BOOSTING MARKETS WITH COMPETITION

MIERSCOPE

by
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Just as democracy exists in a multitude of varieties, so do market economies. The existence of a market economy is equated with efficiency. However, it is not enough to have markets. The markets have to be efficiently functioning markets.

Before the collapse of the Soviet Union it seemed that the question was whether there should at all be markets instead of planning agencies. With socialism dismantled in Russia, and with China embracing the capitalist spirit, a new set of queries suggests itself.

One of the questions that comes to mind is whether it is sufficient to have the free market system in place. And does the market guarantee competition?

Once private enterprises are established does efficiency automatically fall into place? Are private enterprises always the vanguards of efficiency?

These are complex questions. But the best starting point is the market. There are two broad routes that are available for depicting the market. It is possible to visualise the market as an insidious, inhuman machination that continually hungers for profits and endlessly seeks to exploit.

Alternatively, one could imagine the market to be the emergence of innumerable individual descriptions of need, all searching for their individual solutions.

The baker, the basketball player, the carpenter, the Datuk and the doctor, they all have their needs. There is the bread to be sold, medicine to be bought, the contract to be won, this service to be rendered and that to be obtained. Each has its requirements, measured by price, quality, amount, time expanded, colour, and so the list goes on and on.

Through a sequence of inspections, comparisons, negotiations, advertisements, transactions, and payments, exchanges are completed. These events occur in the space of time and across geographical or virtual space. Errors are made, information is obtained, corrections are made, learning takes place, and expectations are formed.

None of this requires the government or a central planning agency. In fact, such organisations can thwart the flow of information, impede learning, and produce inefficient outcomes. Hayek made this point. The collapse of centrally-planned economies underlines it.

Why are information and learning such important things? Are they important to the market? Of course, they are. We need to know what we want to buy and we need to know the characteristics of the goods we buy. These bits of information must be accessible to consumers. They form the foundation for the market process.

Producers, in turn, must know what buyers are looking for, what their preferences are, what kinds of goods are likely to be favoured by buyers. If incorrect decisions have been made on these questions, quick changes in decision are necessary.

Private, profit-oriented firms have the incentive to make quick reversals in decision. They are motivated by profits to produce what will be bought. They will try to make sure that they produce just what people want, and just enough. Private companies are not established to propagate public interest. They do not maintain staff who spend long hours in cafeterias or at coffee machines, nor do they employ people simply to reduce employment.

The negative side to profit-oriented firms lies in their obsession with profits. Inherent within them is the tendency to restrict the entry of competitors, to mislead consumers, and to build a position of dominance in the market and to take advantage of this situation.

When nations move in the direction of a market-based economy are they necessarily doing the right thing? Not if they are doing it incorrectly. Governments in developing countries undertake privatisation exercises only to correct the error of overt government control over industries with more subtle forms of mismanagement.

Privatisation, in theory, implies giving markets a bigger role. It means that companies have to fend for themselves. Privatised companies have to be efficient so that they can make profits. They need these profits to grow and expand, and they cannot rely on the government to bail them out.

In practice, quite a different story can emerge. Governments could manipulate the privatisation of companies. Tenders can be rigged or invitations restricted, and companies with government favour could be offered the right of ownership over the newly privatised companies. Private companies could be run by government-appointed nominees.

Not much would be achieved if a once government-owned company is privatised but with conditions imposed such that the market is protected and no other new entrants are allowed into the market. What was once a government monopoly now becomes a private monopoly. One form of inefficiency is substituted with another.

It is not sufficient to have private companies. Private companies by themselves are not a guarantee that efficiency will be preserved. Privately run companies can play tricks of their own that will make a mockery of the free market system.

Companies can indulge in practices that result in monopolies. A few companies can act together to fix prices. They can do this formally or tacitly. If there are laws that forbid formal collusions, that would make it difficult for firms to engage in formal arrangements to fix prices, or to agree to restrict output. Companies could still negotiate informal arrangements, but such arrangements would be more difficult to detect. It would still be possible to take legal action against such firms, and that would act as a deterrent to firms intending to collude.

A producer of soap, could, for instance, make some arrangement with supermarkets to prevent a rival product from being stored on the shelves. This producer may make a payment to supermarkets that store only its brand. Or it may offer longer terms of credit to supermarkets that do not carry a rival brand.

This other brand of soap may be cheaper and it may be more fragrant. But if many supermarkets refuse to store this brand, many of the principles that govern the market process go to dust.

The free market is based on the assumption that buyers have access to information. If a buyer finds the product sold at one shop expensive, then he will go to another shop in search of a better bargain. If shops refuse to stock a particular commodity, that will frustrate the buyers' search process.

When shops consciously limit the range of goods that are actually available, they are in effect limiting the information that is available to the buyers. To limit knowledge flies in the face of a market process that is based on knowledge, where buyers and sellers make and revise decisions in the face of the unrestricted availability of knowledge.

The government can unwittingly contribute to a market system that is inefficient and non-competitive. This happens when governments try to attract foreign investment. Multinational corporations are given all kinds of incentives. They are given tax concessions and tax exemptions. They are given concessions on infrastructural facilities and utilities.

These incentives are good for the multinational corporations, but they discriminate against domestic firms. This gives multinational corporations an unfair advantage over domestically owned firms; and it hinders the entry of local firms. Obviously, this is not good for competition.

It is clear that all the good things that are embodied in the market cannot surface if there is no domestic competition. Rules need to be formulated and institutions built in order to make sure that the market system, in its best sense, can be propagated.

None of this is meant to imply that markets are perfect. Markets are particularly imperfect when it comes to distributional justice. Nevertheless, a market that is competitive is more desirable than one that is not competitive. It is possible to determine how justice, pro-poor policies and a place for government action can be drawn out within the broad goal of achieving competitive markets in developing economies.

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