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COMPETITION AND COOPERATION

**ROGER KERR
EXECUTIVE DIRECTOR
NEW ZEALAND BUSINESS ROUNDTABLE**

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COMPETITION AND COOPERATION

A common ploy in public debate is to present a choice between two apparent opposites and then challenge people to choose between them. The choice can be stacked in at least two ways. First, as in a sermon praising virtue and condemning vice, it can be made to seem impossible, morally and practically, to choose one of the alternatives. Who would choose war over peace, or wrong over right? One thinks of Calvin Coolidge's laconic remark when asked what a preacher had said in a sermon on sin. Replied Coolidge: "He said he was against it."

The other, rather more subtle, way of loading the question is to present as alternatives things that need not be so, since in reality we can have both, and one may even enhance the other. Examples of such bogus contrasts include self-interest versus benevolence, and individualism versus community.

The device of setting up false opposites has been popular among critics of New Zealand's economic reforms. Given their success, the critics no longer talk much about purely economic indicators, and instead condemn the alleged pernicious social effects of markets. In this process, rhetorical straw men are being constructed and paraded before us in impressive numbers.

My topic today is the notion that we have become more competitive and individualistic as a result of the reforms, and no longer cooperate as well as we used to. The contrived contrast is between 'cooperation' and 'competition'. This is an old misconception, dating back at least as far as the debate last century about the industrial revolution. For example, John Ruskin, who knew something about art but next to nothing about economics and government, declared that "government and cooperation are in all things the laws of life; anarchy and competition the laws of death." Many of the litterati haven't changed much in 150 years.

The argument of Ruskin and his modern counterparts is superficially seductive because of the emotional freight that the words carry. 'Competition' serves to conjure up images of conflict, atomised individualism, selfishness, dog-eat-dog behaviour and the survival of the fittest. 'Cooperation' suggests the opposite, namely harmony, community, benevolence, caring, sharing, and everything generally warm and uplifting.

In reality, however, the contrast between competition and cooperation is another case of those bogus alternatives. Moreover, a market economy is characterised by a higher quality of cooperation *and* competition than an economy dominated by government.

The first point to make is that even if we were labouring under the mistaken impression that competition is bad *per se*, it would still be naive to imagine that we could ever devise a society in which it was eliminated. Since we live in a world of scarce resources, and there are always rival claims for their use, there must inevitably be some type of competition. The only real question is what form that competition takes. As one economic writer put it:

In its most fundamental sense, competition is ubiquitous to all economic systems. All forms of striving to enhance one's situation are competition. Indeed, there is competition wherever there is self-interest and scarcity. In this broad sense, neither government nor business policies affect the presence of competition, for neither self-interest nor scarcity is eliminated. The forms that competition take are, however, innumerable. The laws and rules of business conduct cannot increase or decrease competition, but they can and do alter the forms in which competition occurs.¹

It would be idle to pretend, for instance, that competition did not exist in the old Soviet Union. Of course it did, and often in its most toxic and morally-corroding forms – competition for favours from the party bosses, or competition to acquire consumer goods that were unavailable in the shops without a bribe or kickback. Indeed the former socialist paradise was riddled with sordid little struggles for resources and power.

The lesson is that there are civilised and uncivilised, and efficient and inefficient, forms of competition. For competition to take civilised and efficient forms, a sound framework of laws is necessary – no one argues that there is no role for government. In such a framework, the competition of a market economy compares very favourably with competition in a command economy. And just as you cannot eliminate competition from a command economy, you cannot eliminate cooperation from a market economy. A market economy is permeated by voluntary cooperation.

¹ Leffler, K, 'Towards a Reasonable Rule of Reason: Comments', *Journal of Law and Economics*, 28, 1985, pp. 381-386.

In their bestselling book *Free to Choose*, Milton and Rose Friedman use Leonard Read's delightful tale of the ordinary lead pencil to illustrate the miracle of successful cooperation between individuals which the market represents. This seemingly simple everyday object can truthfully say of itself that "not a single person \equiv knows how to make me". Think about that for a moment. A vast number of distinct skills and materials go into making the pencil, involving far more knowledge than any one mind could grasp. It is all brought together by the unplanned process of people cooperating through markets.

The wood for the pencil comes from a particular type of tree – a cedar of straight grain from Northern California or Oregon. The trees must be cut down by forestry workers and then transported to the railroad, using saws, trucks, rope and much other gear. For this equipment, all manner of other industries are needed – the mining of ore, the making of steel and tools and vehicles, the growing of hemp and its transformation into rope. Once the sawn-down tree is at the mill, it has to be processed into slats and transported to the factory where the pencil is made. And this is just to get the wood for our pencil! The lead might come from a graphite mine in Sri Lanka, and there is a similarly complex story about how *it* ends up at our pencil factory. Then there is the zinc in the ferrule and the rubber in the eraser. Finally there is the design and production of the pencil itself, and its transportation to retail outlets so that it can be sold over the counter to you and me.

