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IDEAS ON LIBERTY

Dimensions of Competition

by Joseph S. Fulda

Competition on the free and open market has long suffered criticism for its alleged imperfections. True market competition, it is averred, requires both buyers and sellers to have perfect knowledge of all alternatives. It likewise requires that buyers purchase with full knowledge of the composition, use, and possible weaknesses of the product being offered for sale. It requires further that convenience of purchase—location, wrapping, queues, delivery, etc.—be equalized, and that extraneous factors such as personal relationships between buyer and seller be discounted.

Obviously, the argument continues, these conditions are never met in practice. Advertising, salesmanship, packaging, and displays take the place of perfect knowledge of the market. Product information is all too scarce, unless required by law. Convenience of purchase and other factors unrelated to the product itself bias market decisions in countless ways. Who has not often heard arguments along these lines,[1] together with suggestions for "correcting" the market and "compensating" for its imperfections?

But the critics betray that they do not grasp the subtlety of competition on the market, its many aspects and dimensions. The rigid price-quality contest portrayed with the aid of computer models is more nearly a caricature than an idealization of the multidimensional workings of the market, for as we shall see, market processes are broad enough to encompass the many facets of exchange mentioned above.

Once stated, the nature of competition on the market can hardly be denied: *whatever* inclines a man to choose one product over another or to patronize one supplier over another is a dimension of competition. The man who seeks to influence the choices of his fellow man must thus be sensitive to *all* that may affect those choices. He must demonstrate an imaginative understanding of his neighbors' wants and, then, be ready, willing, and able to act on that understanding. Far from being a system of insensitivity as is so often charged, the market system uniquely rewards sensitivity to others in its broadest sense. Such sensitivity is marked along each of the many dimensions of competition and measured, in the aggregate, in profits or losses.

One such dimension, and the first hurdle facing a competitor, is the *quest for attention* from prospective buyers or sellers. As infants, we are unable to assimilate the stimulation which explodes all around us, and we attend only to that which is necessary, physically filtering out almost all the din of life. Later, as we mature, we learn to do the same on a more conscious level. It is doubtful whether we could long endure life without such filtering processes.

Knowledge of all possibilities of exchange and all market opportunities is thus not only impossible; it is undesirable. What is both helpful and possible is knowledge of many of those opportunities that, given the chance, we would act upon.

Since those presenting possibilities for exchange or other market opportunities seek partners to their transactions, it is hardly surprising that market institutions for the dissemination of information about market opportuni-

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ties have evolved so as to satisfy the demand for such matches. Advertising, salesmanship, packaging, and displays are among these market institutions. They serve to penetrate the barriers of inattention we have erected to screen out much from our experiences and surroundings that we do not deliberately seek.

Successful market penetration is both unusual, statistically speaking, and mutually beneficial when it occurs. It is also quite an individual matter. It is the individual's special tastes, interests, and inclinations which will determine which appeals for attention will be successful and which will not. That this is so is evidenced by the large investments in marketing research: potential buyers are sampled to find out what publications they read, what media they attend to, what shops they frequent, what other interests or characteristics correlate to purchase of a given product, and so on. All this aids the competitor's understanding of why and when people choose his product. This is crucial, for as with all dimensions of competition, success in the quest for attention depends on understanding what makes others choose and acting upon that understanding.

But this is only the first hurdle, the first step of the marketing process. We may know the jingle and avoid the product, compliment the manager on his fine display but turn away empty-handed. Having secured the attention of consumers, the competitor must now demonstrate the value of his product to them at several levels.

How Is the Product Valued?

At the first level, persuasive marketing will show that the need which the product satisfies is itself valuable to consumers. This is important since we have many competing needs to which we assign different values. Advertisements extolling education are at this level. At the second level, persuasive marketing will show that the product being offered to the public best satisfies (or best satisfies at a given price) some underlying need of consumers. Advertisements by farmers' associations praising the virtues of good, wholesome milk as well as promotions of schooling are at this level. Then, at a third level, the producer must demonstrate the attractiveness of his particular brand.

This classification of the levels of marketing activity brings into relief the corresponding levels of competition: among needs, among products, and among producers. (A fourth level of competition, among suppliers offering the same stock, will be treated later.)

