Competition Bill

serious problem of monopoly in this country, that is to say, monopolies created by government. By spreading the false impression that businessmen can create monopolies for themselves without the assistance of the state, our anti-monopoly laws have tended to shield the state-created monopolies from public attention. These are the very monopolies which have done serious harm to the Canadian people and continue to do so. I want to explain how this bill would worsen, not improve our situation; finally, I want to say a little about the ways in which the federal government could be helpful to the Canadian people in this area of policy.

The orthodox theory of competition and monopoly has been the conventional wisdom of several decades. Adam Smith has been blamed for inventing it, although I am not sure that a careful reading of his work would support that accusation. The orthodox theory is basically a rather simple nose counting theory of competition. Under the orthodox theory we arbitrarily define first what constitutes an industry; then we count the number of businesses which fall within our arbitrarily defined boundaries. If there is only one, the industry is a monopoly; if there are several, it is an oligopoly, if there are many, it is a nearly purely competitive industry. The orthodox theory includes academically interesting models of the results, in equilibrium, of each of these three forms. Of course, equilibrium, a state of no further change, of no further competition, never occurs in the real world; so, the value in the real world of theories based on premises which are contrary to fact is indeed questionable. In spite of the inapplicability of that theory to the everyday world, the government supports legislation the effect of which is an attempt to force the real world to fit the theory.

This brings two undesirable effects. First, the operation of genuinely competitive markets in the real world is impaired; secondly, nothing is done about real monopolies.

At this point let me say something about an alternative theory of competition and monopoly, a theory which accurately describes the real world. After all, the purpose of theory is to help us to understand reality, not to indulge in idle dreaming about how we would like the world to be. When we see a theory which does not accurately describe the real world, we should not say something like, "That's nice in theory but it does not work in practice." My point is that if it does not work in practice, it is not nice in theory. It is a bad theory and we need a new one.

Some progressive economists of today, among them Rothbard, Kirzner and Armentano, are hard at work replacing the orthodox theory with a useful theory, which accurately describes reality. In contrast to the orthodox theory's preoccupation with the unrealistic state of equilibrium, in which all change, all competition, has ceased, Kirzner, in his 1973 book "Competition and Entrepreneurship" sees price theory

> ... in a way that is not related in any essential manner to the state of affairs at equilibrium. The efficiency of the price system, in this approach, does not depend upon the optimality (or absence of it) of the resource allocation pattern at equilibrium; rather, it depends on the degree of success with which market forces can be relied upon to generate spontaneous corrections in the allocation patterns prevailing at times of disequilibrium.

Times of disequilibrium are, of course, all the time. Later Kirzner continues:

> The fact that at any given moment only one producer is making a particular product is not by itself an impairment of the competitive process. It may simply mean that at this moment only one entrepreneur had taken the step of presenting this particular opportunity to the market. If the step was a wise one, it will tend to attract others to do even better in this regard. If it proves to have been a mistake this entrepreneur himself will be under market pressure to abandon this line of production.

If, in contrast to the orthodox theory, a single producer of a product is not necessarily a monopolist, what makes a monopolist? Kirzner answers that "the crucial question concerns freedom of entry". We are reminded of what Lord Coke wrote over 300 years ago: "Monopoly is a grant of special privilege by the state, reserving a certain area of production to one particular individual or group."

In a speech in this House last April 17, I explained in detail that the concept of monopoly has nothing to do with the number of firms operating within an industry. It has to do with whether or not the government is restricting competition. For example, there are 363 licensed taxi cabs in the city of Vancouver. The supporters of the nose counting theory of competition and monopoly would no doubt say that the taxi cab business in Vancouver is nearly purely competitive. But they would be wrong. The Vancouver government restricts the supply of taxi cab licenses, so that consumers must pay monopoly prices for taxi cab services, monopoly prices so high that the market value of a taxi cab license is now over $30,000. A great deal of what I said in that speech during the food prices debate is relevant to the present debate.

● (1730)

About the nose counting theory, that I have been criticizing, Armentano wrote in his 1972 book "The Myths of Anti-Trust":

> "... the market structure described as being purely competitive and optimal must certainly appear strange to anyone acquainted with flesh and blood consumers or business organizations. In the real-world marketplace, business competition appears to be almost opposite to [that theory's] economic pure competition.

In his 1966 book, "Insider Trading and the Stock Market" Henry Manne quotes the Austrian economist Schumpeter as follows:

> In capitalist reality as distinguished from its textbook picture, it is not (price) competition which counts but the competition from the new commodity, the new technology, the new source of supply, the new type of organization (the largest-scale unit of control for instance)—competition which commands a decisive cost or quality advantage and which strikes not at the margins of the profits and the outputs of the existing firms but at their foundations and their very lives. This kind of competition is as much more effective than the other as a bombardment is in camparison with forcing a door, and so much more important that it becomes a matter of comparative indifference whether competition in the ordinary sense functions more or less promptly; the powerful lever that in the long run expands output and brings down prices is in any case made of other stuff.

He continues:

> It is hardly necessary to point out that competition of the kind we now have in mind acts not only when in being but also when it is merely an ever-present threat. It disciplines before it attacks. The businessman feels himself to be in a competitive situation even if he is alone in his field or if, though not alone, he holds a position such that investigating, government experts fail to see any effective competition between him and any other firms in the same or a neighbouring field and in consequence conclude that his talk, under examination, about his competitive sorrows is all make-believe. In many cases, though not

[Mr. Clarke (Vancouver Quadra).]