Each one of the links in this vast chain involves the voluntary cooperation of two parties. In each case there is an exchange in which both parties elect to give up something – their time and labour, their raw material, their goods or services – in order to receive something in return. The parties judge themselves to be better off as a result of the exchange. This network of cooperation for mutual gain is not planned by anyone: it simply happens naturally as people follow their self-interest, and possess enough trust in each other to do business. As the Friedmans say:

No one sitting in a central office gave orders to these thousands of people. No military police enforced the orders that were given. These people live in many lands, speak different languages, practice different religions, may even hate one another – yet none of these differences prevented them from cooperating to produce a pencil.

This remarkable international network of cooperation to produce just the simplest of products is entirely consistent with competition. Indeed the more competition is allowed to operate at each stage of this process – between suppliers of raw materials, producers, transporters and retailers – the more successful will be the result for the final consumer in terms of the price and quality of the product. When two pencil manufacturers compete, the contest is over which one can give the best deal to the consumer. In other words, the competition is about which can most successfully cooperate within that network of social obligations that comprises the market order. Competition and cooperation are inseparable.

Market competition and cooperation in the pursuit of the consumer's dollar are moulded by the reality that exchanges are voluntary and anyone can compete. These processes favour the success and survival of those most able to meet diverse consumer needs. They arguably compare more than favourably with their political counterparts as devices for lifting the opportunities of the poor and weak. Competition dissolves established positions and opens up opportunities for those on the lowest incomes. Reflecting on the sources of the animosity towards market competition in earlier centuries, one commentator observed that:

Competition was the shield and support of the general interest. Being the great benefactor of the poor and the weak in society, it was essentially an egalitarian force, which was one reason it was hated. For the socially just type of egalitarianism is highly irksome to entrenched interests of many kinds, notably those of organised labour. At the same time the self-styled egalitarians of socialist parties and propagandists hated competition because, not understanding it, they thought it favoured the strong against the weak, the successful against the unsuccessful. They failed to see that its favours were not for the entrenched strong against the hapless weak, but for success against failure in the service of others, especially in the service of the masses.²

Similarly, the Nobel laureate George Stigler has made the point that regulation seldom favours the poor; they are rarely found, for example, among the lobbyists for regulations such as minimum wages.

² Shenfield, A A, 'Economists and the public revisited', in Hutt, W H, *An Economist for the Long Run*, Reynolds, Morgan O (ed.), Washington DC, The Heritage Foundation, 1986.

Throughout history, commerce has typically been a civilising influence, and continues to be so today. Most market activity is not undertaken by fly-by-night operators but involves repeat transactions. This means that for the great majority of businesses – from a corner dairy to a large multinational company – reputation is of very high importance. A reputation for being slovenly in your work, or crooked, or unreliable in delivery, is bad for business. Accordingly, it pays to develop a reputation for reliability, honesty and dealing in good faith. Even in the absence of any external moral code, it pays to be friendly and courteous to your customers, and make them feel valued. Most people working in a market environment recognise that. By contrast, the Soviet Union was legendary for the stony-faced countenances of those sitting behind counters, who often seemed to regard the people they were dealing with as an unhelpful distraction.

In sum, a market economy encourages a whole range of civic virtues which improve the quality of our social interactions. In other areas of society, which are less characterised by repeat transactions, there are fewer incentives for honest and upright conduct. Democratic politics is an example. New Zealanders upset by a politician who has just broken an election promise have to wait three years to deliver punishment at the polls – if they ever manage to do so. No wonder so many election promises are broken.

Or consider that form of unedifying behaviour in which an industry lobbies the government to grant it special privileges in the form of subsidy or protection. These privileges come at the expense of other sectors of the economy and consumers generally. In old New Zealand, getting and keeping privileges was a major objective of many businesses. The operative 'market' was the market for political favours. There was much cooperation between firms in that market as they sought to persuade governments that 'open slather' (i.e. healthy competition) for their industry would be the ruin of the nation. A more wasteful process could scarcely be imagined, yet some of our litterati like Gordon McLauchlan still think that business is arguing the equivalent of "what's good for General Motors is good for America." They haven't worked out that most in business have long since come to almost the reverse conclusion: that only what's good for New Zealand will be good for business at large in the long run.

In view of the arguments for the value of markets, and their demonstrated benefits, what can the critics of New Zealand's new market economy possibly have in mind when they claim it is all competition and no cooperation? In truth they are reflecting a very old and deep fallacy in human affairs, one which keeps cropping up in new guises after the old guises are exposed. This is the idea that cooperation in any form can only occur among people who are united in the pursuit of a single overriding goal. On this view, competition appears to be the opposite of cooperation because it involves individuals pursuing various private goals.

Certainly human cooperation does involve people coming together to pursue common goals. A free society contains many organisations – commercial and otherwise – formed for this purpose. But these are voluntarily-joined organisations involving voluntarily-chosen goals. The market sector has organisations such as limited liability companies and partnerships. Moreover, firms often cooperate with one another, subject to competition law, through joint ventures, consortia and other contractual arrangements. The non-market sector has many other organisations reflecting voluntary cooperation, such as schools, churches, charities, sports clubs, political parties, and associations of all kinds.