Yet to some extent this division, like any other, remains arbitrary, with its boundaries somewhat vague. Thus, advertising for many products (e.g., mouthwash, breakfast cereal, and book clubs) typically crosses levels, while for other products (e.g., food and shelter) the first level may not even be at issue. For still other products, those on which the producer holds a patent or copyright, the third level is not at issue.

It is well to remember that classifying competitive activity by level and dimension is much like classifying any part of free human action: it may be useful as an expository device, but it is not to be a means to argue for differential legal treatment based on the chosen categories.

Thus far, our discussion of the persuasive component of marketing, unlike our earlier treatment of the quest for attention, has been unidirectional: sellers attempt to persuade buyers to exchange their money for the wares offered for sale. This is no accident, for while buyers, too, must often partake of the quest for attention, the remainder of the marketing process is nearly superfluous when the most marketable commodity, money, is offered in exchange. The first level of marketing activity is obviated by its very nature as a medium of exchange: its need lies in the need for any economic good whatsoever. In theory, the second and third levels of competition apply to money as much as to anything else. The contest between gold and silver typifies the former, while that between institutions offering promissory notes redeemable in specie or warehouse receipts typifies the latter. In practice, however, as the state has usurped the market in money, there is no real competition along the dimension of persuasive marketing among buyers.

That success in marketing is determined by the degree to which the competitor and his publicist understand the needs and wants of consumers, as consumers see them, does not mean that marketing of a product cannot seek to

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change the way people choose to allocate their resources, satisfy their needs, or decide among competing needs. That, on the contrary, is its *raison d'être*. It does mean, however, that effective marketing is based on understanding how people currently make their choices, including how, why, and under what conditions they might be influenced—they might choose—to alter their patterns of choice.

Another dimension of competition often ignored in models of "perfect" competition is *information*. Information, it should be recalled, is an economic good: it is both scarce and valued.[2] Information about a product will thus sometimes be available and sometimes not, depending on whether it is more profitable to procure and disseminate it or more profitable not to do so. This, in turn, depends on whether consumers value the information more than the resulting increment in price or not. We have treated the whole issue of product information comprehensively in an earlier study.[3]

In addition to information about product quality, information on pricing is also an aspect of competition. For example, computer-printed, itemized bills, electronic scales, and comprehensive price labeling each lowers the risk of overcharging consumers and their apprehension of being overcharged. Consumers may thus be inclined to prefer the supplier who provides this information over one who does not. As always, the amount of information provided is determined by the supply and demand schedules.

The information dimension is one along which buyers, too, must compete. When the seller accepts personal checks or purchases on the books, he exchanges his merchandise for something about the value of which his information is incomplete. In doing so, he bears a risk in return for a hoped-for profit from the policy (which includes gains from cash transactions by customers attracted by the policy) after subtracting defaults, penalties, and lost interest. Buyers who provide more information are at an advantage in dealing with sellers who value that resource highly. Other buyers, transacting with sellers less concerned with this, gain from paying in a more convenient fashion or at a later date.

For all this, however, price and quality do remain the most important dimensions of competition, for they epitomize the process of exchange: value given for value. Yet price and quality, even aside from the various marketing and information dimensions, do not entirely exhibit the full richness of competition.

Convenience of purchase is a most important dimension of competition in an age of harried consumers, and *pleasantness of purchase* has been important in every age. Such factors as the location of the store, the length of its queues, the quality of its wrapping of products, the availability of delivery, the interior decorations, displays, music, the courtesy and helpfulness of sales personnel, and the like must all be taken into account by the competitor who would know success, since consumers allow them to affect their choices.

True, inconvenience of purchase could be figured in as *part* of the price and pleasantness of purchase as *part* of what is received, necessitating no change in the traditional view. The problem with such an approach, however tenable in theory, is that the monetary value that consumers place on such aspects of exchange as information, convenience of purchase, and pleasantness of purchase varies with the time of day, the consumers' mood, how tired they are, and a myriad other factors. The real world, that is, is in a constant state of flux, with the array of subjective values consumers hold being adjusted constantly. This reflects neither whimsicality nor irrationality on the part of the consumer, but rather rational and adaptive adjustment to external and internal changes.

