

Production has to precede distribution – whether it is a question of everybody benefiting from the profits of individuals, as the surge of new competitors on open markets brings down prices and enhances quality, or the government is the great distribution agency by taxing revenue of entrepreneurs and workers.

Therefore, the following fundamentals of a competitive order of citizens must be guaranteed:

- free access to open markets,
- competition as a restraint on power
- stable money to allow secure planning and
- relative prices according to relative scarcity,
- secure private property rights,
- accountability ("freedom with responsibility"),
- and sustainable economic policy.

These are the 'constituent principles' of the market economy as a competitive order and as the constitution of liberty. Today, flexible labour markets can best help in realising these principles, and providing a more effective social safety net. If assistance is targeted appropriately, it will be easier to help individuals adjust to structural change. For competition to function effectively based on market prices, social transfers must be set apart from the market. Good social policy also needs price tags and competition if it is to result in reliable social services and targeted social help for those in need. Federalism according to the principle of subsidiarity as well must be based on competition: political competition for the better solution, paid by less taxes.

## Supplementary Reading

- Ludwig von Mises, *Market Competition* (1949), in: Human Action: The Scholar's Edition, The Mises Institute, Auburn, Ala, 1998.
- Still the standard work on the role of competition in the market economy ("*Grundsätze der Wirtschaftspolitik*" (1952), Ch. XVI), extract: Walter Eucken, *A Policy for Establishing a System of Free Enterprise*, in: Ludwig-Erhard-Stiftung, Standard Texts on the Social Market Economy, Stuttgart, New York, 1982.
- Friedrich A. Hayek, *The Meaning of Competition*, in: Individualism and Economic Order, Chicago 1972.
- D.T. Armentano, *Efficiency, Liberty, and Antitrust Policy*, in: Economics, Liberties, and the Judiciary, George Mason University Press, Fairfax, VA, 1987.
- Hans Willgerodt, *Free Trade under Attack*, Madrid 1982.

Interesting websites:

[www.wto.org](http://www.wto.org)

[www.ftc.gov](http://www.ftc.gov)

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## Competition

Competition as a fundamental principle of evolution and discovery is part of our nature: from butterflies competing for the best spot in the sun to people competing for the Pulitzer Prize and for Olympic medals. Limited resources given, competition in open systems makes possible a maximum of trial-and-error processes to find optimal routes of evolution of species. In a market economy, competition on open markets, guaranteed by its legal and institutional framework, improves chances to discover renewable sources and use them according to their opportunity costs e.g.; competition helps to promote best educational systems and spread the constitution of liberty.

### Fear of competition

Competition is not a zerosum game in which one person wins what the other loses

(Montaigne, Essai XXI), experience has shown that everyone stands to benefit. Life is in perpetual flux and each change leads to a competition for new solutions with winners and losers. Change and competition often call for difficult adjustment processes, and with this comes the fear of failure. A closer look reveals that fear of competition arising from rapid change is really a fear of change itself. But this is irrelevant to those with jobs who see their social comforts threatened by change. This fear is exploited by opponents of globalisation who hold competition responsible for people's problems and fears. They call for restraint, even though it is competition that helps people adjust to unstoppable change. Most people have seen their working environment change drastically as a result of technical progress powered by the ongoing revolution in information and communication technology. In this rapidly changing world, the growing link between education and job opportunities means that people must keep learning. While new jobs are available mainly in the service sector, the rest of the economy, despite new openings, is facing a net loss of jobs due to the rigidity of the labour market. Education, training and work make up the major part of most people's lives and it is no surprise that a radical change in educational and professional requirements creates fear of competition.

However, restraining competition will not achieve the desired security. In a competitive environment, when people are under pressure to adapt to change, the market economy can come to their aid, as it is based on freedom, responsibility, and solidarity built on the vital foundation of

subsidiarity. Those who do not accept competition as part of the solution to globalisation problems but hold it responsible for the problems, tend to overlook this: As new information and communication technologies radically change the world of work, adjustment problems are actually caused by the integration of successful developing countries and, since the 1990s, socialist countries, into the global labour market. In view of the structural changes taking place in East Germany and in the neighbouring transition economies, Germany is being particularly affected by what was summarised by a group of prominent German economists ("Kronberger Kreis"): 'The belief that competition offers greater opportunities in life is undergoing a trial by fire.'

All the more, these adjustment problems and people's fears must be taken seriously. This means that besides a consistent policy based on expanding employment opportunities and reforming social systems, we must create awareness about the social face of competition. As the tempo of change increases, the legitimate need for security rises, as does the tendency to safeguard assets at the cost of others. People expect greater security when they are protected from competition.

### **Competition as a process of discovery**

'Competition as a Discovery Procedure', was how Friedrich August von Hayek vividly summarised the social side of competition. The future is unknown and resources are limited. It is only in a competitive order where scarce resources are allocated economically, that we are allowed a maximum number of experiments in the quest to discover something completely new. In Berlin,

for example, a comparison of the Potsdamer Platz today with the place a century ago, gives us an idea of the new products, transport means and communication systems that have been discovered through the creativity and hard work of the people living in a competitive system. No central planner could have devised these changes, let alone coordinate all this decentralised planning and discovering of citizens.

### **Competition as 'creative destruction'**

The discovery or invention of new goods, production methods, location advantages and information systems means that competitive goods, production technologies, jobs and locations are initially subject to the pressures of adapting to the changing environment, like the Silesian weavers in Gerhart Hauptmann's play, *The Weavers*, e.g., who are reduced to destitution with the introduction of power looms.

'Creative destruction' was how Schumpeter described this aspect of competition, which, while creating social opportunities, also creates social problems as innovative pioneers make new discoveries, supply superior goods, and markets are expanded by efficient imitators to offer greater wealth for all.

### **Competition and freedom**

With many providers in a market economy, competition must be designed to incorporate incentives that fuel the creative power of free citizens so that they are not cowed down by tough competition that does not guarantee success.