

İSTANBUL İKTİSADİ MÜVAFİK
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Social and economic functions of competition *)

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The opponents of the capitalist system have claimed for a long time that society could be changed by voluntary intervention and be organised on new principles. The society which they want to substitute for the traditional one, would be able to operate without the principles of competition and private initiative. Following the analyses of such thinkers as **Mises**, **Hayek**, **Lippmann**, **Röpke** and many others, and in the light of recent experiments in planned economy, the discussions which have been carried on for a long time have taken a new direction and acquired much more lucidity than ever before. Now we know better what would be our losses and gains if we were to destroy the principles of competition and private ownership.

In this essay we intend to analyse certain of the social and economic functions of the principle of competition, one of the fundamental bases of traditional society. A study of this kind has an economic and sociological character at the same time, since it is sociology which deals with the functional relationships between different social institutions.

Before going into the analyses of the different functions of competition, we must necessarily, in order to have a general outlook on the matter, mention some of the objections against the capitalist system and its fundamental principle of competition. Prof. **Schumpeter** has enumerated in his recent book the most important of these objections.

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The strongest fundamental objection relates to the **Marxian** theory of concentration. Concentration in the forms of monopoly and oligopoly undermines the necessary conditions of competition. The collectivization of economic life causes the elimination of individual entrepreneurs who are the representatives of liberalism. It is by the process of concentration that enterprise acquires a public-service-character. Moreover, capitalism owes most of its success to such external happenings as the discoveries of new lands, the growth of population, technical progress, the production of gold, and political events. The time for these is now over, and hence the dynamic character of economic life has disappeared. Unemployment which occurs periodically deepens the hostility against the competitive system. The weakening of family bonds changed the capitalist ethics which orders man to work without thinking of how he is to gather personally the fruits of his own labour during his life time. The individual lives now under a short-termed philosophy. A further objection emanating from the ethical point of view is that the principle of competition and its eventual results are incompatible with the ideals of equality. The operation of this in capitalist society has created class struggle and caused international wars. Under such a system, Fascism is, according to some socialist writers, the necessary result of this principle and is an example of the exploitation of working classes, and the rise of hatreds between nations.

It is fundamentally because of these reasons that many people want that the order of society should not be left to the competition of free individuals, but be organised according to a central plan.

We must now consider first how far the above mentioned claims are of such a nature as to demand the substitution of planning for competition.

Recent studies on the concentration of economic power have shown that the development of this is not a necessary consequence of the advance of technology, but the result of the policies pursued in most countries.

It cannot be claimed that the factors which gave economic life its dynamic character now cease to exist. The conditions under which economic activities take place, are subject to perpetual changes which are beyond our capacity to limit. These factors which maintain the dynamism of our economic system can be grouped into six classes which are: changes in external nature, in quantity and quality of population, in quantity and quality of capital goods, in the technique

of production, in organisation of labour, and finally changes in demand. In a competitive system, prices formed in a free market constitute a regulating mechanism, whereas a collectivist economy which destroys the true market will be deprived of such a regulating mechanism. As a result of this, production under such conditions can only go on irrationally. As pointed out by many authors, economic calculation constitutes probably the most serious problem of this system.

Among the claims which aim to condemn the capitalist system on moral grounds, exploitation of labour is repeatedly put forward. If we consider the matter in the light brought by the marginal theory, this claim becomes deprived of all its meaning. All attempts to remove the inequality of incomes, which forms the psychological basis of class struggles, have proved abortive. Class differences which are the result of social stratification, constitute one of the most natural phenomena of civilised society. The essential problem in order to lessen class differences, is to increase the rate of mobility between the different social strata.

As to the hopes that a planned society will afford more freedom than a capitalist one, we can say without hesitation that the contrary is the more probable. If we consider the nature of production in our traditional society, we can say with Prof. **Mises** that "the lord of production is the consumer". From this point of view the capitalist society "is a democracy in which every penny represents a ballot paper. It is a democracy with an imperative and immediately revocable mandate to its deputies." Collectivist planning in order to be effective, will need to direct individuals to a greater extent and impose on them more external ideals. Herein lies the real cause of dictatorships, the decline of rule of law as shown in recent examples of collectivist societies. The methods of democracy are incompatible with the innate nature of the collectivist society. Prof. **Hayek** has demonstrated perfectly that freedom and central planning are incompatible with one another. In the light of such analyses we can understand much better the deeper causes of recent tendencies to constrict freedom.

Even should economic planning be attempted internationally, this would not be a satisfactory solution of international problems. It is impossible to direct or plan by democratic procedure, the economic life of such a vast area comprising many different peoples. On the other hand, economic planning on national scale has been, as Prof. **Robbins** pointed out, the main cause of the present international dis-

order. In history, free trade based on competition has played an important rôle in the organisation of many separate regions into national states, and national states into international communities. In the future, too, we must accord to this same principle the chance to accomplish its peaceful and organising function.