Funding the Future

Economic myths: perfect competition

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I have added this entry to this blog's glossary, it being a myth within neoclassical economics.

Perfect competition

Neoclassical economics textbooks suggest that under “perfect competition”, markets deliver the best of all possible worlds. Countless small firms compete freely, prices reflect real costs, and no one has the power to distort outcomes. It is an elegant vision, and a total fantasy.

Assumption

In this ideal world, there are so many producers that none can influence the price of the products that they sell. All such products are assumed to be identical; all information about them is freely shared with everyone; new firms can enter or exit the markets in which these products are sold at will, with everyone having equal access to capital to enable this, and there are no barriers to entry of any sort. The "invisible hand" ensures efficiency, and there are no monopolies, no exploitation, no laws protecting intellectual property rights and no market power.

Reality

Almost none of these assumptions resembles the economy we live in. A handful of corporations dominate most industries; energy companies, banks, supermarket chains, and tech platforms are all of this sort, and they all seek to shape markets to their own advantage. They use advertising, lobbying, and legal firepower to keep competitors out. Patents and capital requirements create barriers to entry. Digital networks make success self-reinforcing: once a platform captures users, rivals rarely survive. Instead of many small players, we have a few global oligopolies extracting rents from everyone else.

This concentration of power undermines innovation and equality alike. Firms use monopoly profits to buy political influence, which in turn protects their dominance. The language of “competition” becomes a mask for power. Even when new entrants appear, incumbents often buy them out before they can threaten them, a process regulators too often bless as “efficiency”.

Why It Matters

The myth of perfect competition allows policymakers to ignore corporate power. It treats inequality as natural and monopoly profits as a legitimate reward for success. Yet when markets cease to be open, democracy itself is weakened: citizens become consumers trapped in systems they cannot exit. Real competition requires strong antitrust laws, fair taxation and public options in key sectors. Without these, markets cease to serve society; society serves the market.

Summary

Perfect competition has never existed outside the imagination of economists, but the power of monopoly is all too real.