

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