Is Free Competition Possible? By STEVEN CORD

A DANGEROUS trend has been developing during the past hundred years which, if it continues unabated, will destroy the very existence of free competition. This trend is described by one word, oligopoly—or the control of an industry by just a few large firms.

Today at least one-half of all corporate enterprise is in the hands of just 200 companies. Three firms do two-thirds of the business in cigarettes, farm machinery, tires, office machinery, and tin containers. Most of the consumers' crackers and biscuits come from two concerns, and half his meat comes from four packers.

The significance of these figures is this: where 100 producers are competing for the same market, the price is not liable to be higher than the cost of production. But if two or three producers control that market, the likelihood is that the price will greatly exceed the cost of production. There is less competition — there hardly needs to be any conscious agreement between the producers (or to be more precise, the oligopolists).

Are the National Biscuit and Sunshine Biscuit companies to conduct themselves as if they did *not* control cracker prices?

And what's worse, the trend is toward more and more oligopoly. Economists from George to Schumpeter recognize this. For instance, in 1932 GM, Ford and Chrysler did less than 70 per cent of all the automobile business in this country. Today they do more than 90 per cent.

Is oligopoly necessary in a capitalist system? Is not free competition possible today? To answer these questions we must seek the causes of oligopoly. Generally speaking, they are five in number:

1) *Land monopoly*—If we let some companies gain control of the sources of raw materials, then these companies have a definite advantage over anyone who wishes to compete with them.

For example, in the automobile industry it has become necessary to own iron mines in order to avoid the oligopoly price of the regular iron-and-steel producers; i.e., the automobile firms are collecting their own oligopoly income. Those companies which don't own their own mines must pay a higher oligopoly-caused price for their steel.

It is not surprising that we find the most powerful oligopolists in the raw materials industries, or those industries directly connected with the land. For example, consider these indusrties: steel (U. S. and Bethlehem), aluminum (Aloca and Reynolds), paper (International), lead (National), oil (Standard), and so on.

2) *Other monopolies* — Cartels and "gentlemen's" agreements limit competition and lower prices by agreement among present producers.

Patents also lead to oligopoly by giving certain firms government-granted special privileges over competitors. This is confirmed in Business Week (Nov. 7, 1953). ". . . The independent telephone companies came into being when the Bell patents expired in 1893 and 1894; they sprang up wherever Bell wasn't."

Special mention should be made of tariffs in this connection. Tariffs lessen competition by keeping out foreign competitors, thus paving the way for the oligopolists. The American Sugar Refining Co., the National Lead Co., and the large chemical manufacturers could give you first-hand information on this — if they wanted to.

3) *Depressions* — As business sinks downward in a depression, everyone suffers, small and large firm alike. But only those firms which have accumulated a financial reserve, and whose sales have not shrunk to such an extent that they cannot mass produce or mass distribute—only these firms can stay in business. Such firms are generally the large firms; while in a depression all firms suffer, it is the smaller firms which go out of business. As depression follows depression at regular intervals, the number of firms in a given industry become fewer and fewer. Results: oligopoly.

Anyone can ride a well-paced horse. But only a few ride a bucking bronco.

For example, take another look at the auto industry. The Cord, Autocar, Pierce-Arrow and Graham-Paige companies were only some of the automobile firms that went out of business during the depression. They never came back. During the recent boom, Kaiser-Frazer was able to enter the field, and as things tighten up Kaiser merges with Willys, Hudson merges with Nash, and Studebaker considers a merger with Packard.

4) *Oligopoly* is its own cause. As technological progress continues, greater and greater concentrations of capital are necesssary to produce—that's natural. But if because of oligopoly (and other monopolies as well) wages are continually held at the subsistence level, then laborers can never accumulate enough capital to compete with the existing capitalists. This is, of course, especially true where the ownership of land or patents is a factor.