These often elusive factors—hard to identify, harder to quantify, still harder to track as they change—may defy computer simulations of competition. But in an age of relative affluence, with small differences in price of lesser import, these factors become increasingly valued by consumers as the reader's own experiences measured against that of his grandparents will attest. Far from being extraneous factors that "bias" market decisions, convenience and pleasantness of purchase are integral parts of the exchanges of value for value that collectively comprise what is figuratively known as the marketplace.

Location

A final aspect of competition which deserves special mention is *location*. Location is a part of virtually every dimension of competition one can imagine: the quest for attention, persuasive marketing, information, price, convenience of purchase, pleasantness of purchase. Location also figures at many levels: which country, which province, which town, which district. At the higher levels, prevailing wage rates and business climate as determined by the presence or absence of particular government interventions are often the most important factors. At the lower levels, centrality of location, proximity of resources, availability of transportation, proximity or distance from competitors (depending on the business), etc. are often more important.

Location is also a factor within a shop, even within a product (think of a newspaper or magazine)! Indeed, it would be quite impossible for the casual observer to list all the dimensions or levels at which location figures, but even a cursory examination of one's own patterns of economic choice should persuade one of both its ubiquitousness and importance.

In sum, while competition occurs on many levels, along many dimensions, and with a fullness as rich as human choices can be, success is measured only in the aggregate, by profits or losses. The competitor will thus be told in no uncertain terms whether or not he is succeeding, and to what extent. He will never be told why. Just how he favorably or unfavorably affects the choices of those with whom he transacts is something to which he must be sensitive. That is the essence of competition on the market. □

1. See, for example, Gerson Antell, "Imperfect Competition," *Economics: Institutions and Analysis* (New York: Amsco, 1970), pp. 100-103.
2. Gary North, "Exploitation and Knowledge," *The Freeman* 32(January 1982):3-11.
3. Joseph S. Fulda, "Product Information on the Market," *The Freeman* 36(January 1986):29-33.

Touchstone of Truth

by Carl Helstrom

Frederic Bastiat wrote a book called *Economic Harmonies* because he thought that the basic principles of economics were intellectual guides that all men could follow to work together and improve their material and moral condition. All of Bastiat's writings are concerned with these simple axioms and their explication. In a preface to *Economic Harmonies* he wrote, "The central idea of this work, the harmony of men's interests, is a *simple* one. And is not simplicity the touchstone of truth?"

This is the beauty of the deductive maxims that men live by. They are elementary, yet they are "touchstones" for discerning truth from falsehood, right from wrong, good from bad, and correct from incorrect, within the realm of human action. Like the stone that tests the purity of gold and silver, a deductive theorem is a sure test to determine the value of an idea.

There are many such axioms. The Golden Rule, for example: Do unto others as you would have them do unto you. The Silver Rule of Immanuel Kant: Act only on that maxim through which you can at the same time will that it should become a universal law. Leonard Read's motto: No man-concocted restraints on the release of creative human energy. Most people have their own short credo or proverb that is really only a simple idea, but which, for them, constitutes the test for all their personal decisions.

Bastiat believed that adherence to the principles of economics would civilize men so that little coercion by governmental force would be needed to check the occurrence of ill-doing and to protect the integrity and property of right-acting people. For Bastiat, it was freely enterprising private citizens, and not government officials, who were the mainstay of civilization. Living by the simple truths of economics would promote moral behavior and increase the standard of wealth, without encumbrance by a patronizing bureaucracy, whether well-meaning or not.

Yet Frederic Bastiat's ultimate touchstone was his belief in freedom. Economic laws, or "laws of Providence" as he called them, were ancillary, for "If the laws of Providence are harmonious, they can be so only when they operate under conditions of freedom, for otherwise harmony is lacking. Therefore, when we perceive something inharmonious in the world, it cannot fail to correspond to some lack of freedom or justice. . . .we must not lose sight of the fact that the state always acts through the instrumentality of force. Both the services it renders us and those it makes us render in return are imposed upon us in the form of taxes."

A free society is a just society because men will live by the basic principles that govern human conduct in a world of scarcity—the principles of economics. Some will work because they have to eat, and because doing so will improve their material wealth. Others will labor because they believe that work is in keeping with higher ideals. But, all of them will work as harmoniously as possible because,

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