But while groups within society may organise around certain chosen goals, society itself is not organised around common goals for the simple reason that 'society' as a whole does not have a comprehensive set of goals. The proper role of government should be to allow individuals the maximum freedom to pursue their own self-chosen goals. After all, a society is ultimately only the individuals who comprise it, and each individual is different. My goals will not be exactly the same as the goals of any one of you. Common action should be limited as far as possible to fields where people agree on common ends. The tendency to take an abstraction like society, and give it qualities that can only sensibly belong to individuals, is a sign of a muddled thinker at best and a totalitarian at worst.

Rigorous attempts to organise whole societies around the pursuit of shared goals have always failed. In the political system, competition often takes the form of attempts by groups with political power to impose their goals on others. Such efforts, which were carried to extreme forms with central planning, must be either ineffectual or oppressive. Mass societies are simply

too diverse, and individuals too stubbornly individual, to be successfully regimented. The great totalitarian experiments of the twentieth century have all been horrible failures. Even putting to one side their huge costs in terms of the liberties, and even lives, of their citizens, these regimes could not even put bread in the shops reliably. In the end they collapsed through their own contradictions. Ruskin's identification of competition with anarchy and cooperation with government has it almost exactly back to front.

I have been arguing that in the open economy and society, competition is typically an engine of cooperation, not conflict. This is illustrated by the Latin origin of the word 'competition': it derives from *competere*, in which 'com' means together while 'petere' means to achieve or strive for. In competitive markets the stronger the competition, the more joint striving or cooperation is likely to be needed within an organisation. For instance, the employees of a business firm must cooperate with one another to produce the highest quality goods or services at lowest cost. If they fail to cooperate well, they will be outperformed by a competitor and lose business. That is why companies invest so much in systems for good communication, for inculcating team spirit, and so on. Some people are better at cooperating than others, and being a team player is an asset in any employee. Companies have every reason to reward and encourage this attribute. Under the Employment Contracts Act, where direct dealings with employees have replaced bargaining by remote agents, and where pay can be tied to performance more directly than in the past, workplace cooperation has vastly improved.

One of the most obvious examples of how fierce competition can produce outstanding cooperation is the case of the All Blacks. They are in a highly competitive business. Yet their teamwork is superb, despite having a large number of individual stars, all of whom are on individual contracts. This is no mystery: facing 15 fired-up Springboks, they must work together if they are to come out on top. Any All Black who played selfishly would not last long in John Hart's team.

Seen in this context, the complaints of bodies such as our teacher unions that performance pay would lead to an erosion of cooperation should be seen for the nonsense it is. There may often be significant team aspects to teaching. But if so, the ability to work in a team is one of the factors upon which a teacher who was paid by performance would be assessed.

It is true that some types of contest deliver spectacular gains to those who come first and very little or nothing to those who come second. Sporting competitions and the market for celebrities can be like that. Those who try but fail to be winners can nevertheless enjoy and learn from the experience. Am I supposed to feel bad that I will never sing like Luciano Pavarotti? And I have yet to meet anyone who cannot do something better than I can. That is surely the joy and the wonder of the human condition.

It may not seem fair that a would-be singer can train for years without ever making the grade, whereas Pavarotti can earn a huge amount for just one concert because of his great talent. But it would be much less fair if some government authority was charged with deciding which singers we would listen to, and what they would all get paid. Likewise, some would argue that since not everyone can have a home with a view of the Waitemata harbour, no one should be allowed to do so. Such approaches could never command widespread support. Moreover, once we started down the path of substituting coercion based on envy for voluntary cooperation, there is no telling where we would all end up. Ruskin's state of anarchy would soon prevail in such a society.

Similarly, some may envy the enormous wealth of a Bill Gates, or other hugely successful entrepreneurs. But their wealth did not come at the expense of consumers or less well off people. To the contrary, the reality is that by massively increasing the efficiency with which innumerable goods and services are produced, Microsoft has reduced their prices, raised real incomes, and done more for the poor of the world than any number of Mother Teresas.

It is curious that those who condemn what they call 'dog-eat-dog' competition in the private sector usually seem purblind to the fact that competition is just as 'rampant' in the public sector. The difference is that in the public sector it is competition among lobby groups for the taxpayer's dollar. Thankfully, most in our business sector are no longer petitioners for corporate welfare. But for other groups, like health lobbies and Grey Power, the fight is still on to extract as much as possible from the rest of society through the coercive powers of the state. It defies belief how this competition for political favours can be morally superior to private sector competition over how best to provide goods and services wanted by consumers.

Yet that is the type of world which those who typically ask for greater 'cooperation' rather than 'competition' are seeking to bring about in the end. I have argued that calls for more cooperation are usually a euphemism for more state coercion, and the allocation of resources through the political process rather than the market. As we have seen, there is nothing to stop free and responsible individuals from voluntarily cooperating; we do it almost as naturally as we breathe. What these critics really want is the regimented society, where those with political power set limits on how we can cooperate with others. Competition is not eliminated in such a society – it is transformed into a political battle for the shares of a centrally-distributed and usually shrinking economic cake. There is nothing inherently harmonious, benevolent, caring, sharing, community-minded, or warm and uplifting about such a battle.