Funding the Future

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Economists still cling to the fantasy of *perfect competition* — the idea that markets are full of small, powerless firms playing fair. But the real world is dominated by oligopolies, monopolies and brand empires. Large companies don’t compete: they work within narrow price bands, extracting wealth and killing innovation. In this video, I expose the myth that underpins the claim that markets deliver fair outcomes for us all and explain why breaking up concentrated power is essential to saving capitalism from itself.

https://www.youtube.com/watch?v=o5GMMiPKvPc?si=Jc-s6RSpaT1n7ytw

This is the transcript:

Economists love the idea of perfect competition. If you are now a professional economist, working in a university, and you want to get an academic paper published, you have to basically assume that the world runs on the basis of what economists call perfect competition.

This is their assumption that the world is populated by many small businesses, each of them so small that they all end up with equal power, and that fair play prevails everywhere in the marketplace because none of these firms are able to influence the market as a whole to obtain an unfair competitive advantage over everybody else.

Everybody has the right to enter into the market freely because we all have access to capital. There is nothing to stop us copying somebody else's product. In fact, we are all meant to sell identical products because that is the basis on which fair competition can, according to these economists, take place.

And let's be honest, you know, and I know that markets look nothing like this.

The truth is, there is monopoly power.

We also want different products to choose between. One jumper is not the same as another jumper, and that's what we want when we want to go out to buy, or why would we bother to go and choose whichever product it is that we think is most suited to us?

This idea of perfect competition that economists talk about is a complete and utter economic myth, which is why it fits very well into this series on that very subject of economic myths that underpin the economics of the world, as we are told they exist by economists, which actually have no bearing to reality at all.

What really happens in the world?

We don't have perfect competition.

We don't have lots and lots of small businesses and no big ones.

We don't have everybody having the opportunity to enter into the market if they so wish.

There isn't fair capital allocation within society so that everybody who wants to set up a business can do so at whatever scale they wish if they so want, because somehow, or rather, there's an endless pot of money available to them to do that. This is all complete and utter rubbish.

In reality, oligopolies dominate markets. Let's just name a few. Let's call them Tesco, and let's call them Sainsbury's, or Waitrose, or Lidl or ASDA, or whoever else it is that you buy your food from. The point is, these people control significant market segments. Tesco has something like 25% of the food market. Let's not pretend that that doesn't give them massive pricing power, albeit that they take careful note of what the others do, but they all move together in a very narrow band of pricing, and that's exactly what an oligopoly does.

Brands do matter in the marketplace. Even Tesco recognise that. They will offer you Heinz baked beans and their own basic brand as well. They know that market differentiation matters, and we know that in fashion, of course. We know that in every type of product that we buy, and this creates barriers to entry.

Names of brands are patented. Products are patented. You just can't go and copy somebody else's logo and say it's now your own.

There is a restricted supply of capital, and if you want to set up in a business and you go to a bank and ask to borrow, the polite answer will be no, unless you've got your house to put up as security. So let's not pretend there's anything like free entry into markets.

And there are business networks which do reinforce anti-competitive practices, just as Adam Smith said was the case in 1776 when he wrote The Wealth of Nations, and there is regulation to be complied with and lawyers and their threats to deal with.

The result is that, in markets, power concentrates at the top. The idea that there is anything like perfect competition, which economists say is the absolute precondition of markets doing what they claim they do, which is to allocate resources efficiently for the benefit of all in humankind, to maximise well-being, is complete and utter rubbish, and this matters.

Monopolies extract wealth from us by overcharging for what they supply. And we can see that.

We can see what the water companies are doing.

We can see what the energy companies are doing. And we can see this in loads of other areas, such as banking, where there is effectively a monopoly between those banks who cooperate with each other to set prices for services and new entrants are almost unknown because of the barriers to entry being so high.

The consequence is inequality is growing and productivity is stalling because innovation isn't necessary to continue to make excess profits.

The truth is, we do not now need economic fairy tales of the sort that most economists are telling as if they actually believed in them, which is the most bizarre thing of all about what I've got to say here. They do genuinely seem to think that the world operates in this way, when it is so obviously the case that everything they say is false.

What we do need are antitrust laws. Laws that break up monopolies. Laws that ensure that the small company gets a fair chance. Laws that allow people to enter into markets. Laws that encourage innovation, laws that break down the power of the big companies in this world.

Instead, we get fairytales and a belief in markets that is wholly unjustified. We need to change our economic beliefs, and in doing so, we need to get rid of the myths.

Previous posts in this series

* ***Economic myths: homo economicus***

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