Competition and Democracy

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Common notion of economists is that if an industry acts as a monopolist it would be desirable government policy either to break up the monopoly or, if that is undesirable because of increasing returns, to regulate and perhaps even nationalize it. But Becker doubts it!! The argument of this common sense goes as follows; Monopolists cause a maldistribution of resources, since the price charged by a monopolist exceeds marginal costs and an optimal distribution requires price equal to marginal cost. But government intervention does not always improve matters.

1 Competition in Ideal Democracies

Here it is shown that an ideal democracy is very similar to an ideal free enterprise system in the marketplace. That is, political decisions would be determined by the values of the electorate and the political sector would be run very efficiently.

An ideal political democracy can be defined as "an institutional arrangement for arriving at political decisions in which individuals endeavor to acquire political office through perfectly free competition for the votes of a broadly cased electorate".

First, it is often said that transfer of activities from the marketplace to the political sector would reduce the role of competition. But the ideal political democracy is where competition is free in the sense that no appreciable costs or artificial barriers precent an individual from running for office, and from putting a platform before the electorate. So in this case, the transfer of activities, from market sector to state does not necessarily reduce the amount of competition, but does change its form from competition by enterprises to competition by parties.

The immediate aim of political parties is to be chosen by the electorate, just as the immediate aim of any firm is to be chose by consumers. This has several implications. First, there must be freedom of speech and expression in ideal democracies. Another is that the ideal political democracy would be one that perfectly satisfied the electorate's preferences. Since if one party did not satisfy what the electorate demanded, another party will gain more popularity by making their policies closer to their demand. So in the equilibrium, no one has any political power, parties have no choice but to realize the electorate's demand. The third implication is that only the most efficient parties would survive, as in the competitive market, only the most efficient firms will survive.

2 Competition in Actual Democracies

The things discussed above is not what is happening in reality. The reasons are, market failure (the usual ones) and political imperfections (the ones discussed in this section).

The first failure. Since each person has only either 0 or 1 vote (a fixed number) - regardless of the amount of information he has and the intelligence used in acting on this information, and since minorities are usually given no representation, it does not "pay" to be well informed and thoughtful on political issues, or even to vote.

Second failure. Political competition is reduced by the large scale required for political organizations. Candidates have to have large offices etc, and those who like to compete but do not have sufficient resources cannot go into competition. And the scale of political activity is large as well, because many offices tie together numerous activities. For example, a president of a country has to have good policies for all fields, not just one specialized field.

So to answer the initial question, "does the existence of market imperfections justify government intervention?", the answer is no, if the imperfections in government behavior were greater than those in the market. It may be preferable not to regulate economic monopolies and to suffer their bad effects, rather than to regulate them and suffer the effects of political imperfections.