5) *A Natural Reason* — Greater concentration of capital is constantly being needed to efficiently mass produce and mass distribute, and so if the rate of concentration increases faster than total production in a particular industry, as frequently happens, then there is room only for fewer individual firms in that industry. This does not mean, however, that we have reached the point where, in any fair-sized industry under non-monopoly conditions, oligopoly is an inevitability.

While there is a natural cause for the oligopoly trend, there can be no doubt that monopoly influences such as pointed out above have *greatly* accelerated this undesirable trend.

The Remedy Is Known

What can be done about this menace to the free enterprise system? Well, we have seen that the causes of oligopoly are not inherent in the capitalist system at all, *but are due to some particular monopoly interference with capitalism.*

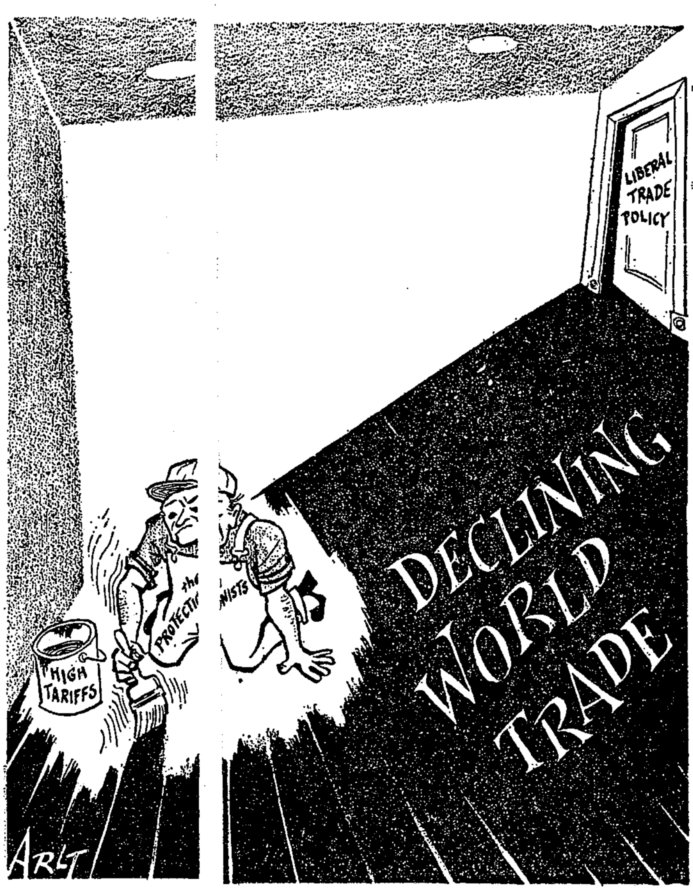
The remedies, then, should be apparent. First and foremost, the land value tax. This will destroy land monpoly and the basis for all the other monopolies.

Secondly, we must eliminate, one by one, all the other monopolies, thereby eliminating depressions. Such unnatural phenomena as oligopolies could not arise in a smoothly running free economy.

Thirdly, it might be wise to accelerate the solving of the oligopoly problem by direct temporary measures. Tax exemptions might be given to smaller firms. In other words, *until the land value tax would completely replace all other taxes,* one of the best taxes might be an income tax on corporate earnings. This would be roughly equivalent to the excess profits tax. Another suggestion is a graduated manufacturer's sales tax, which would be heavier on the larger than on the smaller manufacturer.

While it is true that the land-rent monopoly is the basic monopoly, we as Georgists must be sure to recognize the importance of the other monopolies (such as oligopolies), or else our economic analysis will be incomplete.

But there are no grounds for the extreme view, as expounded by Professor John K. Galbraith of Harvard and other economists, that oligopoly is an inevitable counterpart of present-day capitalism. It is an inevitable counterpart only of *monopoly* capitalism. Remove the monopolies that pervade our whole economy today, and the oligopoly conditions existing in many industries will fade away and disappear.



Forgetting the Way Out!